



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

Consideration of Budget Estimates

TUESDAY, 30 MAY 2000

CANBERRA

BY AUTHORITY OF THE SENATE

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE

Tuesday, 30 May 2000

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

Senators in attendance: Senators Calvert, Coonan, Eggleston, Ferguson, Hogg, Hutchins, Sandy Macdonald, Murphy, Schacht and West

Committee met at 9.01 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, will represent Vice Chief of the Defence Force on Tuesday 30 May

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, AO, 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
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
Dr Graham Kearns, representing 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

Defence Housing Authority

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

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 Topperwien, 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—The committee will resume its consideration of the particulars of proposed expenditure for the Department of Defence. Unfortunately, the minister has been unavoidably delayed but will be back as soon as she can. I welcome back officers of the department. The committee will begin today with output 2, the continuation and finalisation of Navy. At the conclusion of the Department of Defence, the committee will examine the estimates for the Defence Housing Authority and the Department of Veterans' Affairs.

Today's hearing will be suspended for lunch between approximately 12.30 p.m. and 1.30 p.m. and for dinner between 6.30 p.m. and 7.30 p.m. We will take tea breaks at approximately 10.30, 3.30 and at 9 p.m., and as required.

[9.02 a.m.]

DEPARTMENT OF DEFENCE

Output 2—Navy Capabilities

Senator HOGG—I understand from reports that the Navy's high-tech Kalkara turbo jet used to tow targets was lost last October but has recently been found washed up at, I think, Tuncurry Forster. It had travelled 400 kilometres. Where was the Kalkara being used when it became lost, do we know?

Vice Adm. Shackleton—I have to check. My understanding is it was being used with an Air Force exercise, but I am not sure.

Senator HOGG—A newspaper article I have says it finished at Tuncurry and had travelled 400 kilometres. I am sorry, here it is—Jervis Bay. Is that correct?

Vice Adm. Shackleton—It is launched from the strip at Jervis Bay. It is an unmanned, remotely controlled target not yet accepted into service and still undergoing trials.

Senator HOGG—Is the report correct that it is worth \$750,000?

Vice Adm. Shackleton—I would have to check on that.

Senator HOGG—It just seems very expensive. How did the Navy actually lose it, do we know?

Vice Adm. Shackleton—The Navy did not lose it. This is a remotely controlled target. It is still subject to tests and trials and is yet to be accepted by us into service.

Senator HOGG—So is that taken as a big negative against the piece of equipment?

Vice Adm. Shackleton—Not at all.

Senator HOGG—Why did it fail?

Vice Adm. Shackleton—We will have to find out what the results of that are and pass it to you.

Senator HOGG—Has there been an inquiry held into that?

Vice Adm. Shackleton—I would have to take that on notice. As I say, the equipment has not been accepted into service, therefore it is still under contractor's trials, so he will have to conduct the investigation that he needs to conduct.

Senator HOGG—How many have we purchased on trial?

Vice Adm. Shackleton—I do not have any details of this particular question, so if you could let me have your questions I could get you the answers?

Senator HOGG—All right. I am only going from a newspaper article, in the *Daily Telegraph* of 29 April, which indicates that it was one of 20 purchased by the Navy some 18 months ago. When will it be accepted into service?

Vice Adm. Shackleton—I do not have that detail.

Senator HOGG—I understand. I am just flagging that question as well. What efforts were taken to recover it? If a mechanical or technical failure caused it to go missing, has that technical failure been addressed at this stage? If you take all those questions on notice, I would appreciate it.

Vice Adm. Shackleton—We will take all that on notice.

Senator HOGG—Thank you. The HMAS *Hobart* was decommissioned. That is correct, isn't it?

Vice Adm. Shackleton—That is correct.

Senator HOGG—What has happened to it?

Vice Adm. Shackleton—It is in the process of being disposed of. There was interest from both Western Australia and South Australia. A proposition has been put to the minister for its disposal. I am awaiting his decision on that.

Senator HOGG—Interest from Western Australia and South Australia for what purposes?

Vice Adm. Shackleton—To use it as a dive wreck. To take it out to deep water or water where divers can go down to the bottom and swim around it.

Senator HOGG—And HMAS *Perth*?

Vice Adm. Shackleton—HMAS *Perth* was gifted to the state of Western Australia and will be sunk in a position to be decided by the Western Australian state government.

Senator HOGG—So HMAS *Perth* was gifted to Western Australia. HMAS *Hobart* will be disposed of, I presume—

Vice Adm. Shackleton—No, it should be gifted.

Senator HOGG—It will be gifted as well.

Senator WEST—What stage is the Eden naval ammunition facility up to?

Vice Adm. Shackleton—Do we have someone here from the facility as well?

Mr Corey—I am probably as close you are going to get. It has been through the public works committee. The environmental issues are still being resolved but it is basically ready to go. I will get the details for you in the next half-hour or so.

Senator WEST—What are the environmental issues?

Mr Corey—There is an environmental impact statement being done to assess impacts. We are building a wharf, as you are aware, into the harbour in Eden and so there are a whole range of environmental considerations. The assessment has been done. It has been out in a public hearing. There is general support for it.

Senator WEST—Yesterday we discovered the cost had gone down from \$70 million to \$40 million.

Mr Corey—The \$40 million was the figure in the papers.

Senator WEST—What are the changes to the original proposal that have led to this reduction?

Mr Corey—We were going to reconcile those for you today. The person who is doing that has not come in yet, Senator.

Senator WEST—Okay. What interim arrangements are in place then? It is not up and working yet.

Mr Corey—I think Navy are probably using Point Wilson.

Vice Adm. Shackleton—That is correct.

Senator WEST—You will continue using Point Wilson until Eden is up.

Vice Adm. Shackleton—That is right.

Senator WEST—What is the time frame for the construction of Eden?

Mr Corey—It is probably two years but I am only guessing. I can find that detail for you.

Senator WEST—Okay, please. Have any safety concerns been raised with Navy with regard to the interim arrangements such as trucks and ammunition being transported through residential areas?

Mr Corey—The Point Wilson facility was subject to a commission of inquiry under the environment protection act. All of those issues, including transport of explosives, were covered in great detail during the hearing, and there are no safety concerns.

Senator WEST—And there have been no complaints or anything since then?

Mr Corey—No.

Senator WEST—With the Eden facility, how much road access is there going to need to be?

Mr Corey—Road access to the facility will be similar to that at Point Wilson. The ammunition will transfer primarily from Kingswood on the outskirts of Sydney down the Princes Highway to Eden and into a holding facility and then be unloaded and loaded onto ships.

Senator WEST—You are going to have to pick your time because if you get a flood the road at Pambula is going to be closed. It was out for a fortnight earlier this year.

Mr Corey—I guess if there was a problem with flooding, you would come around in another direction. You would probably have to come around it or you would wait. It is very rare that the Pambula bridge goes out.

Senator WEST—Not from what the locals tell me. I copped an earful of it a couple of weeks ago when I was down there about that particular stretch of road and also the bridge a bit further around where the truck went off and burnt. They had weight restrictions on.

Mr Corey—I am sure that is something that we can manage around, Senator.

Senator WEST—I am still trying to think of what alternative routes there are from Kingswood to Eden that do not require a very major detour to get there if the Pambula section—

Mr Corey—If it were an urgent requirement and we could not get to Eden, we would do it at Port Kembla or Point Wilson. There are a number of places where we can load and unload ammunition if we issue some waivers and take some necessary precautions. It is not as if Eden is the only facility where we can load and unload munitions, even when it is completed.

Senator WEST—I see someone in Navy has been getting awards for doing good things with the clean-up. I am sorry; it is Army.

Mr Corey—It is Army.

Senator WEST—I am in the wrong spot. I am sorry, Navy. I was going to give you some accolades.

Vice Adm. Shackleton—We do good things.

Senator WEST—I am not saying you do not do good things but this was an award in relation to the post-Timor clean-up.

Senator HOGG—Could I ask a question about HMAS *Westralia*. Further to the report in the *Bulletin* of 23 May 2000, has Navy yet provided the minister with an explanation of the process for awarding bravery awards in connection with the fire on board incident in 1998?

Vice Adm. Shackleton—We are in the process of updating advice to the minister on that matter.

Senator HOGG—Can you give us any idea as to when that might be resolved?

Vice Adm. Shackleton—I do not think there are any matters requiring resolution. I expect that I will dispatch my advice to the minister late this week or early next week.

Senator HOGG—Whilst I am on the same incident, I did flag privately last night that I was going to raise another issue. A constituent wrote to me about a gas mask which, it is claimed, could have been used in the *Westralia* fire incident. I am not going to give the brand name but they advise me that it is being used in a lot of circumstances, particularly in mining, in shipping areas such as gas and so on. They raised it with me because they have approached Defence. I am not aware of the processes that are involved, and that is what I am basically wanting to find out from you today. That is why I am not going to go into the brand name. If they had approached Navy, what would be the processes for evaluation? They claim that it is very portable, very useable and very user friendly in the sense that it can be carried anywhere. You do not have to go and look for it. In the case of such emergencies, such as the one that did occur on the *Westralia*, people would have access to these very quickly and it could be lifesaving in those sorts of circumstances. Could you outline for the committee the processes involved in, firstly, accepting such an item and, secondly, whether there is a fast track process.

Vice Adm. Shackleton—Yes, we have an ongoing approach to safety. We do not make any assumptions about that topic. We constantly keep the performance of the equipment that we have in our inventory under review to satisfy ourselves as to their performance in

contemporary circumstances. If we think we need more equipment, we will self-generate that and we will seek bids from people in Australia or around the world to supply that equipment. That could be the sort of mask that the fire brigade uses sometimes, which is infra-red for determining where the seat of the fire is, or it could be jaws of life for opening up car doors, steel management and cutting, and also personal safety masks so that if people are isolated and not able to get to air, they can put on personal masks which will protect them from heat and provide them with a personal supply of oxygen and air for a period of time.

The other alternative to that is for manufacturers of equipment to approach Navy, and we have a number of points of entry. One would be the Support Command, Navy; another would be the Maritime Commander; and another would be a position we have created recently called the Director-General of Naval Certification and Safety. That person has responsibility for the overarching management of safety issues right across Navy. All of those entry points are available to people who want to be involved with Navy and these equipments.

Having had their entry acknowledged and should a requirement exist, then we would probably seek alternatives to make sure that we were getting the best that we could get for the money that we wanted to spend, and then we would make a selection and proceed to purchase. The cost of these items is not significant in the sense of major capital and they fall within Navy's minor capital procurement scope, so purchase can happen very quickly. If there is an urgent need, we can move quickly. For example, when we went to the Persian Gulf in 1991 and decided we needed some additional equipment, we literally went out and bought it. It can move that quickly.

Senator HOGG—So there is, in effect, a fast track process.

Vice Adm. Shackleton—Yes, there is.

Senator HOGG—Do you know if there are a number of brands of this type of equipment that are before Navy currently?

Vice Adm. Shackleton—I checked this morning and my understanding is that we have been through an evaluation process and we have selected an equipment that meets what sounds like a similar capability as the one you are describing. The one that we have selected is in fact one that you can put in your pocket. It is a personal breathing apparatus which, according to the brochure, can last for up to 20 minutes, which is enough to get you away from smoke and clear of between decks.

Senator HOGG—Have you let any contracts on that at this stage?

Vice Adm. Shackleton—I do not have the details of what those contracts are. My understanding is that we have purchased some and I would expect that there would be an intent to purchase a wider number of these equipments. We would have gone through a selection process where we would have compared one against another to make sure that we are buying what we think is best value for money.

Senator HOGG—Would you therefore let those who were unsuccessful know that their equipment was not going to be used?

Vice Adm. Shackleton—Under normal circumstances they would be told that their bid had been unsuccessful, yes.

Senator HOGG—When would that decision have been made? It is just that I have been approached—my letter is as recent as 22 May—and I am wondering if there is a crossover time from when they wrote to me and when you have made your decision.

Vice Adm. Shackleton—I am not familiar with the individual who has written to you.

Senator HOGG—No, I know that.

Vice Adm. Shackleton—I really could not say whether there has been a crossover or whether he has been a late bidder. I am not at all sure where he would be coming from.

Senator HOGG—I might take this up with you after this session. You might if these people who have written have had a response.

Vice Adm. Shackleton—Of course.

Senator WEST—In relation to contracting out, is there a stop-work meeting being held tomorrow at *Albatross*?

Vice Adm. Shackleton—There is. It is about a gas and support contract.

Senator WEST—Who is going out on the stop work? What people are involved in that?

Mr Corey—It is probably related to the redevelopment of the base. It is probably to do with the construction industry rather than contracting out. Again, we would have to get the detail but there have been a number of issues around the country relating to industrial relations legislation and there have been a number of stop-work meetings on construction sites generally around the country.

Major Gen. Dunn—Yesterday a stop-work meeting was held outside the gates of HMAS *Albatross*. That stop-work meeting included Eurest employees from HMAS *Creswell* and they were intending to cease work and attend the meeting and not return to their workplace. Defence civilian staff from HMAS *Albatross* affected by garrison support commercial support program activity were expected to attend the meeting. I do not know at this stage whether they returned to work after the meeting when they had joined the Eurest employees.

Senator WEST—When they joined which employees?

Major Gen. Dunn—The Eurest employees. It is one of the contracting CSP companies. The action was in response to an offer by the new contractor for garrison support activities, Serco, and in relation to their offers of employment. There were two main issues that generated the stop-work meeting. The first one was the wage structure contained within the AWAs that were being offered and the second was the low number of job offers made by Serco to existing employees. I do not have the results of that meeting yesterday.

Senator WEST—It is just that I was told that the meeting was going to be tomorrow in the museum at 6 p.m.

Major Gen. Dunn—Certainly my advice was that the meeting was going to be held yesterday afternoon. There may be further meetings, of course.

Senator WEST—That is quite possible. How long had this previous tenderer had the contract?

Major Gen. Dunn—I do not have the details of the contract. I only have the details of the industrial dispute. We could pass that to Corporate Support and find out for you.

Mr Corey—Peter Sharp will be here later in the day.

Senator WEST—Okay. I will put that aside for them. But it is a dispute about contracting out and it is basically a dispute where you have a change of contractors?

Major Gen. Dunn—Yes, that is correct, and, as I said, those two issues stemming from that change.

Senator WEST—Thank you.

CHAIR—That brings us to the end of Output 2—Navy capabilities. Thank you very much, Admiral Shackleton. We will move now to output 3—Army capabilities.

Dr Williams—Excuse me, Mr Chairman, there was a question asked by Senator Hogg yesterday in relation to the differences between the last PBS and this PBS in terms of information that may be presented differently or is missing. I have a response here. If you like, I can read that.

CHAIR—We might just wait while Senator Hogg comes back.

Senator HOGG—Thank you. I am sorry about that.

Dr Williams—Senator Hogg, you asked about any things that were omitted from the last PBS. I have information here. I am not sure that it is fully comprehensive, but certainly the ones we have identified as obvious shifts. I will just run through them quickly. In the previous PBS we had a list of Defence cooperation information on pages 179 to 186. That has been omitted from the present document.

The second area is there has been some change in the way flying hours have been presented, but I think you will find under the output structures there is still essentially the same sort of information available. The previous PBS had separate group structures, where we actually went through the organisational entities—pages 127 to 165. We now have in the supplementary information a smaller summary of the main areas—acquisition, et cetera—so the opportunity is there to discuss, but it is not presented in group structure as it was before.

Table 1.12, group contribution to the total price of outputs, at page 22 of the old document is not in the new document. That was the large matrix table. As I said, partly the information there is not reliable at that level.

Senator HOGG—I accept that.

Dr Williams—Tables 5.1.1 and 5.1.2 on personnel numbers by group are on pages 168 and 169 of the previous PBS. Given that, under the current guidelines, we are obliged to report by output and not group, we do not have that group presentation. But we do have totals in the current PBS and there is personnel information presented according to the output structure. In the previous PBS, we had tables 5.7.1 and 5.7.3, which was reconciliation by group of DRP reinvestment. That was at pages 192 and 194. Consistent with moving to an output rather than a group structure, that is not included in the current document. Finally, there is a table 5.3.2 at pages 177 and 178 of the previous PBS which gave a break-up of the cost of operations associated with peace and security operations. That is not in the current document.

CHAIR—Have you finished, Dr Williams?

Dr Williams—Yes.

CHAIR—Mr Roche, you had some corrections from yesterday.

Mr Roche—Yes. I could correct some information I gave last night. Last night I gave the Commonwealth objectives for the Australian submarine industry. I was relying on my memory. I got the number right but some of the details were not entirely correct. I provided copies of the objectives to the committee. The thrust of what I said last night was, however, accurate. There are five objectives. The first is six fully operational Collins Class submarines. The second is optimum arrangements for through life support—and this is different to what I said last night—including ongoing access to key technologies from the range of world suppliers. It makes it clear that we are looking to a range of technologies.

The third is a sustainable industry to support the submarine capability as part of the Australian naval shipbuilding refit and repair industry. I mentioned last night the word 'rationalisation.' The key to it, as I also said last night, is that the industry has to be sustainable. Given the current spread of facilities, and the amount of work available in its current form, it is probably not sustainable.

The fourth, which I did not mention last night, is an optimal ownership arrangement for the Australian Submarine Corporation, including disposal of the Commonwealth's interest in the corporation. That interest is held through the AIDC. The fifth, as I said last night, is optimal financial outcomes for the Commonwealth.

CHAIR—Thank you, Mr Roche.

Mr Corey—Mr Chairman, before we start Army, Commodore Flint also wishes to correct some of the information that was given late last evening.

Cdre Flint—As I stated last night, time flies. I stated that 14 months ago I was in command of *Success*. It was actually 20 months ago, which I have recalculated. I understood the question last night about HMAS *Success* was about the fire suppressant system. At that time, I stated FM200 replaced halon. That was largely due to the environmental considerations of FM200. If the question was about an inerting system on *Success* that was removed about two years before I took command, the inerting system was for the tanks primarily and was to get rid of the ullage. It was a boiler which processed the exhaust fumes from the boiler system and then filled the tanks.

I am not sure of the exact reasons why it was removed. But, anecdotally, I was told it was because of maintenance and support ability, lack of parts, and also the relatively safe nature of the F76, which is the predominant fuel on *Success*. There was another system put in place to overcome that and make the tanks safe if they were to go in a war or a fighting situation. It was a limited ballasting and separator system which would allow you to flood the tanks with water to get rid of that air space in the tanks, if required, and so make the tanks safe. You would then reprocess the interface between the water and the fuel to reclaim the tanks as required.

Senator HOGG—So the removal of that inerting system has not placed the *Success* in any danger?

Cdre Flint—I do not believe so. I was in command for two years and I believe it was operated very safely. There was no limitation on our replenishment activities or any other activities that we had to do. There was only that one consideration of: if you went into a war situation, what did you do about the ullage— that is, the air space between the level of the fuel and the top of the tank? That was overcome by the fitting of an operable separator system and ballasting system.

Senator HOGG—You said you were not sure of the reasons it was removed?

Cdre Flint—Yes.

Senator HOGG—Can you find out what reasons were given for its removal, if there are any? You can take it on notice.

Cdre Flint—I can attempt to search back. Obviously it is one of those things that was not readily available to me as I took command, but it was something that I consider very seriously with respect to the worse case scenarios which nobody prepares for.

Senator HOGG—Since then, has there been any ongoing review of the safety processes on the *Success*?

Cdre Flint—I believe there are ongoing reviews all the time and after every exercise and after every evolution that we do, whether it be a minor exercise or not, there are always lessons learnt. Those lessons learnt are factored back into the way you do your procedures and, also, the operation of the equipment. It is an ongoing process in the Navy to always achieve the best possible outcome that we can. With respect to that particular thing of the separated ballasting system that was being put to work and was still being accepted as I left command, I believe that is operable and meets the requirement.

Senator HOGG—Without going to horrendous difficulties could you check the reviews to see that there has not been any doubt or question about the removal of that inerting system?

Cdre Flint—Yes.

Senator HOGG—Thank you very much for expanding that for us.

[9.32 a.m.]

Output 1—Defence Operations

Lt Gen. Hickling—Could I just interrupt to complete an answer I gave to Senator West yesterday. I undertook to get some numbers and distribution of the M4 weapons system.

CHAIR—Certainly.

Lt Gen. Hickling—We have bought 180 of the M4 weapons systems and another 250 are due for delivery in August this year. All of those weapons will be issued to the SAS Regiment. We are anticipating a buy of a further 552 for issue to a 4 RAR in the next two to three years. We are looking at a further buy of weapons to complete the equipment of the special forces group and provide for some reserve stocks in the years ahead, over the next four to five years, in that order. They are the orders of numbers of weapons we are buying.

Senator WEST—So 180, 250 and 552. You said you were going to buy some for reserve stock—is that included in that number or is that on top of that?

Lt Gen. Hickling—No. The reserve stocks will come in a later phase which is not yet approved.

Senator WEST—What sorts of numbers are you talking about?

Lt Gen. Hickling—Total?

Senator WEST—Yes.

Lt Gen. Hickling—We are looking at a total of 1812 weapon systems, all up, to equip the special forces group which include the SAS regiment, 4 RAR Commando and 1 Commando Regiment, and associated supporting units such as Headquarters Special Operations and the Signals Squadron.

Senator WEST—Why are 4 RAR getting the M4?

Lt Gen. Hickling—Firstly, because of the versatility of the weapon system and, secondly, because they are required for operations in some very unfriendly environments, for example, underwater operations, and so forth. You need to be able to pull the weapon out of the surf and use it straightaway and for that reason we are going for the M4 for them.

Senator WEST—You still have quite a few to come?

Lt Gen. Hickling—Yes, but these are being procured over a number of years.

Senator WEST—How many Steyrs would you have in stock?

Lt Gen. Hickling—I would have to take that on notice; I do not know.

Senator WEST—It is just that 1,800 at \$9,000 a piece is quite—

Lt Gen. Hickling—The actual cost that I have here is that the system itself cost \$1,500 for the rifle, about \$395 for the rails interface system and \$3,500 for the basic sighting system. The total cost is about \$5,400.

Senator WEST—That is for the basic—

Lt Gen. Hickling—For the basic weapons system.

Senator WEST—And that will take going through the surf?

Lt Gen. Hickling—Yes. That is why we are buying it.

Senator WEST—Even at \$5½ thousand for 1,800, it is still quite a lot of money.

[9.36 a.m.]

Output 3—Army capabilities

Senator HOGG—Could we approach the first few pages in the same way that we did with Navy. If you could go through the priorities, the enhancements and then the capability information—performance information, the actual performance targets. Could you point out the highlights to us, the major changes and the significant variations that we should be looking at.

Lt Gen. Hickling—If you look at page 81, we talk about the performance targets and then we talk about the priorities for the coming year. Essentially, you can see there are two major themes there. Firstly, there is the theme of meeting our current commitments, and I will talk to those as I go through; secondly, you can see that we are simultaneously seeking to shape the Army for the future to ensure that we continue to modernise ourselves on a continuous basis and that we are looking towards what we anticipate to be our operational environment into the future. Those are the key themes in the set of priorities you see before you at the bottom of page 81. Moving across the page, you can still see that we are looking to continue to expand our numbers to support the sustainment of the ready deployment force. We have an ongoing commitment to East Timor, as you would be aware, and we are also looking to enhance the part that the reserve plays in Army operations, as well as providing against a more substantial requirement for mobilisation in the future.

Looking at the equipment capabilities, I will ask my colleagues in the Defence Acquisition Organisation to take any particular questions coming out of there. You can see that the kind of equipment that we are seeking to introduce in that list really does support what we see to be the strategic priorities before us. Down towards the bottom of the page, in particular, you will notice that we are now working up 4 RAR, the 4th Battalion, Royal Australian Regiment, to improve its operational effectiveness for service in East Timor.

Senator WEST—At the risk of seeming a bit thick, you have just told us 4 RAR are part of the special forces?

Lt Gen. Hickling—That is so.

Senator WEST—If it is part of the special forces, it is going to undertake work-up training for East Timor, the same as for 1 RAR, I presume.

Lt Gen. Hickling—Yes.

Senator WEST—If it is going to be doing the same work in East Timor as 1 RAR, why do they need M4s?

Lt Gen. Hickling—We need to look back at the development of 4 RAR. 4 RAR split from the 2nd/4th Battalion in Townsville a couple of years ago and was being built up very slowly in Holsworthy as our resources, manpower and various other assets became available to us. The decision was made to convert it to a commando regiment as part of the special forces group. We deliberately held the development of that at a fairly slow pace, simply because we did not have the resources to do it quickly. When the East Timor operation was launched, and when it became apparent that we were going to need more regular infantry battalions than we currently had available to us, I made the decision that 4 RAR should go to East Timor and serve a rotation as an infantry battalion as opposed to a special forces unit. So that is why you will see the battalion working up now as an infantry battalion. It will serve as an infantry battalion for its rotation in East Timor, then it will resume its development as a special forces unit on return.

Senator WEST—Okay. It is a full, permanent force, there are no reserves in 4 RAR. Is that correct?

Lt Gen. Hickling—It is a regular unit. There may be some reserves employed in the unit but the unit is, in effect, a full time unit, and it will continue to be a full time unit. But some reservists may well come on full time service to serve their rotation in East Timor, because all of our units are being topped up with reservists, as you will probably understand. 6 RAR, currently in East Timor, has a substantial number of reservists in it.

Senator WEST—Thank you.

Lt Gen. Hickling—Moving through the output, I think you can see, as you move down through page 83, the various outputs there and what our plans are for their development over the coming year. At the bottom of page 83, 'Capability for Protective Operations' refers essentially to our reserve brigades and units. Of course, legislation before the government at present, and which we hope to see introduced into parliament before the end of this year, will enable us to offer reservists a good deal more flexibility in their employment on operations.

Moving across to Table 3.3.1, it is reasonably self-explanatory. I am happy to take questions on that. Essentially, what you see there is our thrust towards meeting directed preparedness requirements—these are directed by the CDF in response to government requirements—and at the same time maintaining core skills and professional standards across all of the Army outputs. So those are the twin thrusts that you will see in that table.

Moving across to page 86, it mentions 7 Brigade there as you look one-third of the way down the page. I should say that 6 RAR is one of the battalions from 7 Brigade, and it is currently serving in East Timor.

Looking at 'Planned flying hours' at the bottom of that page, Table 3.3.2, the only large change in flying hours that you will note there is for the Kiowa aircraft, and that is in response to Timor operations. There are some 5,500 hours in addition to what we flew last year.

Senator WEST—You have got the Kiowas in East Timor?

Lt Gen. Hickling—We have a troop of three Kiowas operating in East Timor.

Senator HOGG—Just on your aviation wing, I asked Navy for a break-up of the maintenance operational capital costs per year. Could you provide me with a similar cost?

Lt Gen. Hickling—We can take that on notice, Senator.

Senator HOGG—Yes, I accept that.

Lt Gen. Hickling—I think that touches on the high points, Senator, and I am happy to take questions on any of the output. I think what we have seen in the past 12 months has been a response to a number of requirements by government, and I will let those results speak for themselves.

Senator HOGG—Can I ask you about the rotation of our forces into East Timor? How is that proceeding? Are there sufficient to be rotated in, and of those who have already come out, will they be rotated back, and if so, when?

Lt Gen. Hickling—We are working on a six-month force rotation policy. Essentially, each of our units can plan on spending six months in operations in East Timor, although some individuals might spend longer than six months. Some may spend up to 12 months there if they are occupying key or sensitive posts which require a longer time in theatre. The vast majority will do a six-month tour and we are working towards ensuring that units get at least 18-months break between tours in East Timor. I see that as being a minimum; I would prefer to do two years. It is a question of how long the commitment lasts.

You have seen the pattern already where we have had three battalions initially deployed. They were replaced initially by 5/7 Battalion who went in later and completed roughly a six-month tour. The 5/7 Battalion was relieved by 6 RAR around Anzac Day this year. I expect 6 RAR to run through until about the end of October when they will be replaced by the 1st Battalion who will cover the Christmas period on until about Anzac Day 2001 or thereabouts. By that stage 4 RAR should be available for deployment to East Timor. That is the planning as it has gone so far. After that we would have to consider recycling some of the units that undertook initial tours in East Timor.

Senator HOGG—Are there any people who have been to East Timor but will not be eligible to go back for health reasons?

Lt Gen. Hickling—I could not answer that question. That would require an enormous search of records in detail, but as far as I am aware not at this stage, although it is possible.

Senator HOGG—Let's say someone contracted malaria, or something such as that, would they be eligible to go back?

Lt Gen. Hickling—There is no reason why they should not although I would take medical advice on that. I have had malaria twice myself. It has not stopped people deploying me to various operations. I may ask Brigadier Ramsey to answer that.

Senator HOGG—I am going to ask further questions later on. I am just trying to find out if there are a number of issues such as that.

Lt Gen. Hickling—So far as I am aware, that is not the case. That sort of disease would not prevent people from redeploying. I do not know if there are other diseases that would, however, and I would have to take expert medical opinion on that.

Senator WEST—What has the retention rate been with those that have been to East Timor? Are they coming back dissatisfied with civilian life and wanting a bit more excitement again or are the units holding together?

Lt Gen. Hickling—I have visited all of the units that have returned from East Timor. I would have to say that we have had some discharges. We would have expected those anyway because a number of soldiers had applied for discharge before they left and then deferred their

discharge until after they had completed their six-month tour. But I would have to say that so far the indicators are that the discharge rate is nothing out of the ordinary.

Senator WEST—You are not getting any increased numbers staying on?

Lt Gen. Hickling—It is pretty early to tell because people have just got back. In some cases they are just returning from leave now, so they have had a long period of leave and time to reassess their future. People are starting to make decisions about now. So it is too early to really tell whether we are seeing a jump in discharges or a reduction in discharge rates. I think it would be impossible to tell at this early stage. We would have to look back, I suspect, in about six months time.

Senator WEST—Thank you.

Senator HOGG—I understand that yesterday an Australian soldier was injured in East Timor. Is that correct?

Lt Gen. Hickling—That is true. I understand it occurred over the weekend.

Senator HOGG—How serious are the injuries?

Lt Gen. Hickling—My understanding is that he has been wounded by grenade fragments. I would ask for expert medical opinion here, but my understanding is that his condition is satisfactory. He is not gravely wounded.

Senator WEST—Who was initially on the other end of the grenade before it got detonated? Was it a hostile action?

Lt Gen. Hickling—Our report is that it was a hostile action. A grenade was thrown at the group.

Senator WEST—Whereabouts in East Timor was it?

Lt Gen. Hickling—It was near the border; I do not have the exact location.

Senator WEST—It was not in Dili. It was near the border?

Lt Gen. Hickling—Yes.

Senator WEST—This would indicate that the militia groups are still quite active in the area.

Lt Gen. Hickling—I think it is too soon to write off the militia as a spent force at this stage, Senator. That would be my view.

Senator WEST—Does it also indicate that the forces there now have lowered their guard somewhat?

Lt Gen. Hickling—I would be very surprised if that were the case. Having visited the place a number of times, every unit I visited was clearly very professionally going about their business. But it is very difficult to defend yourself, particularly at night, against a group that you detect, you challenge and they throw a grenade and run. It is extremely difficult to protect yourself against somebody like that without compromising your rules of engagement. It is one of the risks of the business.

Senator WEST—Initially when we were there, there could have been a reaction by our forces, couldn't there?

Lt Gen. Hickling—There was a reaction. A shot was fired, but clearly—

Senator WEST—Missed.

Lt Gen. Hickling—anything else is speculation. I do not know the outcome of the action. The rules of engagement essentially remain as they were. We are still operating under chapter 7 of the UN charter, so there is no major change in the rules of engagement. Our soldiers are trained to be very careful about opening fire. It is much better to be cautious about those matters.

Senator HOGG—The East Timor operation has clearly assisted the status of the Army within the defence community. For the benefit of this committee, can you relate to us how the status and the perception of the Army have changed as a result of our involvement in East Timor?

Lt Gen. Hickling—I would hesitate to do so, only because I think you need to ask others, but my perception is that the community's perception of the Army has certainly changed since the East Timor operation. It has been a very positive change, and I think that has been purely the result of the good work done by our soldiers.

Senator HOGG—This must have a very strong impact on morale within the Army itself.

Lt Gen. Hickling—It has had a marvellous effect in focusing people on their operational mission and it has had a great effect on morale. I think people are rightly very proud of the work they did in East Timor.

Senator HOGG—I must wholeheartedly concur with you there. Those who have represented our country have excelled themselves, in both their conduct on the field and the way in which they have gone about their task. Has it left any people back in Australia who are feeling left out of the process, who feel that the resources have been shifted away from them and they have missed out in some way?

Lt Gen. Hickling—I spend a lot of time visiting units, and the strong sense I have is that those in Australia who could see that the resources that were taken from them to support the operation were having an effect have actually felt some pride that they have contributed to the operation indirectly. There is a great keenness among the vast majority of the Army who have not yet been to East Timor to get there as rapidly as possible.

Senator HOGG—On the last occasion at estimates I asked Major General Abigail about shadow soldiers. I think it was a unit in Victoria.

Lt Gen. Hickling—That is correct. In fact, I have asked the Inspector General to conduct a very close audit of the affairs of the unit concerned. He is here today.

Senator HOGG—Yes, I see the Inspector General has come forward.

Mr Neumann—The audit is still under way, but so far there is no evidence of phantoms in the sense that there are names on the payroll of people who do not exist or who have never been enrolled. However, there is evidence that the particular Victorian unit under investigation has taken several years rather than the average of one year to discharge ineffective reserve soldiers—that is, those who have ceased to parade. There is also some evidence of poor administration and mismanagement, several low level frauds have been found, along with misuse of assets, stores deficiencies and missing records.

Senator HOGG—Did you say high or low level fraud?

Mr Neumann—Low level frauds. I would rather not go any further because we are highly likely to recommend charges.

Senator HOGG—All right. I will not pursue that issue. When will you bring down a final report, such that we can traverse this issue at greater length?

Mr Neumann—I think we are going through some of the archival records. We should be in a position to do so the next time we meet. There may be charges still being heard at that stage.

Senator HOGG—They failed to discharge people for 18 months or two years or whatever the time may have been. You said you found that out at the audit.

Mr Neumann—The average seems to be about a year, and this particular unit is taking several years.

Senator HOGG—How long?

Mr Neumann—Several years.

Senator HOGG—How several?

Mr Neumann—Three to four in some cases.

Senator HOGG—And have you done an audit of similar units to find out what is happening there?

Mr Neumann—The average of reserve units that we have audited is about a year. This unit, on this particular criterion, is out by a factor of three to four. But other units, in terms of stores administration, would be similar with their record management and management of stores. I would not want to give you the impression that this unit is unique in terms of the reserve units other than in that one area.

Senator HOGG—So really in that one area it is a matter of poor administration. Would that be the best way to typify it?

Mr Neumann—At the moment.

Senator HOGG—Right. I presume that out of your inquiry report there will be recommendations as to certain lines of action to be taken in administration and in other areas?

Mr Neumann—Yes.

Senator HOGG—When do you see that report being finalised?

Mr Neumann—In another six months probably. It depends on what we find out from the archival records.

Senator HOGG—In other words, it may well be something that we can look at during the additional estimates?

Mr Neumann—Yes.

Senator HOGG—That is fine.

Senator WEST—Can I just follow that? How often are reservists expected to attend?

Lt Gen. Hickling—It depends very much upon the unit because we have flexible employment practices in the reserve. Normally they are expected to parade on a Tuesday night and then one weekend a month. There is a good deal of flexibility. They are expected to parade for something in the order of 26 days a year to be efficient and effective. There are a number of reasons why people do not turn up on particular days. Reservists face a particular challenge in that they have their full-time civilian job and most of them have families. The Army is the third demand upon their time. Balancing those three requirements in some cases requires us to be reasonably flexible about how often they actually appear. I must add, however, that non-effective reserve soldiers do not get paid, so discharging soldiers for non-effective service in terms of their drawing pay is not an issue here.

Senator WEST—I was not thinking of that aspect. I was wondering what records are kept of attendance, who does it and how it is decided someone's absence is legitimate and so on.

Lt Gen. Hickling—Reserve units keep roll books and attendance records the same as we do for regular units essentially. It is normally the commanding officer's decision as to whether a soldier ceases to be effective or not. In some cases, they are given a good deal of latitude. But I would have to add that I would regard three year's latitude as excessive.

Senator WEST—It is the degree of latitude that is in my mind. There is no common standard as to what the level of latitude is. It is up to individual commanders.

Lt Gen. Hickling—In some of our more remote units, for example, they do not parade once a week. It is just impracticable for people to drive 200 or 300 kilometres to attend a Tuesday night parade.

Senator WEST—That is right.

Lt Gen. Hickling—So those units tend to parade less frequently than others. For that reason we must provide a good deal of flexibility if we expect reservists to turn up and do their job.

Senator WEST—But even for that group you are still expecting them to do 26 days a year?

Lt Gen. Hickling—Normally we would expect them to do that.

Senator WEST—And you are expecting even those remote ones to do it on, say, weekends?

Lt Gen. Hickling—I expect them to do it in weekends or in what we call camps of continuous training—either way.

Senator WEST—It is the slowness to respond, and whether somebody has a legitimate reason for not being there, or has just sort of come along and put the odd appearance in—

Lt Gen. Hickling—Yes. The only people who can judge that are the people on the ground, and that is normally the commanding officer. That is why the commanding officer is the person responsible for judging a soldier to be effective or non-effective. It is very difficult to do that from Canberra, for example.

Senator WEST—What monitoring takes place of the performances of each individual reserve unit?

Lt Gen. Hickling—That is normally undertaken by the brigade commander in each of the locations. Indeed, we are running a study at the moment to review administration of this kind of issue right across the Army but with particular focus on reserve units. We are looking to review the way that is done.

Senator WEST—Because you can see there is a problem there?

Lt Gen. Hickling—We think we can do it better; that is the way I would put it.

Senator WEST—When is that review expected to be completed?

Lt Gen. Hickling—I am advised that we would expect to complete that some time in the next couple of months.

Senator WEST—When did it commence?

Mr Lush—Just by way of background, the Inspector General's people, through their audit reports, have been bringing to attention for a little while now some problems in financial

practice and administration in Army, with an emphasis on the reserve area. Late last year we progressed to undertake a review within Army, across Army, as the chief mentioned. Earlier this year we started that review. As commented, we hope to conclude it with a way ahead, which will be partly what Army can do and partly, I suspect, what we may need to seek to have changed in some of the corporate systems that we are dependent on. We expect that report to come forward in July—it had been hoped for June but I do not see it being achieved before July—to the senior committees in Army, with a decision and outcome from that proceeding in the latter part of this year.

Senator WEST—Who is undertaking the review?

Mr Lush—I have, on behalf of the chief.

Senator HOGG—I understand that a soldier went missing off Bougainville over the weekend. Is that correct?

Lt. Gen. Hickling—It was the weekend before.

Senator HOGG—In the case of these tragedies we extend our sympathies to the family. Has there been any outcome of that tragedy at this stage?

Lt. Gen. Hickling—A board of inquiry has been formed to review the circumstances of it, so I could not tell you what the facts of the matter are. My understanding is that he was snorkelling with a friend and disappeared. An immediate search was launched. It was unsuccessful. The Navy diving team deployed within a couple of days and eventually found him on the bottom, partly covered with silt. I do not have any other information on that. I could not tell you any more. Those are the very bare facts, as I understand them.

Senator HOGG—All right. There is a board of inquiry and undoubtedly that will report in due course.

Lt. Gen. Hickling—It shall.

Senator HOGG—I just wanted to find out where that issue had got to. Are you able to identify the greatest weaknesses that you believe exist in the capability of the Army at the moment?

Lt. Gen. Hickling—I can give these in very broad terms.

Senator HOGG—In broad terms.

Lt. Gen. Hickling—Our greatest weakness at the moment is that of sustainability over a longer term. That is simply a question of having sufficient numbers of people and reserve stocks and holdings to ensure that we can sustain operations for an indefinite period. This has come about essentially until recently because we have not been facing a situation where it has been expected that we would have to undertake operations for a very lengthy period. We have enjoyed a very stable strategic environment for the last couple of decades and it has been only recently, as I am sure every member of this committee would be well aware, that we have seen some fairly dramatic changes in our region. So it is not surprising that that would be what I would regard as our greatest weakness. That is not to say we cannot undertake operations. It is not to say that we cannot successfully undertake operations, as we have just demonstrated, but I am saying that I believe that the long-term sustainment of operations is probably the greatest weakness that I see in the Army.

Senator HOGG—Is the resolution to that money—that is always the panacea that everyone wants to jump at—or are there other solutions to addressing the sustainability issue?

Lt Gen. Hickling—It really boils down to what the government and the people of Australia want us to do. If a very small force is considered to be what is required, then obviously we can sustain that much more easily than we can a more substantial force. So it is a question of scale and duration. I think that what we will see as one of the outcomes of the white paper will be some judgments in those areas and I believe, having seen those judgments, we will probably have to make some adjustments to the way that we have our posture set for operations in the years ahead.

Senator HOGG—I hope I am not distorting the theme that Dr Hawke put to us yesterday, that there is a convergence of matters happening. Given the pressures on the costs of personnel, and so on, and the current budget, are you able to sustain what you are now doing in the longer term or would there have to be budgetary changes?

Lt Gen. Hickling—I believe we can sustain what we are doing now in the longer term but the dilemma I face, and my colleagues in all of the services face, is to find an appropriate balance between our current operational commitments and our future investment to ensure that what we do in the future is fight the next war and not the last. Every service chief has to wrestle with that particular balance, and I would strongly support the comments that Dr Hawke made yesterday about the convergence at the moment of the demands for future investment, rising personnel costs, and an increased operational tempo. Those three things go together really to tell us that with a static budget something has got to give. That is the issue.

Senator WEST—Are some Army transport units going to be based at RAAF Amberley? Is that a correct report?

Lt Gen. Hickling—No, not as far as I am aware.

Senator WEST—So Army is not going out to Amberley in any way, shape or form?

Lt Gen. Hickling—Not that we are planning for at the moment. That is not to say we never will.

Senator HOGG—Do you think you have just been told something that you did not know or that someone has let the cat out of the bag?

Senator WEST—Someone has just told us something we did not know as well, and got it wrong. I understand that General Cosgrove recently was in Thailand—is that correct?

Lt Gen. Hickling—That is correct.

Senator WEST—What was the purpose of the visit?

Lt Gen. Hickling—There was a combined exercise being undertaken in Thailand and he was visiting that exercise. He was also paying a courtesy call upon Thai defence and army leadership and I would imagine that part of his—and this is somewhat speculative—purpose there would be to thank the Thais for their support during the East Timor INTERFET, and now UN, operation which they provided.

Senator WEST—Did the exercise that was being conducted in Thailand involve Australian troops?

Lt Gen. Hickling—Yes, it did involve some Australian troops.

Senator WEST—Did he go anywhere else, as well?

Lt Gen. Hickling—I would have to take that on notice. I do not know what his itinerary was. I do know that he was visiting Thailand.

Senator WEST—You do not know if he has visited anywhere else?

Lt Gen. Hickling—I do not know.

Senator WEST—How long was the trip?

Lt Gen. Hickling—I would have to take that on notice, as well.

Senator WEST—How many personnel accompanied him and what was the cost of the trip, please?

Lt Gen. Hickling—Could I please take all of those on notice?

Senator WEST—That is fine. Considering the heavy demand on his time with events such as this—we have seen some other events that he has been involved with—is somebody actually acting as land commander on his behalf?

Lt Gen. Hickling—Yes, there will be an officer acting on his behalf, and it will probably be Brigadier Warner at Victoria Barracks.

Senator WEST—Is Army or Defence PR coordinating what events General Cosgrove attends?

Lt Gen. Hickling—No. General Cosgrove is able to accept invitations to various events on his own initiative.

Senator WEST—So Army and Defence PR are not in any way involved?

Lt Gen. Hickling—I am certainly not directing that, no.

Senator WEST—There was a truck accident recently in Townsville where a vehicle carrying explosives lost its load. Is that correct?

Lt Gen. Hickling—I do not know of it.

Senator WEST—I thought I saw it on the media.

Major Gen. Haddad—That accident was an ammunition resupply truck going from Myambat in NSW to Townsville.

Senator WEST—The truck did lose its load?

Major Gen. Haddad—The truck rolled over and lost its load, which was seven pallets of 81-millimetre mortar ammunition, which was then recovered. The road was closed for in excess of 24 hours until this was recovered and reloaded on another vehicle and the load continued on its journey, with one or two rounds that were damaged during that accident having to be destroyed.

Senator WEST—Where were they destroyed? Do they have to be destroyed on site?

Major Gen. Haddad—I do not know the exact site. I think they were recovered back through the ammunition supply chain and destroyed at an appropriate location.

Senator WEST—Did people from the Townsville area around the accident have to be evacuated from their homes?

Major Gen. Haddad—I cannot remember the exact name of the town, but it was just north of Toowoomba.

Senator WEST—I cannot either. I just know it was on Channel 9's news.

Major Gen. Haddad—The accident happened about 7.00 o'clock on a Saturday night. The ammunition supply people responded from Brisbane. The road was closed and it took about 24 hours to clear the site and open up the road again.

Senator WEST—Has an investigation been held into the accident?

Major Gen. Haddad—An investigation is being conducted at the moment.

Senator WEST—When do you expect to have the results of that?

Major Gen. Haddad—I cannot give you the exact timing. I think they were allowed one month to do this investigation. I would anticipate that at some time in the next couple of weeks the process will be finalised.

Senator WEST—What special training do Army drivers have to undertake for the transportation of explosives?

Major Gen. Haddad—They all receive training as drivers of that class of vehicle. It is a driving task, not one to do with the fact that they are carrying ammunition on that vehicle. There are special security requirements that surround that transportation, but it is just a load of seven pallets of a certain weight on a truck. The driver of that vehicle was trained to drive that particular class of vehicle.

Senator WEST—But in civilian life a driver of a truck is also required to have knowledge as to what will mix with what, what you cannot carry together on the same load, and what the first aid and safety precautions are to be undertaken if something untoward happens.

Major Gen. Haddad—The vehicle was part of a convoy. What could be carried on the truck is governed by the licensing laws that reflect that commodity—what can be mixed with what. The reason that particular load was on that truck was for segregation purposes, The driver is briefed on all those requirements that you alluded to. The truck was part of a group that was travelling under supervision.

Senator WEST—What are the safety measures that are in place when transporting explosives?

Major Gen. Haddad—There are the limits as to what can be mixed on a particular load. There are limits as to what can be carried in terms of weight or explosive content. So, you get that separation. Also, there are rules that govern the route they use to carry that load to their destination.

Senator WEST—Thank you.

Senator HOGG—I said I was going to ask some questions on the individual readiness notice because an ANAO report on this came out on 14 January this year. I will go to the overall conclusions and I will take you to specific passages so you can make appropriate comments. At page 10 in the overall conclusions it says:

... the ANAO could find no relationship between the minimum standards set for AIRN components and the achievement of a deployable standard in 30 days.

That, as I understand, was after a number of years of operation of the individual readiness notice. Has that been taken into consideration and has that been changed?

Lt Gen. Hickling—There are two issues here. Firstly, all of the ANAO conclusions have been taken into consideration and a complete review of the AIRN system is in process.

Senator HOGG—I am sorry, I was just getting a document, which your people provided to me, with an analysis of where you people are at in the various reports. I accept what you were saying. Please continue.

Lt Gen. Hickling—The intent behind the AIRN requirement put in place by my predecessor was to ensure that all people who were in the Army were physically fit, medically

and dentally fit, capable of using their basic weapon and available for deployment on operations, if required. That was the intent. To my mind, that intent is absolutely relevant to what we do as an army and I support it very strongly.

The AIRN system itself has evolved over a number of years, as you have just mentioned, and clearly it is time to stop and review how we administer the AIRN and to ensure that the individual requirements under the AIRN system are relevant to our needs. But the basis for readiness for Army people rests on their compliance with AIRN. That is because we believe that there needs to be a certain basic standard from which people can be prepared for deployment to operations. That standard is laid down by the AIRN.

Senator HOGG—If I go to paragraph 7 on the same page, 10, it says:

7. Army records indicate that, at September 1999, only 74 per cent of full time members and 34 per cent of part time members to whom AIRN applies met the minimum standards required by AIRN.

Did that come as a surprise?

Lt Gen. Hickling—No—

Senator HOGG—And I must say I understand there are some vagaries in that.

Lt Gen. Hickling—Yes. Firstly, it did not come as a surprise because the administrative processes put in place to support the AIRN we acknowledge are not as efficient as they need to be. For example, reporting of AIRN occurs once a year, so a number of people can join the Army, go through their training and report to their units and be perfectly compliant with AIRN, but it is not reported until a certain date. I think that date is 1 November each year. So there is always going to be a certain proportion of people who are in all respects compliant but are simply not reported as being compliant. It is that sort of administrative arrangement that we need to make more flexible and more responsive. That is one of the reasons we are undertaking the review and that is one of the reasons we think this report has been a very valuable document for us.

Senator HOGG—I, likewise, except that the document is a very valuable document. But I thought, seeing it is a very important issue, it was worth while getting a few of these issues out in the open. At paragraph 9 on page 10, the ANAO says:

9. The ANAO understands that Australia's major allies do not use a system like AIRN to manage soldiers' individual readiness.

The ANAO goes on to say:

... they did not consider a system like AIRN would be affordable in their context, primarily because of the administrative burden it would impose.

That concerned me—if an administrative burden has been placed on various units in the Army as a result of having to maintain the AIRN system whilst not necessarily, in theory, seeing the outcomes that should be there.

Lt Gen. Hickling—One of the options that we are going to consider as part of the review will be to have commanding officers of their respective units certify that their unit is at the required degree of readiness, which would include all members of that unit being ready to deploy or, if not, to report by exception. That is one of the options that we are considering. We will be looking at that as part of our review of this system.

Senator HOGG—Paragraph 11 reads:

Regardless of the model chosen, there needs to be a clear linkage between individual readiness component standards and the individual readiness objectives to be achieved.

Lt Gen. Hickling—That is precisely what the AIRN attempts to do: it attempts to ensure that people are medically fit, dentally fit, physically fit, able to use their weapons effectively and are able to deploy if required. So those five objectives, it seems to me, are the basis of any readiness system that we put in place. If your people are not able to meet those requirements, then it seems to me that we do not have a firm basis for readiness.

Senator HOGG—I turn to the key findings. At paragraph 14, on page 12, it says:

For example, delays by units in implementing AIRN meant that costing information collected during this period did not provide a true indication of the cost of AIRN. It is apparent that, three years after the implementation of AIRN, Army is still not able to assess the annual cost of AIRN.

Do you have processes in place which will assess or are you, through your review, seeking to put processes in place which will review the costing?

Lt Gen. Hickling—One of the highest priorities for the review is to ensure that we can capture the cost of AIRN so that we can then assess its cost effectiveness as a system.

Senator HOGG—That was one of the concerns I had when I read this report. When it spoke about the administrative burden that it placed, I then thought about the cost effectiveness of what was being done and whether, at the end of the day, the pursuit of AIRN was a noose around the neck of Army, so to speak, rather than being something that positively assisted its capability.

Lt Gen. Hickling—I understand. I think that concern is absolutely relevant and that is why the highest priority in the review was to look to a system which would capture the cost accurately of the AIRN system.

Senator HOGG—I turn to page 15. Paragraph 27 reads:

The ANAO found no evidence that an operational level of weapons proficiency had been defined. As a result, it is not practicable to assess whether a member could be brought from the minimum level of individual readiness (indicated by the annual tests) to an operational level of weapons proficiency in the 30 days allocated to raising individual readiness under AIRN.

Lt Gen. Hickling—I would have to dispute that. From my own perspective, I believe there may have been some misunderstanding of what the weapon readiness test involved. Weapon readiness tests involve essentially ensuring that people are able to safely manipulate their weapons and to carry out the series of drills which are required to use the basic personal weapon properly. That has to be the basis on which any further training is carried out. If people cannot and do not know how to undertake those very basic drills, then further training is impossible, and that is why that particular set of tests was put in place in the first place.

Senator HOGG—As you can imagine, I was concerned when I read that. I am not trying to weight any one of the elements of the readiness components more heavily than the others, but I would have thought that would have been extremely important indeed. Reading that raises concerns.

Lt Gen. Hickling—Yes. Having said what I have said—and I stand by that—there are concerns that the current level of testing is really at too low a level for very high readiness units. Therefore, as part of the review, we will be looking at that and at ways to link those tests to some physical shooting of the weapons where we use the weapons effects training simulator or do a range shoot and fire some ammunition, or both. That is yet to be determined. That is part of the ongoing review.

Senator HOGG—So you will be seeking to determine an operational level of weapons proficiency clearly defined in the future?

Lt Gen. Hickling—Yes.

Senator HOGG—On page 16, it said:

The ANAO found that the system placed a significant administrative burden on units, lacked timeliness in some areas, produced information of questionable validity and did not encourage members to maintain a continuous state of individual readiness.

We have already discussed the administrative burden. Undoubtedly, you have put forward that you are taking steps to overcome that. Obviously, the timeliness is an issue that you are addressing.

Lt Gen. Hickling—That was the report on timeliness that I discussed earlier.

Senator HOGG—But it produced information of questionable validity. We have seen that already because I quoted the figures that even the ANAO concede have some difficulties in being held true. The report said it:

... did not encourage members to maintain a continuous state of individual readiness.

Is that correct?

Lt Gen. Hickling—I am not sure on what basis that finding was made. I would have to say that I find it difficult to agree with such a comment because a balance has to be found between the administration surrounding undertaking the tests of this on a regular basis and maintenance of continuous personal readiness. We test fitness twice a year and every other aspect essentially on a yearly basis. For example, we test weapons handling on a yearly basis. I am not sure how the ANAO would expect that people would be required to demonstrate that they have maintained continuous personal readiness. We test it on what I consider to be a reasonable basis. That is an annual basis. We test physical fitness twice a year. I would regard that as being a pretty reasonable indicator that people who continue to pass the tests are maintaining a level of personal readiness required by the system.

Senator HOGG—How many people actually fail the test?

Lt Gen. Hickling—That would vary from year to year and from place to place.

Senator HOGG—Do you have statistics on that?

Lt Gen. Hickling—We encourage most people who have failed the test to undertake retests. Very few people are written off as complete failures because they have failed one aspect of the test. They simply do further training and try again. The intent is to bring people up to the level.

Senator HOGG—I accept that. But are there people who fail the test and are unable to meet your minimum standards?

Lt Gen. Hickling—In most cases I have to say that is through medical reasons. People are unable to achieve the required medical standard. In most cases we have to discharge them.

Senator HOGG—Could you give me some idea of the numbers involved there? It is a question that I have pursued at estimates previously?

Lt Gen. Hickling—This is medical discharges?

Senator HOGG—Yes, as a result of failure in the AIRN process.

Proceedings suspended from 10.30 a.m. to 10.42 a.m.

CHAIR—Order! The estimates committee is now back in session and we are continuing with Output 3, Army capabilities.

Senator HOGG—I now want to go to the final point at page 18 where there was an ANAO comment. You can see that I have deliberately not gone to the recommendations because I have your response to the recommendations in the document that was provided to me, so that is why I have steered clear of those. At paragraph 36 it says:

It is questionable as to whether a review after five years for such basic processes is consistent with promoting the most efficient and effective use of Commonwealth resources.

Whilst that is a comment and not a recommendation, it nonetheless is a fairly telling comment. I understand you do have a review but it really raises the issue of it not being the most consistent way in their view of promoting the most efficient and effective use of Commonwealth resources. What is your response to that, General?

Lt Gen. Hickling—I think I would acknowledge that comment, Senator Hogg, on the basis that we have not waited five years to do the review—we are conducting it now. We expect the review to be completed in July and, as a result of that, we would expect to be able to issue a revised AIRN policy very soon afterwards.

Senator HOGG—When you say the review will be completed by July, where will it go to then?

Lt Gen. Hickling—The review itself will be looked at by the Army Capability Management committee which is chaired by the Deputy Chief of the Army. I would then anticipate it will be taken to the Chief of Army's senior advisory group which is chaired by the chief himself and, once it is endorsed by that group, it would be approved by the chief. In addition to that I would imagine—it would certainly be my intent—that the other chiefs of service and the CDF would be advised of the outcomes of the review so that it can inform defence policy overall on an issue which I know is of interest to the other services.

Senator HOGG—All right. When would that document be available to members of this committee? Obviously, the review is an issue that I have an interest in and I am sure others have as well.

Lt. Gen. Hickling—It should be available once the Chief of Army has endorsed the new policy.

Senator HOGG—A broad time line for me?

Lt. Gen. Hickling—It should be well before the end of this year; I would think additional estimates. I will just take advice on that.

Senator HOGG—Just roughly.

Lt. Gen. Hickling—Later this year, I would say.

Senator HOGG—Before additional estimates?

Lt. Gen. Hickling—I would hope so, yes.

Senator HOGG—That gives time to pursue it then. The other question is: your review is as a result of the ANAO report, so are you going back to the Auditor-General to seek their advice on anything that may have arisen out of their recommendations to you in order to see that their recommendations are being implemented, in effect?

Lt. Gen. Hickling—The process of undertaking the review is in place.

Senator HOGG—I understand that.

Lt. Gen. Hickling—I would expect that we would consult the ANAO at the completion of the review to ensure that we have dealt with the major concerns that they have raised.

Senator HOGG—All right. I would expect the ANAO will do a follow-up at some stage, even if it is just a limited follow-up. Thanks very much for that.

Lt. Gen. Hickling—Before we proceed, may I just read into the record an answer which I undertook to get for Senator West on the number of Steyr rifles that were procured. The number is 75,674. And, of course, those rifles are not provided just for the Army; we also provide weapons for the Navy and the Air Force as well.

Senator WEST—Thank you. Can I turn to page 83 and ‘Capability for protective operations’. The first dot point under that is:

- Provide clearer definition of the roles and tasks of this capability though the Reserve roles and tasks study and the development of call-out and job-protection legislation.

Can you explain to me who has carried out this and what it is about, please?

Lt. Gen. Hickling—The study was undertaken in Army headquarters. It was under the direction of the Director-General of Reserves. It focused on attempting to ensure that we provide a series of roles and tasks for the Reserve which are relevant to our needs as an army and clearly credible to the Reserve itself. One of the outcomes of that study has been the recommendation to government for amendments to legislation governing the employment of reserves and protection of employers and employees involved with reservists, and also conditions of service for the Reserve. I am advised that that legislation is in the process of being drafted as we speak. Our hope is it will go to the parliament before the end of the year.

Senator WEST—Thank you. Can I also follow up on common induction training. At the least hearing, it was finally admitted that this had harmed recruitment for the Reserve. Is that correct?

Lt. Gen. Hickling—We think it is one of the factors which has impacted on Reserve recruitment. To that end, I have directed that we review the delivery of common induction training to achieve a few things: firstly, to make it more accessible to those who wish to join the Reserve but do not have a large block of time available at the beginning to undertake the training; secondly, to deliver part of the training closer to the home base or home location of the reservist involved—in other words, in the states as well as at the Army Recruit Training Centre at Wagga; and, thirdly, the point I have made absolutely clear is there must be no diminution of standards of the training delivered or of the outcome.

Senator WEST—When was this knowledge gained? Does it go go back as far as 1997 that the ADF has known about this information that the CIT was having some problems?

Lt Gen. Hickling—The real issue here is gaining recruits into the Army, both full-time and part-time recruits. We have been struggling in this area now for a year or more. The common induction training delivery, as a single large block, was put forward as an issue probably some 18 months ago. It has taken us some time to consider whether it is a real issue or whether it is simply a part of the general difficulty we are having at recruiting people into the services generally.

Late last year I directed that we run a trial of a modular course that enabled this training to be delivered in two blocks. That is ongoing. Clearly, the feedback I was receiving from my commanders was that this would not be sufficient and we needed to have a more robust solution. As a consequence, I have directed in the last month or so that we begin a much more distributed training system than we have had in the past.

Senator WEST—What can you tell me about the market research report from New Focus Research Proprietary Ltd entitled *Report on research into Army's Common Induction Training Program*?

Lt Gen. Hickling—I am not aware of that report.

Senator WEST—An answer to Laurie Ferguson's question on notice in the House of Representatives in the *Hansard* of 9 May is what is leading me up to these questions. We had better get checked who answered that question.

Lt Gen. Hickling—Could I have the name of that report again please?

Senator WEST—It was done by New Focus Research Proprietary Ltd and was probably done in about May 1997. You have not seen this report?

Lt Gen. Hickling—I have not seen the report.

Senator WEST—And the cavalry is not riding over the hill either. So I cannot ask you who it has been provided to. If you can follow up, I will follow up from my side for some more details.

Lt Gen. Hickling—The report itself was dated 1997?

Senator WEST—I am not quite sure when the report was dated. If I get some more details I shall let you know. Thank you.

Mr Corey—Was it a question on notice to the Minister for Defence?

Senator WEST—It does not tell me. I cannot imagine who else it would be.

Senator HOGG—I would think that if it was on notice then it would have been to the appropriate minister. On notice or even without notice it would have to have been to the appropriate minister.

Senator WEST—And it was done in the House of Representatives.

Mr Lush—It is not on what you are discussing.

Senator HOGG—I will look up *Hansard*.

Senator WEST—We can look up *Hansard* here and now. I will find another question so that Senator Hogg has got some time to search for it. On page 88, under 'Explanation of significant variations', 'Employees—civilian', 'real', you state:

Reduced provision primarily resulting from market testing and rationalisation initiatives.

Can you explain some of the details, please.

Mr Lush—If we go into great detail, we will need to call others forward, but it is essentially associated with savings driven from market testing in association with garrison support related activities, which is the corporate support area, and that is those military numbers, and prospective numbers in the defence integrated distribution system, which will be progressively implemented to start in the coming financial year.

Senator WEST—How much last year was saved through these measures?

Mr Lush—I will take that on notice.

Senator WEST—Under 'Suppliers', a bit further down the page, you have got a saving of \$38.8 million for 'reduction in expensed asset under construction'. Do you mean 'expended asset under construction'?

Mr Lush—It is associated with fewer than planned rollouts of new assets that are subject to the capitalisation threshold of \$25,000 per item. Those that are under the threshold are expensed as they are rolled out, as distinct from taken as an asset, and it relates to that issue. The original plan is fewer in number.

Senator WEST—But if we are talking about purchases of less than \$25,000 and a saving of \$38.8 million, it takes a hell of a lot of \$25,000 or less to go into \$38.8 million. Is there any major component element in there?

Mr Lush—I have not got specifics available to me. I can discover that.

Senator WEST—Thank you. How are you going, Senator?

Senator HOGG—I do not seem to be able to find it.

Mr Corey—Why don't we leave it and we will follow it up when we come back, Senator.

Senator WEST—Yes, we will have to.

Senator HOGG—It does not seem to be there.

Senator WEST—The Army alpine team had a recent success, I believe.

Lt Gen. Hickling—Yes. In the last 12 months or so, they have climbed two very difficult mountains, and we are very pleased with that.

Senator WEST—Pass on our congratulations. An Army captain, in his off-duty time in East Timor—didn't you give him enough work to do over there?—came up with a cleaning manual.

Lt Gen. Hickling—My understanding is that, when we return equipment, in particular from overseas, there is a very strict requirement for its preparation for passing through quarantine, through AQIS. That process can be quite destructive because it involves in some cases dismantling equipment, steam cleaning and high-pressure cleaning, which can be quite destructive of seals and so forth. It has been an ongoing problem for us as long as I have been in the Army. Every time we come back from overseas, it seems that we and AQIS have to learn all over again how to make sure that the vehicles and other equipment we bring back into Australia are free of noxious weeds and various other substances. The activity that this officer was engaged in was trying to codify processes and procedures for doing this so that we did not do unnecessary work and we did not cause unnecessary damage to the vehicles and other equipment. It was a very useful piece of work, and I am delighted that he is being commended for it.

Senator WEST—Will AQIS also use the manual he has devised?

Lt Gen. Hickling—The idea is to provide some sort of corporate memory so that we can ensure that next time we have to do this we at least have a basis of knowledge from which to begin.

Senator WEST—Yes. Sometimes AQIS can be a bit difficult, I have found from previous occasions.

Senator HOGG—I have found the question. It was question 969. It was placed on notice on 12 October 1999. The third part of the question said:

(3) If the Government has not conducted recent market research, what information sources does it rely on in order to develop suitable recruitment and retention measures.

Part (2) was:

(2) Since March 1996 has the Australian Defence Force conducted market research on (a) reservists and potential reservists and (b) employers, on the difficulties of combining reserve service with civilian employment; if so, who conducted the research and what were the main findings.

The answer to that part was:

- (a) Yes, for Army Reserve and Royal Australian Air Force (RAAF) Reserve.
- (b) Yes, for Army Reserve.

New Focus Research Pty Ltd conducted the market research for Army and presented its findings in May 1997 in a report titled, "Report on Research into the Army's Common Induction Training (CIT) Program". The major finding of this report was that both employers and potential applicants had difficulty with the requirement for Active Reserve Recruits to fulfil an initial 45-day period of continuous training. The research for the RAAF was conducted by Wing Commander Sheldon Kimber and focused on the Ground Defence Reserve Group. The report found that incentives offered under the present Ground Defence Reserve Group conditions of service were inadequate. Market research has not been conducted for the Navy Reserve recruitment because of the small targets required.

Senator WEST—You have not see that document?

Mr Lush—I might have missed it, but who actually provided that answer?

Senator WEST—Mr Scott.

Senator HOGG—It went to Mr Scott. The response begins:

Mr Bruce Scott—The answer to the honourable member's question is as follows ...

Senator WEST—Here comes the cavalry now.

Major Gen. Dunn—I can talk in terms of New Focus. They have done a number of studies for various parts of the ADF into community attitudes and also recruiting and retention issues. They have conducted those studies over a number of years. Indeed, the one you were talking to was before the formation of the Defence Personnel Executive. We have a contract with that firm that allows us, if we are requested, to task them into areas for the single services. I cannot comment on the actions taken from that data, within Army or elsewhere, but certainly we have engaged them to produce that sort of information.

Senator WEST—Okay. According to the minister's answer, this is a May 1997 report. I have a vague recollection of some of us raising concerns about the CIT as far back as then. Presumably if the chief has not seen it, members of the official Defence Reserve Support Committee may not have seen it either.

Lt Gen. Hickling—I cannot answer that. Of course, in May 1997 I was not the chief either.

Senator WEST—No, I realise that. Is it possible for the committee to have a copy of the report, please?

Major Gen. Dunn—Absolutely, there is no problem there. We will get that report and provide it.

Senator WEST—Thank you.

Senator Newman—Was it only looking at employed reservists? Did it not look at student or unemployed reservists?

Senator WEST—The answer from the minister does not tell us.

Senator Newman—Was it about that?

Senator WEST—No, it does not tell us. It only says it is a report on—

Senator Newman—The CIT has different implications for those groups of people.

Senator WEST—For different groups, yes. We do not know because we have not got a copy of the report. We only know what has been given by way of an answer. I think we will probably all go and re-read *Hansard* after this. I really do not think I can follow on with any further questions at this stage. If you can get back to us with some information and a copy of the report, it would be a good start. We do realise, Lieutenant General Hickling, that you certainly were not the Chief of Army when this came through. I am interested to note that you have introduced some changes to the CIT as it applies to reserves.

Lt Gen. Hickling—I think those will specifically address that concern which was raised by the report. Of course, we will wait and see how that develops. I do know that when the CIT was introduced the intention was to try to capture people leaving school and entering university, specifically at that time, when it was seen that they would have a fairly long period between the end of one phase of their lives and the beginning of the next, in which case they could undertake a substantial period of training. That still applies and that still is one of our foci. Of course, all of this has taken place against a background where the recruiting organisation has undergone substantial changes. General Dunn could explain.

Senator WEST—We will catch him on the way through. Don't worry; we haven't lost him yet.

Lt Gen. Hickling—The point I am making is that there have been a number of demographic and other changes that affect us. We have to try to respond to those, and that is what this is about. Could I read into the record a response to your question about General Cosgrove's visit at this stage. Mr Chairman, would you be happy with that?

CHAIR—Yes.

Lt Gen. Hickling—The purpose of the visit was to thank the Thai authorities for support to INTERFET and it involved meetings with military and political leaders. He also represented CDF at the closing of exercise Cobra-Gold in Thailand. He visited Thailand accompanied by his military assistant, a lieutenant colonel. The cost of the trip was in the order of \$7,000.

Mr Lush—In responding further to Senator West about the \$38.8 million reduction in expensed assets, et cetera, and the \$25,000 threshold, I make the point—and this may suffice for you—that projects cost far more than the \$25,000, the individual items that might be within it, with project costs, use of contractors, et cetera. It does not take that long before numbers start to materialise to this size when there is some slippage in delivery of those projects. To provide information as to specifics, one can do that, but it would be broadly around that sort of argument, if that is sufficient for you.

Senator WEST—So there is a capacity to break a project down into sub-\$25,000 elements to avoid the trigger.

Mr Lush—Yes. It is an accounting rule that we have applied where, above \$25,000 or in certain circumstances, we group assets that are themselves individually below \$25,000. For Army specifically, rifles are a major asset and we do capitalise those and depreciate those. There are other items where it is not worth capitalising, but delivery of the project is significantly more than \$25,000, commonly, if that is sufficient.

Senator WEST—Thank you.

Air Vice Marshal Nicholson—Yesterday Senator West asked a question relating to the geospatial information organisation study. I have that information here which I could table for you rather than read it out.

Senator WEST—Thank you. That is fine.

Mr Corey—Yesterday Senator Schacht asked questions on in-service support costs for the Collins class submarines. When all submarines are operational, the annual in-service support cost is expected to be \$145 million a year. That figure includes maintenance, fuel, ammunition and refits.

[11.09 a.m.]

Output4—Air Force capabilities

Senator HOGG—I think you have seen what we have done now with the other outputs. You could take us through the performance targets, the priorities and the capability enhancement initiatives, on pages 90, 91, 92, 93 and 94, and give us any significant variations and changes there, as well as assist us with any major variations on pages 95, 95 and 97.

Air Marshal McCormack—Much the same as the other services, we have laid this out to meet current task and training, followed by a look to the future force. The next section on improving our capability management is mainly in cultural and organisational changes, which then covers the next section on management, people and resources. Then it goes into each element of the output: for example, strike reconnaissance and tactical fighters et cetera on what we are doing in each of those organisations. Then on the performance targets, as discussed with the other two, we have a requirement to meet the CDF directive. That is the first dot point on each. That is something we have met in less than 12 months. That is followed by the core skills that we need to maintain. That goes through all of the capability options. Then there is the flying hours. There are no significant variations in flying hours for this year from last. Then we go through the resourcing areas.

Senator HOGG—Are there any significant variations in that resourcing area?

Mr Veitch—Against the background of some of the comments you made yesterday, perhaps I could refer you to table 3.4.3 on page 95 and give some context to that. If we went back to the 1999-00 PBS, the price of the Air Force outputs at that time was \$3983.8 million and that increased at the 1999-00 AEs to \$4365.6 million. So if you were to compare those numbers to the figures that you see in table 3.4.3 now for the estimated actuals and the budget estimates, you would see that the price of the Air Force output at estimates is generally about \$3.9 to \$4.3 billion across the period of each of the books. There is not a substantial change as such.

In terms of this budget, the six suboutputs from last year map almost directly across to the one Air Force output, and the price this year is \$211.9 million higher than the estimated outcome for this year. If you look down the variation column, you will find that the largest variation is for capital use charge down the bottom at \$116.6 million and another variation half way down the table—

Senator HOGG—Could I just stop you there?

Mr Veitch—Yes.

Senator HOGG—What was that larger capital use charge?

Mr Veitch—Yes, I am just going on to explain that, Senator, but I wanted to combine it with another explanation further up the table, the \$62.14 for depreciation. Essentially, the

capital use charge and depreciation, which accounts for about \$170-odd million of the \$211 million variation, relates to the introduction into service of the 12 C130J aircraft, the progressive delivery into service of the 33 Lead In Fighter aircraft and, also, the bringing online of the upgraded P3C aircraft.

If you were to go across, for example, onto pages 96 and 97, down at the bottom of page 96 you will see the real variations in depreciation expense: \$29.3 million for the Lead In Fighters, \$15.6 million for the P3C aircraft and—up to the top of the next page—\$10 million for the C130J. Then if you were to go down to the bottom of page 97 you will see similar increases for capital use charge for those three aircraft. So in essence, of the \$211 million about \$170 million relates principally to those three aircraft, the introduction of the service of new or upgraded equipment.

The other major financial variation relates to supplies expenses, which is an increase of \$96.2 million, and that is essentially covered on page 96. It relates to a range of factors, principally the remediation of a number of logistic shortfalls across different aircraft types for the Caribous, C130, the 707 and the P3 aircraft, together with increased maintenance costs associated with the increase in preparedness for East Timor. So there was a range of items there that collectively add up to the \$96.2 million.

There is one other major variation I should bring to your attention, although it is largely offsetting in nature. If you have a look at the military employees operating expenses—again, over on page 95—whilst the overall variation is only \$1.5 million, it results from a number of fairly large offsetting variations. During the next budget year the Air Force personnel numbers will run down by about 1,045 in real terms associated with market testing principally in 501 Wing and 503 Wing. But that is offset by an increase of 555 personnel associated with our East Timor commitments. So what you are seeing is a significant rundown in terms of the rationalisation program but a building back for the East Timor commitments. Overall, the financial variations associated with all of those things tend to net out, leaving the overall price for the Air Force output at about \$211 million more than the estimated outcome this year, which is about a five per cent change.

Senator HOGG—Thank you very much for that explanation. Just on the 501 Wing and 503 Wing: those 1,045 positions are mainly civilian positions, are they?

Mr Veitch—No, in fact, there are more than 1,045 positions involved. There is something like about 1,500 to 1,800 across 501/503 wings and other areas of Air Force but, because of the different timings in which those contracts will be announced over the coming budget, the average effect of taking those positions out of the workforce would net out to a reduction of about 1,000 positions over the year together with normal ongoing wastage, and the like.

Senator HOGG—I will just refer to page 33, table 114, where they refer us to the market testing decisions expected in 2000-01. I notice that 501 Wing is there but 503 is not. I think it was in a previous PBS, if my memory serves me correctly.

Mr Veitch—Senator, I think there is probably a problem with the classification of the table. I think what that table is probably trying to do is to show the activities that might have been associated with the old commercial support program that were wound into the DRP, whereas the DRP has got a number of new initiatives, as you are aware of. I think, collectively, it is probably, from memory, something like 900 positions across both 501 and 503 Wing that will be market tested in the coming period.

Senator HOGG—If I go back to last year's PBS, at page 12 it listed a number of initiatives in terms of 501 Wing at Amberley—the F111 workshop, the avionics workshop,

the F111 weapons system. In broad terms, there are over 500 there, nearly 600. Then in 503 Wing there were 243 and 78. Are those really the people that we are looking at?

Major Gen. Haddad—I think the confusion is between outcomes that have recurred for market testing and those that are forecast to occur in the current period. In both 501 and 503 Wing they are being market tested by elements, and some elements were delivered in the previous period and some will be delivered in this current period. I have got figures here that can give you the total numbers over the two financial years that will be market-tested by military and civilian in both those areas.

Senator HOGG—If you can give me both, that would be excellent.

Major Gen. Haddad—My understanding is that in 501 Wing it is 660 military positions and 125 civilians, a total of 785. In 503 Wing the total for Richmond C130 maintenance is 220 military and six civilians—

Senator HOGG—Where is this—Richmond?

Major Gen. Haddad—503 Wing at Richmond, deeper level maintenance on C130, 220 and 6, making a total of 226. Avionics at Richmond in 503 Wing is 84 military and one civilian, giving a total of 85.

Mr Veitch—I think when you add all those numbers together you are getting to about the 900 to 1,000 that I talked about. Therefore, the figures you see on the table in the PBS from last year are more indicative numbers of the positions to be market tested than in the current PBS.

Senator HOGG—So the positions that you are talking about here bear no direct relationship to the table at the front of this year's PBS at page 33?

Mr Veitch—That table I would suggest is incomplete, but for the reasons that the General explained.

Senator HOGG—I have a question on the real variation on page 96 of this year's PBS in respect of the Caribou, where it says:

Remediation of logistics shortfalls particularly in relation to F-111 structural integrity tests, airlift readiness particularly for Caribou, C-130, B-707 ...

et cetera. How many Caribou are still flying?

Air Marshal McCormack—We have 14.

Senator HOGG—Is that up or down on last year?

Air Marshal McCormack—The same number as last year.

Senator HOGG—I presume we are munching up those that are no longer able to be in service for spare parts and so on? Chewing them up at the rate of knots?

Air Marshal McCormack—Yes, but the normal parts you use on aeroplanes are common usage parts. An old aeroplane is good for large bits that you do not normally carry, but the bits that you use up the most are things like engine parts and hydraulics and things like that.

Senator HOGG—Right. So the normal things that keep them flying are readily available?

Air Marshal McCormack—No, not in the case of the Caribou. It is a piston engine aircraft that is fairly old and—

Senator HOGG—Yes, that is what I thought. So what is the likelihood that at this time next year 14 will still be in service?

Air Marshal McCormack—A very high likelihood.

Senator HOGG—It is just that I had heard that the number of Caribous—and I am not sure where I heard this from—had been reduced in service.

Air Marshal McCormack—No, we reduced the number of squadrons. We had 38 Squadron and 35 Squadron, but because of the maintenance support problems we consolidated them into 38 Squadron at Amberley.

Senator HOGG—Thanks very much for that. Are there any significant cost changes associated with the Jindalee over-the-horizon project?

Mr Veitch—There are probably some small increases in depreciation expense and capital use charge, but nothing of any consequence compared to the other three major projects that I was talking about.

Senator HOGG—All right. So that project is going along as expected?

Mr Veitch—Yes, and it would be progressively entering into our books as it comes on stream.

Senator WEST—Turning to the ‘Resourcing Strategy for Air Force Capabilities’ on page 95, and in the section, ‘Employees—Military’, further to the answer that was provided at the last hearing, has the RAAF’s retention benefit for pilots now been formally withdrawn?

Air Marshal McCormack—We plan to finish officially at the end of June.

Senator WEST—So that means you are still signing people up to the bonus benefit until then, or are you just not—

Air Marshal McCormack—I am not sure.

Mr Veitch—We have only made financial provision for payments in this financial year. There is no provision in this new budget for any additional payments.

Senator WEST—Yes, that is the reason for the question: has it formally been withdrawn?

Major Gen. Dunn—The bonus scheme will close at the end of this financial year. Those personnel who are qualifying under the current arrangements through until the end of the financial year may apply for those bonuses. After that, no more.

Senator WEST—Okay. What replacement retention schemes will there be in place after then?

Air Marshal McCormack—We are trying to get a market forces element in the total new pay structure. We are trying to get a market forces element in that to cover those.

Major Gen. Dunn—We are considering also the inclusion of pilots in a category known as the Specialist Service Officers category where we will be able to implement that and other arrangements under the normal pay structure rather than returning each time to some special incentive.

Air Marshal McCormack—From an Air Force point of view, the retention benefits have not worked that well. As I said at the last hearing, people tended to take their benefit and then pay it off if they wanted to get out.

Senator WEST—Are they the only ones you have got on retention benefits?

Air Marshal McCormack—Air Traffic Control is the other one.

Senator WEST—Are they doing the same thing

Air Marshal McCormack—I am not sure of the figures on that.

Major Gen. Dunn—The effect of the benefit varies. The difference between the pilot retention bonus and the other incentives is that the pilot retention bonus was paid up front whereas we have moved to completion incentives. They are paid only after the successful completion of a period of time. That is a far more effective way of retaining people as they have got a target to head for if they successfully complete two or three years, or whatever period of time it is that they are engaged for. If they successfully complete that time, then they are able to actually secure the money.

Senator WEST—So are you going to move to that with pilots?

Major Gen. Dunn—No. We will look at the fundamental pay structure. Completion incentives are a short-term measure only. In the case of pilots, we have had sufficient problems over a number of years to ask us to look at the basic pay structure and other conditions of service for the pilots. The completion incentive is a short-term thing to handle the market force.

Senator WEST—Where in the budget does it indicate that pay structures are going to be altered and what you are going to be able to actually offer?

Major Gen. Dunn—The direction that I am under now from the CDF and the secretary is to finalise the pay structure review, as it is known, over another three-year period. The remaining changes are to be cost neutral. The way that will occur is by addressing the numbers of officers in various categories. We have completed the work value assessment of nearly all the officer occupations in the Australian Defence Force. We are now able to make a judgment as to where changes in rank or number should apply. That will be done by the single services over the next three years. We will identify them fairly quickly. We are in that process now. Then we will implement that over a three-year period. You will see that there have already been changes in the remuneration in the salaries affected by occurrences this financial year. The remaining outcome is cost neutral.

Senator WEST—It will be interesting to see how that works. How many pilots are we short?

Air Marshal McCormack—I think I read them all into *Hansard* last time.

Senator WEST—And it has not changed significantly since then?

Air Marshal McCormack—No.

Senator WEST—What about the air traffic controllers? What are their numbers doing?

Air Marshal McCormack—There is no significant change at this stage at all.

Senator WEST—There was a report in the media about a Hercules tyre blow-out at Richmond. What can you tell me about that?

Air Marshal McCormack—The tyre blew out.

Senator WEST—We do not normally see this reported in the mainstream media. You own the base. You said it as if it is fairly matter of fact and not a great issue, but it certainly has gone into the media.

Air Marshal McCormack—It is not a common occurrence but it is a hazard of flying aeroplanes and this one blew out.

Senator WEST—What sort of flying activity was being undertaken at the time?

Air Marshal McCormack—I believe they were doing circuit training.

Senator WEST—There were no edge of the envelope activities being undertaken?

Air Marshal McCormack—I do not believe so.

Senator WEST—So a tyre blow-out is not considered dangerous?

Air Marshal McCormack—No, not really.

Senator WEST—What was the damage to the aircraft?

Air Marshal McCormack—I am not sure. The normal thing is that the wheel itself might have to be changed, depending on how fast it was going when it blew. That is a typical thing. Sometimes there is a bit of damage to the metalwork where a bit of tyre hits the fuselage or something but nothing significant.

Senator WEST—What about damage to the strip because metal running on the tarmac would not exactly be good for that either?

Air Marshal McCormack—Normally at the base people will do an inspection of the runway to make sure that nothing has happened. They might have to pick up a few bits and pieces. That is about. The runways are fairly hard.

Senator WEST—How often would you blow a tyre?

Air Marshal McCormack—I would not have those figures, I am sorry.

Senator WEST—So it is a frequent enough occurrence for it not to be of any significance.

Air Marshal McCormack—It is not a common occurrence but it does happen occasionally. It is not the sort of thing that we would keep records of.

Senator HOGG—I understand a new Air Commander Australia has been appointed. Is that correct?

Air Marshal McCormack—That is true.

Senator HOGG—When did this occur and how long is the appointment for?

Air Marshal McCormack—There is no time limit on an appointment. He was appointed around March or April. There is no time limit on a posting.

Senator HOGG—Had the former air commander finished his posting or was that cut short?

Air Marshal McCormack—As I said, there is no time limit on a posting. He was posted out and another one took over. Admiral Barrie mentioned yesterday that the previous one is now doing a preparedness study to help us with these performance targets on the long-term preparedness.

Senator HOGG—How long had the former air commander been in the position?

Air Marshal McCormack—Just over a year, I believe.

Senator HOGG—The position that the former air commander has now taken up—is that a consultancy?

Air Marshal McCormack—No, he is in the Air Force.

Senator HOGG—It is still internal?

Air Marshal McCormack—He has got a team working for him for VCDF on preparedness in the ADF. In fact, Admiral Barrie said the full name of the team yesterday.

Senator HOGG—That was a long time ago. There has been some media speculation, I understand, that in fact he did not see eye to eye with the former air commander and that he has been effectively sacked. Is that fair?

Air Marshal McCormack—He has been posted but not sacked.

Senator HOGG—Was there any disquiet in the relationship, do you know?

Air Marshal McCormack—He is coming to our meetings. I am meeting him again on Friday, as a matter of fact.

Senator HOGG—There was nothing that triggered the movement?

Air Marshal McCormack—I think those are personal issues that I would prefer not to discuss here.

Senator HOGG—All right. I will respect that. Earlier in these proceedings I raised a headline ‘RAAF runs its “own shop” for F/A-18 operations’. I am glad you have got a copy of the article. Is this secessionist of RAAF, running its own shop, or what are we looking at?

Air Marshal McCormack—There is some confusion in the article and also not fully understanding what is going on at the moment. If you look at the performance targets, the first one is:

- Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months.

The second one says:

- Achieve a level of training that maintains core skills ...

The commander of the Tactical Fighter Group, which is the one that you are talking about, and all the other commanders of the groups are responsible to me for their professional standards on core skills. As Admiral Barrie said yesterday, the preparedness issues that Air Vice Marshal Criss is looking at are how we actually tie those up into his CDF directive. At the moment the CDF directive is mostly on short-term requirements—that is, X number of aeroplanes, so many crews ready to do at short notice—but it does not get down into the core skills. This is something that the three service chiefs have been on about for quite a while, that if we lose those core skills we will not be able to recover them quickly, so they must be attained.

When you say ‘RAAF runs its own shop’, yes, it is a lot of professional judgment at the moment on what we need to do to keep core skills available in all the groups. That is what Air Vice Marshal Criss’s study is about: what is the best way for CDF to actually agree to the way we are going? That has been agreed in the ANAO report. Defence agreed with the ANAO report that we have to do better at it, but at the moment it depends on the group commander and me agreeing on a level of competency.

Senator HOGG—Are you saying this article is a fair bit of mischief?

Air Marshal McCormack—I would not want to say that; I am saying he is not apprised of all the facts as to what is going on in Russell and the Air Force.

Senator HOGG—The article says:

The difficulties are highlighted in an Australian National Audit Office (ANAO) report which uncovers a significant disjunction between the framing of military preparedness requirements issues by the Chief of the Defence Force—via his preparedness directives (CPDs)—and the manner in which the RAAF’s Tactical Fighter Group (TFG) interprets and implements the tactical fighter operations ...

Air Marshal McCormack—I obviously did not explain myself very well. The CDF directive concentrates on what we have to do within the first 12 months.

Senator HOGG—I understand that.

Air Marshal McCormack—But it does not go into core skills areas.

Senator HOGG—And I accept that. I am just looking specifically at the fact that the writer of the article has drawn this conclusion from an ANAO report. I am wanting to test it. I heard what you have said and I am not discounting that in any way. I am not asking you to interpret his thinking, but what would lead the person to come to the conclusion that that was the result of the ANAO report? I do not have the ANAO report before me, but I think you do. You might clarify that for us.

Air Marshal McCormack—Recommendation No. 5 reads:

The ANAO recommends that the Tactical Fighter Group (TFG) review its definition of Minimum Level of Capability (MLOC) for *Hornet* pilots to ensure it is a useful measure of TFG's ability to meet operational requirements.

With respect to the preparedness that is in that and the level of preparedness that is agreed between me and the Tactical Fighter Group commander, that is where they are saying that is not covered by the CPD that the Chief of the Defence Force puts out. He does not cover core skills. For example, with respect to air to air capabilities, how much do we need to keep people current in air to air capabilities versus air to ground, or maritime strike? They are the areas that are not covered at the moment and that is what we are trying to get to the bottom of with the new study done by Air Vice Marshal Criss.

Senator HOGG—Is there a fault in the findings of the ANAO?

Air Marshal McCormack—No, we have agreed with the findings. We have said that, yes, we have got to do it better and tie them into the CDF's directive.

Senator HOGG—I am trying to get around this because it seems to me that there is a problem somewhere in the communications, either in the way that the recommendation has been framed or in the interpretation of the recommendation by the writer of this article.

Air Marshal McCormack—I suggest it is in the interpretation of the recommendation by the writer of the article because, as I have said, we have agreed with the recommendations. We are working on those recommendations to develop a better system. But it is not only Air Force; it is across the ADF. It is trying to tie the CDF's directive across the ADF so that we have one for ships as well as for aircraft and the Army.

Senator WEST—A Caribou recently had a serious incident with a fire warning due to a heater malfunction; is that right?

Air Marshal McCormack—There was a Caribou with, I believe, some reservists on board that diverted into Townsville with a fire warning light. I do not believe there was a fire because it did not come through the report as a fire, but it was a warning.

Senator WEST—I am saying a fire warning.

Air Marshal McCormack—Yes, it was a caution. The rules say that if he has got a warning light and cannot confirm or deny it, he actually lands as soon as possible.

Senator WEST—Do you know what the cause of that was?

Air Marshal McCormack—I believe the report said wiring, the fire wires or something like that. I am not sure of the exact detail, but it was a spurious indication.

Senator WEST—So there were no carbon monoxide fumes or anything like that being emitted?

Air Marshal McCormack—You are talking about coming into the cabin?

Senator WEST—Yes.

Air Marshal McCormack—I do not believe so. The Caribou is an unpressurised aircraft. The pressurisation is: open the window.

Senator WEST—I know. They can be pretty rugged.

Senator Newman—I wish we could do it in Parliament House.

Senator WEST—I have heard you before on that, Minister. There were no injuries as a result of the incident?

Air Marshal McCormack—No.

Senator WEST—Has the whole Caribou fleet been looked at?

Air Marshal McCormack—I could not confirm or deny that they were looked at it, but if a problem arises the engineering people will look at other aeroplanes to see if it is a common fault or just a one-off. It has not come to my notice as a fleet-wide problem.

Senator WEST—Is it a problem that is due to age of aircraft or age of type of aircraft?

Air Marshal McCormack—Those fire protectors would have been changed quite a few times. It is not the same one that has been on the aeroplane all the time, I would imagine.

Senator WEST—Could you take the question on notice and get me some more precise details, please?

Air Marshal McCormack—On the Caribou?

Senator WEST—Yes, please.

Senator HOGG—Just whilst we are on that, I asked some questions before about the Caribou fleet and you said they had been merged into one squadron. Can you let me know the costs associated with that change? Were there any significant costs in terms of relocation of staff, et cetera?

Air Marshal McCormack—No. We did it over a normal posting period so the people at Townsville on a normal posting period would have been posted out. We did it over quite a long period so there would not be any significant cost problems. In fact, some of the people are still at Townsville because we have a detachment there. We have reduced the costs by having less overheads to work on the aircraft. With two squadrons you have—

Senator HOGG—Yes, I understand that.

Air Marshal McCormack—So we consolidated it all into one squadron at Amberley. But we have left some maintenance people to do just the online maintenance at Townsville because there is still a requirement to support the Army in Townsville.

Senator HOGG—So there is no net additional cost to the Air Force budget as such?

Air Marshal McCormack—I took it as a savings because that was one of my—

Senator HOGG—I appreciate that you have said there is a savings and that is good. Last but not least, just a perennial question that we seem to ask at these estimates and additional estimates: in respect of the aerial displays each year, does that put any stress and strain on the Air Force budget?

Air Marshal McCormack—We take it out of our normal budget. For example, for the Roulettes it is budgeted in their annual allocation. I approve that every six months to make sure that it fits with the requirements. For the other ones, the Air Commander can approve fly-pasts, and things like that. That comes out of their normal budget. He makes sure that it does not detract too much from their training. I must say that studies that have been done for us show that the benefit of those at things like the MCG on finals day for recruiting type things is very high. I see it as a net benefit that we do a reasonable number of those things. Approval for all the events of national significance is done through Air Vice Marshal Treloar's organisation down in Sydney. That is a six-monthly allocation, as well, for which ones we are going to support and which ones we do not.

Senator HOGG—Does it place any pressure on the budget? Whilst you see a benefit in terms of recruiting I would imagine that there are a number of groups, organisations and events out there that would see this as the added extra that they would like each time they see it happening at the MCG or wherever it might be. Are there added pressures there for the service to be supplied? What pressures are the existing services that are provided placing on the budget, if any?

Air Marshal McCormack—There are always more requests that we can support—all the time. There is no doubt that there are many more requests than we can support. That is where the group of people down in Sydney actually work out which are the ones of national significance that we can support that will give us the best return on our money. We do it within our budget is my answer. We have requests for open days from every aero club in Australia.

Senator HOGG—That is why I am asking the question. I am trying to find out where the pressures are if there are any.

Air Marshal McCormack—All the time there are requests coming for specific ones, either to the Roulettes or to the bases themselves. There are always requests in, but we have to keep it within our budget without affecting our capabilities.

Senator HOGG—What rule of thumb do you use as a broad guideline to draw the cut-off point? Do you have a rule of thumb?

Air Marshal McCormack—I do not have a rule of thumb. The fast jet aircraft are all done down at Air Command and COMAST. I take advice on the Roulettes where it is a significant event. We try to spread it across the country so that everyone gets a reasonably fair go. We are limited with our flying hour budget anyway. The real pressure is: how far can each organisation support those flying hours and not detract from their capability? That is a judgment from the commanders.

Senator WEST—All I can say is that you have been to Bathurst a few times recently for bike and car races, and my Jack Russell terrier hates them. He wants to go out and have a fight with them.

Senator HOGG—Thank you, Chair. We have no more questions for Air Force and we want to thank the officers.

Mr Veitch—Senator, just before we go, I want to clarify an answer I gave earlier about the JORN project. I mentioned that there were no significant variations in the Air Force output

prices as a result of that project. I just wanted to draw your attention though to page 23 of the PBS. There are, in fact, some capital expenses in the acquisition budget associated with that project this year of \$96 million.

Senator HOGG—I was aware of those. That would be a normal expenditure item and I took it as that. I was looking for any extraordinary remediation that might have come up as a result in the JORN process, but there is nothing there.

Mr Veitch—Nothing of real consequence.

Senator HOGG—Okay, everything else is just normal. Thank you very much for those answers and we look forward to seeing you next time.

Mr Corey—Gentlemen, before we move on to the next set of business, could we just read in the answer on the Kalkara? We now have somebody who understands the issue in more detail.

Air Vice Marshal Conroy—I hope I have the context of your question correctly. In October 1999, about 75 miles off Jervis Bay during an F18 missile firing exercise, a missile hit one of the two targets towed by Kalkara. This caused the Kalkara to lose stability in flight. In attempting to gain control, it jettisoned its second target, but it was not a successful in gaining controlled flight, and the mission was aborted. The recovery parachute was initiated. Unfortunately, because it was so far out to sea we lost contact on telemetry at about 5,000 feet, and so we did not get a precise estimate of where it impacted. The F18s remained on task searching.

Senator HOGG—Does it have no sort of homing device attached to it?

Air Vice Marshal Conroy—No, it does not.

Senator HOGG—Why is that?

Air Vice Marshal Conroy—I guess it is a reasonably cheap device. It was designed to operate over the land ranges by the US. We are the first people really—and I think the Norwegians do it as well—to operate it over water ranges. We operate it slightly differently from the original design concept.

Senator HOGG—Are you fitting it with some sort of homing device?

Air Vice Marshal Conroy—We may well do in future as a result of the investigation into this.

Senator HOGG—Some device that emits a beam or signal or signal?

Air Vice Marshal Conroy—There are reasonably low cost EPIRBs—electronic positioning indicators—these days.

Senator HOGG—You should be able to buy them down at Dick Smith's or one of those places for a few dollars.

Air Vice Marshal Conroy—It is something I am sure the investigation, which is still pending, will be looking at. You want to know how we searched for it?

Senator HOGG—With great difficulty!

Air Vice Marshal Conroy—It is a very small target. The F18s remained on task for a period, then they are relieved by a Seahawk from the Navy. That Seahawk searched for 1½ hours. It was joined by HMAS *Newcastle* and it searched until sunset, approximately three hours. They covered some 280 square nautical miles but did not find it. Six months later it washed up on a beach up near Forster.

Senator HOGG—What was the cost of the search?

Air Vice Marshal Conroy—You would have to cost the opportunity cost of HMAS *Newcastle* spending those three hours doing whatever it was doing compared to what it would otherwise have been doing and whether the helicopter was flying at the time or whether it was specifically launched. I do not have those figures.

Senator HOGG—Can you get the total cost for me? That would be interesting because, as I understand it, it is not an inexpensive item. The *Daily Telegraph* lists the item as costing some \$750,000. Is that correct?

Air Vice Marshal Conroy—That would be correct. I think per unit they are about \$US500,000.

Senator WEST—When did it actually go into the drink? How long was it airborne for?

Air Vice Marshal Conroy—These things fly for about 1.2 hours. I think it had been airborne for about half an hour. I was observing the flight on the day. It was about half way into its flight.

Senator HOGG—Is this a common fault? As I understood what you said, the target was hit.

Air Vice Marshal Conroy—Normally, missiles miss by a little bit, but the missiles are getting so good these days, particularly air to air missiles, that they hit their targets. What was unexpected this time was that it caused instability.

Senator HOGG—I understood that we were still trialling the Kalkara.

Air Vice Marshal Conroy—Operational tests and evaluation are occurring, but we are taking the opportunity to provide normal training for the various force elements. In this particular case, if my memory serves me correctly, there was a fighter combat instructors course occurring at Williamstown. They needed to fire live missiles, we needed to get the experience of another flight as part of the operational test and evaluation using these particular towed targets, so we combined an OT and E activity and a training activity.

Senator HOGG—What would happen if you lost the whole 20 in this way?

Air Vice Marshal Conroy—Eventually you will, Senator. It is the whole idea. You have to shoot at something and the chances are you are going to have an attrition rate.

Senator HOGG—I understand that. But you have got this flying around in the sky and it ends up in the drink and someone finds it 400 Ks north, at Forster Tuncurry. In spite of the best efforts of the defence forces, we could not find it. What sort of danger was it to ordinary civilian aviation, to ordinary people, with it flying around there and when it got the wobbles and fell into the drink?

Air Vice Marshal Conroy—It is in a restricted area.

Senator HOGG—I understand it is in a restricted area, but if it acts like that—

Senator WEST—If it still has three-quarters of an hour to an hour's flying that it is going to do and you do not know where it went to, you do not know whether it stayed within the restricted airspace—

Air Vice Marshal Conroy—We do know it stayed within the restricted airspace.

Senator WEST—It did?

Air Vice Marshal Conroy—Yes. It was well inside the restricted airspace.

Senator WEST—What alerts were given out to shipping, what alerts were given out to general aviation that this thing was doing its own thing?

Air Vice Marshal Conroy—There was no alert given out to general aviation because there was no danger to general aviation. I would have to take on notice what notices to mariners were placed by our maritime headquarters.

Senator WEST—So even with up to an hour's flying left, it would still have remained within the restricted airspace?

Air Vice Marshal Conroy—Yes. We had telemetry on it down to 5,000 feet and we had given the instruction to abort the flight, which means the engine is cut off and the parachute is deployed—

Senator WEST—Did you see that happen?

Air Vice Marshal Conroy—so it will fall within a reasonably restricted area, but it is still pretty hard to find.

Senator WEST—Did you see that actually happen? Did anyone?

Air Vice Marshal Conroy—It was confirmed on telemetry that those things had occurred. That is the way it is recovered. It is flown back to an area just off the coast at Jervis Bay, an abort command is given from 2,500 feet, the engine cuts off, the parachute deploys, it drops virtually straight down and it is picked up by small tender.

Senator HOGG—How do you normally find them when that happens?

Air Vice Marshal Conroy—The small tender is waiting off the heads at Jervis Bay and can see the point of impact.

Senator HOGG—What happened this time?

Air Vice Marshal Conroy—It is normally within 100 metres or so of where the person who is in the cabin intends to place it. At this particular time it was 75 miles out to sea.

Senator HOGG—Was it reusable when you found it at Tuncurry?

Air Vice Marshal Conroy—No, it had a few barnacles on it.

Senator HOGG—You need to put it in dry dock!

Air Vice Marshal Conroy—We have had a close look at it. In fact, it is now down at DSTO being examined in some detail to see what lessons we might learn about the reusability of these targets after they have been immersed in seawater for a considerable period.

Senator WEST—Did it come ashore in an area that you anticipated that it would have, or did it get stuck in a current that was totally unknown to you?

Air Vice Marshal Conroy—I am told by people who know these things that the currents actually head south there, not north. We figure in six months it has probably been to New Zealand and back.

Senator WEST—A well travelled Kalkara!

Senator HOGG—Was it a threat to shipping? As I understand from this article in the paper, it weighed 453 kilos, it was five metres long and three metres wide. Obviously, there is a fair degree of yachting and other small craft which use the shores off the east coast area.

Air Vice Marshal Conroy—The fact that it floated for six months was a surprise to us. We would probably have to take that particular consideration into account during the investigation. The investigation, I presume, would make some recommendations in that regard.

Senator WEST—Do you know at what level it floated? Was it on the surface or below the surface—maybe a couple of metres below the surface? It would go well going through a keel or something. It is fine to say it floated, but you can float on the top or you can float at varying depths.

Air Vice Marshal Conroy—It floated upside down. There are no barnacles on the engine, so that was above the water during the whole period. It was within a couple of inches of the surface, it would appear. I might correct an impression: we do not fire at the drone; we fire at the target.

Senator HOGG—I understand that. That is why I am worried. It is carrying the target and it is the instability that arose out of hitting the target that caused this Kalkara to get the wobbles, apparently, and for you people to then cut it off. That is why I asked the question, and I was aware of that. Does it get to the issue of how many of the other Kalkaras have the same instability when their target is hit?

Air Vice Marshal Conroy—We will await the outcome of the investigation and see whether there might be an improved and quicker reaction method of cutting the cable after a direct hit, so that we do not suffer this problem again. That is where I would expect the investigation to focus.

Senator HOGG—Is it a fundamental design flaw in the Kalkara that you have just become aware of?

Air Vice Marshal Conroy—Once again, I cannot answer that question until we see the investigation. Because these things are used overseas, particularly by the US forces, I think we could correlate our experience with theirs and come to some judgment on it.

Senator HOGG—You are obviously going to need to find out the experience overseas, and having found that out, you will write a report. When will you write the report?

Air Vice Marshal Conroy—It should be completed this year. I would mention that operational test and evaluation is being conducted both by the Air Force's aircraft research and development unit and by the Royal Australian Navy test and evaluation agency. They will complete their activity shortly. The aircraft will be before an airworthiness board for an Australian military type certificate around July. We are aiming to accept into naval service in September this year. The issues associated with this particular incident will clearly have to be considered in accepting it into service and giving it an airworthiness certificate.

Senator HOGG—Was there ever such a problem with the Jindivic?

Air Vice Marshal Conroy—Yes.

Senator HOGG—I see Dr Williams nodding there.

Air Vice Marshal Conroy—All unpiloted aircraft have these problems.

Dr Williams—In the projects where we acquire these sorts of capabilities there is always an allowance for attrition numbers. We buy more than we would need through life on the expectation that the numbers will decline. This particular item was acquired when the numbers of Jindivic dropped to a non-viable level because of losses over time. The nature of business is such that it is high risk. Obviously when you lose one people tend to react, but it is

an expectation. Unfortunately, it is the same with some of the high capability manned aircraft, F18s and others, where, again, you just have to accept there will be some losses.

Senator HOGG—So I presume someone will be despatched from Acquisitions down to Tandy or Dick Smith's or one of those to pick up some sort of device to attach to the Kalkara so we do not lose another \$750,000 piece of equipment?

Air Vice Marshal Conroy—I am sure we will look at that. Just to back up what Dr Williams was saying, all the training for Kalkara is actually done in the simulator. I understand that with Jindivic two of every three flights was actually a training flight for the operators, and some aircraft were lost in training. I know the aircraft was particularly difficult to land in crosswinds. It is not that this unmanned or uninhabited aircraft is more exposed to attrition than Jindivic; it is the nature of having these pilotless drones that some of them are going to be lost in firings.

Senator HOGG—Thanks very much. That has been very much appreciated.

Mr Corey—Before we move on to the next item, there were some questions earlier about the results of the Navy survey on uniforms. We will table the results of that.

Senator WEST—Thank you.

[12.07 p.m.]

Output 5—Policy advice

Mr Corey—You had the diarchy yesterday morning. This is probably a triarchy, with other heads attached! Many of the issues that are outlined in output 5 were covered by the secretary and CDF yesterday morning. They talked about the white paper and the sorts of management changes that are being initiated and developed within Defence, and those are outlined in this output. I could ask each of the heads to talk to the major issues there if you want any more than the Secretary and CDF gave you yesterday morning, or you may want to ask specific questions.

CHAIR—Senator Hogg, would you like a brief outline as suggested by Mr Corey or would you like to proceed with questions?

Senator HOGG—A brief outline may be helpful. It may well be in giving the brief outline that some of the issues that have already been raised may well be addressed. And if that is in the interests of time, then fine.

CHAIR—If that is the case, I ask you to proceed along those lines but to keep those opening comments as brief as possible.

Mr Brady—The description here for the intelligence targets and outcomes is necessarily truncated due to the requirements of national security. There are three things you have to take together. There are the priorities for 2000, which are basically to do our business better. There is the table over on page 100 which sets out the three core elements of the defence intelligence business—that is, producing intelligence assessments, collecting intelligence and supporting the ADF in its operations. And you take those two together with the specific initiative we have included this year—and there is only one specific initiative because for security reasons we are only able to include one—which is a reference to the enhancement of our imagery analysis capabilities that I have discussed at previous meetings of this committee.

Mr White—I will just briefly cover both the strategic policy and the international policy aspects of this output. The strategic policy section there, of course, does focus very strongly on the white paper. That is our key focus for this year, as would have been evident from the

secretary's and CDF's remarks yesterday. The point I draw your attention to, though, which is spelt out in the dot points there, is that a very important part of the approach we are taking to the white paper—again, this does mesh very closely with what the secretary was saying yesterday—is building a set of, if you like, conceptual tools which allow us to draw very directly, or as directly as we can, connections between our strategic circumstances, the government's strategic objectives, the kinds of capabilities that it wants to be able to achieve those objectives and how much money it wants to spend on defence. Making a more rigorous, robust and analytical connection between our strategic objectives, our capability needs and our funding provisions is right at the heart of getting this white paper right.

I think one of the key things that the secretary emphasised yesterday is that this white paper, unlike some others, is taking place in the environment in which urgent and substantial decisions on the scale of defence funding are required. For that reason, this level of rigour in establishing those connections is a very important part of the process. We are developing a range of different tools and approaches to help us do that and that is very much a key part of what we are talking about there.

In the international defence policy area, we are continuing to maintain what is, I think we can say, the most substantial collection of bilateral defence relationships that any country in the Asia-Pacific has. It is diverse and getting more so. We cover as many countries in the region as we can in different ways, depending on the sorts of interests we have in common and other aspects of circumstances.

The third part of the business is, of course, strategic crisis management. We work hard to support government in its response to crises that have a strategic component. That was obviously a very big part of our life last year. If present events are anything to go by, it is going to be a pretty important part of our life this year as well.

Air Vice Marshal Nicholson—The capability policy area under the Vice-Chief of the Defence Force has three particular areas of responsibility. The first is the policy direction for the present force of the force in being, and that involves setting the preparedness requirements that we spoke about earlier. It also involves coordinating the evaluation of preparedness and of capability generally.

Capability we would normally define as being part preparedness; the other part is composed of the force structure. The preparedness we have spoken about in some detail. The capabilities are evaluated on a yearly basis through a number of means, one of which is the capability analysis report which, if you like, is a vertical slice through the organisations by each of the capability managers—the chiefs of service primarily—but also by the defence information environment. The theatre commander does a horizontal slice through these capabilities under the joint operational capability report. Then there are 'on occurrence' reports when particular capabilities are affected by events, problems with platforms, numbers of people or whatever. So that is tied together by the capability staff.

The second part is the development of future capability. You will see that some of the words in the dot points reflect a new approach that we are taking, an architectural approach. An architectural approach is used when a problem or a situation is very complex, where it is unprecedented and where the outcomes are unclear. It is generally considered in three tiers: the upper tier is called the operational architecture—the broad framework of what you wish to do; the second level is called a systems architecture—the kinds of systems that might be used to fulfil that operational framework; and, finally, the technical architecture—the bits of equipment and particular personnel that are required to accomplish the task.

In addition to that, the capability staff in the last year has taken an approach to develop a whole of capability approach to development—that is, taking into account the people, the training and the doctrine—and not just the equipment aspects. That people aspect includes the strategic level policy for the reserve contribution to ADF capabilities generally, including legislation for effecting the calling out of the reserves.

Mr Corey—Dr Hawke outlined yesterday that his priorities in the resources and management area are to improve corporate governance, to provide more timely and responsive support to the ministers and the parliament, to develop or to drive a comprehensive program of organisational renewal and to make sure that the planning processes were fully integrated within the department. Obviously, as spelt out in the points, there are some systems implications and other things that go with that. I think he covered them in enough depth yesterday, but if you want to ask any more questions, we can fill out the detail if you wish.

Senator HOGG—Are you able to point out for us the significant differences in the PBS itself, given that there is no comparable output last year in your areas. It goes from pages 98 through to and including page 104. Are we now into covering those other areas as well?

Senator WEST—Fiji, the Solomons and Indonesia.

Senator HOGG—Are there significant changes there that we should have drawn to our attention, given the difficulties of transitioning from our point of view?

Mr Corey—In a policy sense, we have just given you the differences to a large part. The dollars are spelt out at the back.

Mr Smith—Looking at the table on page 102, under the price for output 5 you will see that there is a \$48 million difference from the estimated actual through to the budget estimates. The major components of that are that we are running into the current financial year an estimated net operating surplus of some \$15½ million. The table is there, and my good friend on my left could speak to that if you want to pursue it.

The other big areas of change are in suppliers expenses. It is minus \$39 million. The major contributors to that are the wind-down on project ROMAN, which is our financial accounting system. That will be down about \$21 million this current year. The wind down on our GST tax projects and the wind down on Y2K remediation work done by our Defence Information Systems Group as attributed to this output. In the employees expenses, you will see the full-year effects of the ADF productivity agreement. As I mentioned yesterday for output 1, it is a more accurate methodology for allocating allowances to outputs. Both of those account for about \$9 million each. So they are the major changes that apply to this output.

Dr Williams—If I could just follow up on that point. The figure of \$15.5 million is the overall portfolio surplus. It is all allocated in this one area. That figure was based at the time we were doing our budget calculations some months back. Our expectation is that we are likely to have a larger surplus than that, but the magnitude of it will not be clear until we have gone through our May hard close, about now, and the end of year financial statements. The magnitude depends on depreciation variations against plans, et cetera. The final result would be reported in the Defence report and would be discussed at AEs.

Senator HOGG—Why is the operating surplus just recorded in output 5? Why is it not something that is attributed across the other outputs?

Dr Williams—Again, it gets back to the very issue I raised yesterday about the difficulty of the figures when we break it down. Clearly, you could try to be extremely scientific about how much of that surplus can be attributable to different areas. To do that is impossible really

across the whole organisation. You can do a pro-rata, but then you find that, from an explanation point of view, you lose bits and pieces. For simplicity and clarity, the decision here was to present it as one lump. But those are the sorts of things we need to look at as we refine our processes for presenting information at suboutput level.

Senator HOGG—Does that distort in any way the performance under output 5?

Dr Williams—At the moment, one would have to say that it is probably unfair to assume a \$48 million shortfall; in other words, you could argue that that \$15.5 million should be taken off. How much of it is appropriate against this, is, as I say, a matter for rather difficult judgment. It will be a little clearer when we again do our end of year financial statements and that is reported in the defence report. That will give you a better feel for the reality and, I would expect, a much larger surplus than is indicated here. That is an operating surplus, which would be different from our cash position. But, as I indicated, even in cash we would expect to have probably the order of a couple of hundred million to rollover to meet early payments. I would imagine that the final surplus would be larger, but the defence report should make that clear.

Senator HOGG—Just refresh my memory: we discussed yesterday the investment of whatever ongoing surpluses you might have. Where do you actually invest those?

Dr Williams—In terms of the cash element?

Senator HOGG—Yes.

Dr Williams—I stress, first of all, that the surplus here is an accrual term, so part of that has depreciation. As to the cash element, we would finish up at the end of the year in the defence bank accounts having whatever the cash surplus is. We make judgments—

Senator HOGG—What financial institutions, though, would that be invested with?

Dr Williams—We manage through the Reserve Bank. We have an initial interim agreement with the Reserve Bank and we would invest with them. The term of the investment is a matter for our Treasury and banking section to make judgments on. They would decide, depending on the expected payments that are likely to be due, the drawdowns—there would be judgments made about the appropriate length of time. That is a risk management issue.

Senator HOGG—I understand that. I am trying to get to which institutions it might be invested with?

Dr Williams—We have an agreement with the Reserve Bank.

Senator HOGG—Does the Reserve Bank invest it on your behalf with the merchant banks?

Dr Williams—The Reserve Bank is our official banker at the moment under an interim agreement. We have an agreement we have signed with them and we invest with them. What they subsequently do is their business.

Senator HOGG—It is not invested in your name?

Dr Williams—We do not go out and invest in other areas. We will be looking, as part of the government's move to devolved banking, to go to open competition probably within the next year. The Reserve Bank and other banks would obviously be interested in that business. We are working up that process.

Senator HOGG—That is where I misunderstood you yesterday. I was just curious as it just twigged in my mind again. If I can come back to the point of the surplus for a moment

because this is the only place the net operating surplus will be shown. The question that I raised with you, does that unnecessarily show that output 5 has performed better than other outputs? Is this the sort of judgment that we are to use into the future—the size of the surplus or the size of the deficit—as to how well or how badly an output is performing in terms of just money, forgetting the other criteria that they may well have to address?

Dr Williams—My view would be that our goal ought to be to have sufficiently robust activity based and suboutput based data so that we can actually identify quite specifically those which are underachieving, et cetera. At the moment we are relying on attribution rules. The choice here was to split that across a range of areas, but it would then tend to lose the visibility and the judgment was that it was better to keep it so that the overall portfolio position was clear.

But you are quite right that in doing that it tends to overstate the surplus here. So you could argue that that amount should come off the \$48 million in terms of looking at this particular output in its own right.

Senator HOGG—Thank you for clarifying that. It goes to my question for the out years: will there be some adjustment necessary in the out years so that we can compare apples with apples or are we just going to have to live with this aberration? Obviously not next financial year but the financial year after that we will see this aberration work its way out of the system.

Dr Williams—I think that this is not something which will be solved very quickly, in that there are some major systems issues. You will see in here reference to things like project ROMAN. There is also project PMKeyS, and we need to do work on our asset systems. That is not going to be done in a matter of months; it is probably one to two years. As I said yesterday, we would hope to progressively improve our ability to report at finer grained level. We are also looking at activity based management through a cost management project so that we can get down to a finer grained level. Those are systems which, as I say, will take a year to two years or so to be fully implemented. I would anticipate there would be a gradual improvement in the quality of the information that we can provide in these sorts of sub-output presentations. One would hope that that will allow us to give you a much better feel and, over time, much greater comparison from one year to the next. So I would expect that the next budget will be more reliable and the one after better again I would hope. It is a function of our systems, which take time.

Senator WEST—We will kick off with Fiji. What is the latest? We have been stuck here for 3½ hours or so, so maybe you can tell us.

Mr White—I cannot give you anything beyond what you would have seen on this morning's media and in Mr Downer's comments. Obviously, the key development has been the takeover of authority by the commander of the armed forces. As Mr Downer indicated this morning, there are some questions about how that process has related to the former president Ratu Mara's own position. It is understood that the commander and his people will be having negotiations or discussions—some sort of interaction at any rate—with Speight today. The next step, I guess, will be to see what kind of proposal is put to Speight by the commander or accepted by Speight from them. It remains, as Mr Downer said this morning, a situation of very great uncertainty and of course of very great concern.

Senator WEST—Coups all seem to go in twos over there in Fiji, don't they?

Mr White—Yes, that is right. Well, we hope they come in pairs.

Senator WEST—When the initial coup took place, the Minister for Defence and the Minister for Foreign Affairs both made the comments that they were surprised by the events in Fiji. At first blush that led me to say, ‘What is your area doing? How come this was a surprise?’

Senator Newman—This was an area that was covered yesterday, Senator—precisely this area.

Senator WEST—I did not think it had been covered in quite the same detail. Was it an accurate reporting or are you saying that they were unfortunate words from the ministers?

Mr White—No, not at all. I think what both ministers were saying was that they were surprised by the coup. The point I was trying to make yesterday, which the minister alluded to, was that we were well informed about the general state of political uncertainty and unrest and indeed the potential for some level of violence in Fiji in relation to the position of the Chaudhry government—demonstrations planned and all that sort of stuff. We did not have advance warning of the events that actually occurred. The point I was trying to make yesterday and would stress again today is that does not necessarily seem to me to indicate a failure of the intelligence system, because it is not sensible to expect intelligence to be able to predict every single event. What it should do is provide you with an understanding of the circumstances. At least from my own point of view, I certainly felt that we had that.

Senator WEST—So you are happy with the information that has been arriving?

Mr White—It is a complex thing. You always like more, of course. One’s demand is insatiable. But, as a person on the policy side myself, I have not felt that there was a serious deficiency of information. You always like to have more information than you have got, but I have not felt there has been an acute deficiency by any means.

Proceedings suspended from 12.30 p.m. to 1.33 p.m.

CHAIR—We are proceeding with output 5.

Mr Corey—I can now provide some information that we had talked about earlier in the day. In connection with the Townsville base redevelopment Senator Ferguson, I think, asked a question about where the LTAC facilities were.

Senator FERGUSON—It was not me. It was somebody else.

Mr Corey—The facilities associated with LTAC were briefed to the PWC when the PWC heard the rest of the project. The contract for the redevelopment includes a provision that we can include the LTAC facility if and when it is approved so it has been briefed to the PWC and the contract makes provision for it later on.

The other one was the housing associated with the collocated staff colleges in Canberra. It was discussed at the PWC and the thrust of that conversation was that in the global DHA allocation of houses, the swings and roundabouts between Queenscliff and Canberra, that will be picked up so it would not be an additional cost as such and that was the sense of the briefing to the PWC at the time.

Dr Williams—Senator if I could also follow up, there was one question in the Navy output in relation to the cost of Naval aviation. If I could just point out that the information I passed across yesterday which gave a break up by sub-output had a figure in that—and I stress again that those are indicative and we are refining them—but the figure for Naval aviation, the full attributed cost is of the order of \$440 to \$450 million. It is on that table that we passed.

CHAIR—Thank you Dr Williams.

Air Vice Marshal Nicholson—Chairman, before we get started, if I could, in response to a question from Senator West concerning the Caribou incident—the Chief of Air Force. On 14 May this year in the late afternoon a Caribou aircraft from 38 Squadron detachment B at Townsville was returning from Mount Isa where it had been conducting an army support task when the cabin heater fire light eliminated. Bold face actions were carried out—bold face actions are the immediate actions which the crew carries out: the heater was shut down, the fire bottles discharged and the crew went to 100 per cent oxygen, the cabin fire light extinguished, some smoke and fumes were evident in the cabin so the smoke and fumes elimination drill was carried out—as the Chief of Air Force said, basically open the window and ventilate the cabin—

Senator WEST—I hope it was not a hot day with lots of thermals.

Dr Williams—No. The incident occurred about 55 nautical miles from Townsville at 10,000 feet. There was no evidence of fire or fumes after the check list actions had been carried out. The captain elected to track direct to Townsville, the nearest major airport for a visual approach. A pan was declared requesting fire and ambulance services on arrival. The aircraft recovered without further incident. On landing, the aircraft was attended to by the base fire rescue and civil ambulances. Medical staff undertook smoke precautionary examinations of the crew and passengers, and some passengers were treated for minor symptoms of smoke inhalation at the base medical centre. The crew dealt with the incident in accordance with check list procedures. Civilian medical support was utilised to attend the aircraft on landing as military services were not available after working hours and this created a higher level of interest and awareness from media agencies in the area. Subsequently the unit was removed and forwarded to the contractor for examination and the Air Force is awaiting the contractor's advice.

Senator WEST—Okay. Thank you. I think we can go back to Fiji and—

Senator HOGG—What has happened over lunch time?

CHAIR—I saw you talking on your mobile phone, Mr White.

Senator WEST—There were some questions asked yesterday that you were going to deal with today. Can you—?

Mr White—Yes, that is right. I think they concerned the number of Defence personnel in Fiji. At the moment I think we have got 11 people there. A couple are permanently attached to the mission, that is the DA and his sidekick. Others are scattered around the place doing Naval tasks, particularly supporting patrol boats, and there are some Army personnel doing a range of things; one is an instructor at the infantry school there, one supports a rural works program and so on, but it is 11 personnel there. That fluctuates of course from time to time.

I am told that we have 14 Fijian RFMF personnel in Australia at the moment. On different sorts of training courses we have an average of something like 80 a year who come through at some stage and obviously at some times of the year there are significantly more than the 14. I think it has recently been as high as 40, but some courses have finished up and people have gone home, but at the moment it is 14, and it is spread across a fairly wide range of different sorts of courses. At staff college some of those people are attached as instructors rather than as students at different types of schools—the land warfare centre for example—across a whole range really of professional military schools. Some are at RMC and some are at the Maritime College; obviously the Maritime College does training for specific patrol boat related skills and so on, so it is a fairly diverse range of courses.

Senator WEST—Has a decision been made about what is going to happen to the 14 or, more to the point, what is happening to 11 over there as well?

Mr White—Mr Downer yesterday announced—as part of that package of arrangements that he had in place, that the government decided yesterday—a suspension of forthcoming naval visits and of exercises with Fiji. You will recall the point that Mr Downer made I think was that the government had identified these measures but is not going to implement them until the outcome is clear—until we discover with that outcome what the scale of the problem is, how unconstitutional it is and so on. The heart of the response that the government has in mind at the moment is to suspend ship visits and combined exercises. We have had, apparently, 13 ship visits so far this year and another seven more are planned this year. It is quite an intensive visits program that would include both patrol boats and major vessels. Four of those seven were for the 25th anniversary of the Fijian Navy, which was apparently scheduled for July this year.

Senator HOGG—Are they ship visits by us?

Mr White—Yes, they are ship visits by us.

Senator HOGG—By us to them?

Mr White—Yes.

Senator HOGG—Was that number thirteen?

Mr White—There have been 13 so far this year and a further seven were planned. The exercise aside, the exercising activity consists of passage exercises between Fijian and Australian vessels, particularly between our respective patrol boats. The suspension of the ship visits and the suspension of exercising go hand in hand as two sides of the same coin.

Senator HOGG—Just for my own clarification here, are those ship visits now suspended?

Mr White—Suspension of ship visits has been identified as one of the steps the government will take if, as now seems likely, the resolution of the crisis in Fiji produces a significant violation of the constitution. The point that Mr Downer was making yesterday was that until this had played itself out we did not really know what we were responding to because it is such a fluid situation at the moment. The government decided it was better to wait until it had played itself out before bringing these steps actually into play.

Senator HOGG—Are these ship visits before the end of the financial year or the calendar year?

Mr White—I am pretty sure they are calendar year.

Senator HOGG—The calendar year; because I was going to say, there would be a lot of ship visits within the next few weeks.

Mr White—Yes.

Senator HOGG—Are any of the ships that were planning to visit there in progress now?

Mr White—Actually out there?

Senator HOGG—Yes.

Mr White—I do not have an answer to that, I am afraid. I was talking about that issue just before we started this session. I do not have an answer to that, but I could get it for you. My impression is that they are not. I think the next round of visits was those visits in July with the

four ships that were going to go in late July. They would not have set sail yet, so to speak—unless they were going to have a very slow passage to Fiji.

Senator HOGG—Could I take you back to the 11 military personnel that you identified as being in Fiji? What are the current instructions to those military personnel? Are they being evacuated?

Mr White—No, they are not being evacuated although, as part of the Australian team, so to speak, measures are being taken to ensure their security. I just do not know what exactly those steps are. That is very much a matter for them to make decisions about on the ground. Their welfare would be considered in the same context as other Australian based employees of the government, including the people in the mission, of course, and aid personnel, et cetera. Of those who are in and around Suva, of which there would be a few, certainly we would have been paying careful attention to their security over the last couple of days. That is obviously something that DFAT has been, in particular, very focused on.

Senator HOGG—Those are 11 military personnel—

Mr White—Yes, they are ADF personnel.

Senator HOGG—and there are a number of other aid personnel—which I understand is not part of your portfolio—

Mr White—The point I am trying to make is that there is a big community of Australian government employees there, of which the ADF people are just one group. Their security in this situation is regarded as part of the security problem for the Australian based community, if you see what I mean, and that is being looked after.

Senator HOGG—Yes, I do accept that.

Mr White—Of course, particularly, the DA and his assistant are extremely active at the moment in the work of the mission there in reporting on what is going on and getting out and about and providing the government with information. They are playing an absolutely key role at the moment. Commodore Keith Eglen is our defence adviser there and he is doing a terrific job. He has been a real asset, from our point of view.

Senator HOGG—I presume it would be a government decision to withdraw those defence forces, as opposed to a Defence decision?

Mr White—Yes, absolutely. Well, at two levels. Certainly, if it were decided to withdraw them from a security point of view, that is something we would very much consult DFAT about and, of course, we have been working with DFAT and other departments on the emergency task force to review mission security as one of the issues that we have been attending to in relation to the Fiji crisis over the last week or week and a bit. We would very much move with the rest of the Australian presence there. It does not mean necessarily that we would take the same decision. For example, in Timor we left defence staff in Dili in early September after other staff had been withdrawn, but that was a deliberate and whole of government decision to leave those people there to provide support for the evacuations. Decisions are made very much in the light of the actual circumstances, including the jobs that need to be done.

Senator HOGG—As the circumstances continue to change in Fiji—and it now seems you have described a number of ADF personnel, and we know that there are number of aid workers in the Australian community there—have you now got contingency plans in place for the withdrawal of those people from Fiji should that be necessary?

Mr White—Yes. The department of foreign affairs and us in consultation maintain standing plans for evacuations from countries for missions and associated people and the broader expatriate communities in all the countries around the region. Those plans, of course, in a circumstance like this are dusted off and examined carefully. At the moment, as Mr Downer said, obviously we have raised the travel advisory in terms of non-government employees, and further notching up was undertaken yesterday. But at the moment we have not seen the threat to Australians as requiring more specific actions so we have not undertaken advanced planning. But that is something that we are monitoring literally continuously and if action is needed we will do it. It is worth making the point that we have now got quite a lot of experience at running these kinds of evacuations and have got a fairly well-oiled routine for making it happen.

Senator HOGG—You said you were dusting the plans off. It is good to see people into a bit of housekeeping, but how long ago did you dust the plans off?

Mr White—There is a certain set of procedures that you go through when a situation in another country turns into a crisis, including the establishing of an interdepartmental emergency task force chaired by DFAT, and so on. I am not quite sure when that was stood up, it would have been the last week.

Senator HOGG—What exactly is that interdepartmental task force charged with?

Mr White—That really is a DFAT responsibility. We participate on it as a key player, along with a lot of other departments involved in different aspects of Australia's international relations, but we are really one of the members rather than a leader of it. Consular issues and so on including safety of Australians overseas is very much a DFAT responsibility, so I think it would be best to talk to DFAT about that.

Senator HOGG—But I would imagine that you play a significant role if there was an airlift capability needed?

Mr White—Oh yes. If there is a military airlift needed, of course we play a very significant role. Often, though, these assisted departures can be managed through commercial airlines, either scheduled services or charters, and that is always the preference. It is quicker, cheaper and easier in every way than using ADF assets. We do not at the moment have any particular expectation of needing to use ADF assets but if the situation deteriorated in such a way that that was necessary then we would quickly make that happen.

Senator HOGG—You spoke of the security of Australian personnel. Has there been a downgrading in the general state of security for those people over the period of time or has it been relatively constant?

Mr White—Again, DFAT are the experts on this, but let me just make two comments. The first is that throughout this process, there has been no major thrust of the unrest in Fiji relating to Australia specifically. It is not as though Australia has been targeted in some way in any of the unrest. But obviously the situation, particularly on the streets on the Suva the night before last, was pretty wild. There was a risk to Australians and the risk that, under some circumstances, Australia as a prominent country in the region and a government strongly critical of the actions of Speight and Co. could have become a target.

Significant attention has been paid to that and we have been quite carefully analysing the way in which that threat has been evolving to ensure that if it reaches an unacceptable level we can respond accordingly. In these situations it is always important to balance the threat to Australians, on the one hand, with the importance of the job they are doing, particularly those

people in the mission itself. In a crisis like this, obviously you want your mission working as effectively as possible because you have got an even higher demand for information, reporting, representations and all of those things that the mission does, so there is a delicate balance to be struck there.

Senator HOGG—So there is no reported imminent danger for any of the Australians as far as you are aware?

Mr White—Let me put it slightly differently: we think the security situation for Australians at the moment is manageable but we are watching it very closely.

Senator WEST—Is the unrest just in Suva?

Mr White—It has overwhelmingly been focused in Suva. There have been some incidents of violence against Indians—Fijians of Indian extraction—out of town, if I can put it that way. But of particular relevance in regard to the safety of Australians, our understanding is that up around the main tourist areas—Nandi, for example—there has been no particular security problem. Suva has been overwhelmingly the focus of the concern, and that has been the focus of our security concerns for Australians.

Senator WEST—Whilst Chaudhry was a member of the Fijian Labour Party, it was a coalition government, wasn't it?

Mr White—It was, but I would much rather defer to my DFAT colleagues on issues of the politics of Fiji.

Senator WEST—Had there been any newspaper reports or speculation, either here or in Fiji, that there was a possibility of a coup?

Mr White—I cannot give you an absolutely categorical answer to that. Because the coups of 1987 are so vivid in the public mind, I think any suggestion of instability in Fiji has naturally brought the idea of a coup to the surface. I recall some reference in some of the press reporting, but to my mind it went short of what you might call a solid prediction.

Senator WEST—I am not clear from the media reporting whether Speight seems to have the support of small elements within the army or not.

Mr White—I think it is a bit early to be definitive on that. There is high likelihood that he has had support from small elements in the army—some elements of the FMF have been associated with him. It is now clear how widespread that support is. Evidently the commander, over the last couple of days, has been effective in deploying large proportions of the FMF around Suva, and they appear to be behaving with considerable discipline and effectiveness. To that extent, Speight does have influence, or adherence in the FMF, but it appears to be fairly limited. But I think there is some potential for individuals within the FMF to have been identified with him.

Senator WEST—We have seen television footage of some of Speight's—I cannot think of a polite word to call his supporters.

Mr White—Associates.

Senator WEST—Associates, yes, but it is a very loose term. The television footage shows some of them running around with balaclavas on and waving what looks to be some fairly sophisticated weaponry.

Mr White—Yes, they certainly had access to weaponry, but my understanding is that that weaponry has not been FMF issue weaponry. Of course, that does not mean that they are not FMF people; it just means they were not using it FMF weapons.

Senator WEST—They have got them from other sources?

Mr White—Yes, that is my understanding. I would not want to give too high level of confidence, but when we looked at that issue early on, that was the conclusion we reached.

Senator WEST—I attempted to make a phone call to Fiji on the Friday and the Saturday and could not get through; in fact, the phones had gone down. Was that overloading or was that deliberate?

Mr White—Yes, it appears to have been. There has been a very wide range of different experiences on that. The phone lines do seem to have been having a hard time. I am not aware of any evidence of deliberate attempts to sabotage or to interdict the phone lines, but there has obviously been extremely high demand, and I think that has caused it to be very hard to get through in some cases.

Senator WEST—What is the reputation of Speight? Do we know that, apart from what we see in the media?

Mr White—I really have nothing to add on Speight other than what is available publicly. It may be that my colleagues in foreign affairs know a bit more about him.

Senator HOGG—Is Speight an Australian citizen?

Mr White—I would rather refer that question to foreign affairs.

Senator WEST—There have been some varying reports in the media.

Mr White—Yes, there have been some varying reports. I do not have an authoritative view on that.

Senator WEST—Is it correct that his father who is an MP?

Mr White—Yes.

Senator HOGG—Do we know whether those who are supporting Speight inside the parliamentary compound are from any specialist forces? I know Senator West has asked a similar question.

Mr White—There is evidence that, amongst those who have been at different times supporting Speight within the parliament building, are people who are thought to have been FMF members with a special forces background. The FMF has a small special forces unit called the Meridian Squadron. Again, this is a very uncertain environment, so I would not want to put a lot of weight on that, but there is some evidence of that.

Senator WEST—Do we know what the racial mix is in the force?

Mr White—I do not have an authoritative view on that, I am afraid. I assume that it is very strongly Fijian oriented, but that would be speculation on my part. I have not seen an authoritative statement on that.

Senator WEST—I am wondering if the percentages of Fijians from Indian descent and indigenous Fijians are reflected in the military force or not?

Mr White—The FMF is overwhelmingly ethnic Fijian. The police force has a strong Indian component but the FMF is overwhelmingly Fijian.

Senator HOGG—When the crisis broke, as Senator West has said, it seemed to have taken both ministers—I am not asking you to answer for them but that is the public perception—by surprise. Do we know if there were any briefings of your minister—I am not asking what was in the briefing—prior to the actual eruptions?

Mr White—I cannot give you an absolutely definitive answer on that because our intelligence agencies do provide oral briefings to the minister in addition to the written material, of course, which they churn out in a great flood. Certainly the written material covered the Fiji situation in quite a comprehensive way in the weeks leading up to the end of last week. I am not aware whether the minister was briefed orally on those issues.

Senator HOGG—Was he briefed in a written form prior to the—

Mr White—I should say that material was produced that addressed that broader range of aspects of the situation which led us to be a bit uneasy about what was going on. But to get back to the point I was making yesterday, none of that material did provide any specific prediction of a coup.

Senator HOGG—I accept that. I am trying to work out whether the minister was in effect briefed. Obviously, from what you are saying, he had been briefed on the broader issues. I am not holding you to what is in the brief.

Mr White—I should not say he had been briefed. Material would have been made available to his office on the broader issues which I am very sure he would have seen. It is worth making the point that Fiji has been one of a pretty wide range of things we have had our eyes on over the last few months, and indeed the last few weeks, so it was not the top of anybody's list of priorities until the end of last week.

Senator HOGG—Again, without going to the actual content, could it be typified as being a low element priority within the briefs that the minister would have seen?

Mr White—What you often find in this business is that you are watching one or two situations very intensively—at the moment we are obviously watching Fiji very intensively—and there are a few other situations that you are keeping an eye on at a slightly lower level, on a sort of a watch basis. I guess the reason why both ministers said that the events of the end of last week were a surprise is that we have been watching Fiji down at that level, but we had not seen the thing which would push it up to intense focus, and that is exactly the point about there not having been a prediction of the coup itself. Obviously if we had seen a prediction of a coup that we felt was robust, it would have seized our attention very significantly.

Senator HOGG—Are there any other—for want of a word—Fiji watchers who would have predicted—

Mr White—I just do not know that. There are quite a few people in Australia with a lot of expertise on these issues. All I can say is that I have not had it drawn to my attention.

Senator HOGG—Any views expressed by any other governments?

Mr White—Certainly not that I saw. Again, I cannot claim to have done a comprehensive search but I have not seen any evidence of others having picked it, at least amongst our intelligence partners—the ones with whom we share these things. I do not know what other countries might have been predicting, but not all countries share their intelligence with us.

Senator HOGG—I am sad to hear that. I thought you were a very nice person, Mr White.

Senator WEST—Everybody would have wanted to talk to you.

Mr White—Yes.

Senator WEST—This has really come on to our agenda because of the ministers using the word ‘surprise’.

Mr White—I think the coup was a surprise. That is certainly the case. But it is the difference between it being a surprise and our having no idea that anything was wrong in Fiji at all. As I said yesterday, we had quite a lot of understanding of quite a complex and uncertain and unsettled situation in Fiji. But as both ministers have said, we were surprised by the coup. It was a bit of a bolt from the blue.

Senator HOGG—If we were surprised, it raises the issue of whether we are getting value for money out of the intelligence services that we—

Mr White—This goes to the point I was making yesterday. One wants to be careful not to put unrealistic expectations on your intelligence services. By its very nature an event like this, if it is going to be successfully initiated, is planned very carefully and in great secrecy and so on. You cannot expect, even at a much higher level of expenditure than we have at the moment on intelligence, to be able to predict every event in countries close to us, particularly complex societies like Fiji. These are inherently difficult places to understand.

Senator Newman—This was canvassed yesterday.

Senator HOGG—I understand that, senator.

Senator Newman—Quite clearly, it is the issue of surprise or not. Mr White has just repeated really that we would have a problem knowing unless we were sitting in the room where the coup leaders were plotting, presumably.

ACTING CHAIR (Senator Ferguson)—Mr Chaudhry was obviously surprised.

Mr White—If a lot of participants in the process were surprised. It is unrealistic to expect you can have better intelligence across the board all the time of these events than people who are actually participants in the process. Any reader of the newspaper reports on internal affairs of political parties gets the same strong message. It is very hard to tell from outside.

Senator HOGG—That is where you can get some surprises.

Senator WEST—That is where you can also know to predict, though, that there are several outcomes that may eventuate and that—

Senator Newman—The same as people with an interest in working, but there is not in a coup, I would have thought.

ACTING CHAIR—We are talking about a situation where six gunmen came in. It was not as though we had an invading army.

Mr White—It is inherently quite small.

Senator HOGG—I had a deliberate reason for asking that question because I want to know how dependent our allies are on the views that we form on what is happening within our region. Again, I do not want to get into cables or secret documentation or things such as that.

Mr White—I will ask my colleague, the Chairman of the Defence Intelligence Board, to comment on that as it really falls within his bailiwick. I just make this point first. One answer is that we do not really know exactly how much they rely on us. But, in our part of the world, there is a lot of sharing in the way that our relationships with major allied intelligence groups work. I would not want to go into the details of the scale of that.

Senator HOGG—No, I am not asking.

Mr White—It is a significant part of the relationship.

Mr Brady—The two countries that focus most intelligence attention on the South Pacific are Australia and New Zealand. Their assessments are generally given considerable weight by their partners who do not focus the same attention on the South Pacific as we do.

To go to your question about the value of the money we spend on intelligence, in the light of this event or indeed any other short-term surprise that we might have from time to time: the thing that intelligence does least well, consistently, is predicting short-term events. It is almost in the nature of them that there is a high risk that you will be surprised by them.

We then hear reports and claims about intelligence failures. Every now and again—and more often than people think—we have some successes. We are able to give warning of short-term surprises and events. But, because of the way in which we obtain that warning and the nature of the warning that is available to us, we do not go around talking about that publicly. You tend to hear of the failures and not of the successes. I fully reinforce the point that Mr White made: the hardest part of intelligence is to get consistent success. The reasons why you invest in intelligence capabilities of the kind that Defence has are to do several things that go quite beyond that. The first is the measurement of military capabilities and trends in developments in the region; in other words, the context in which these events take place is a very important part of our investment in intelligence capabilities. The other important contribution that intelligence makes is that, when surprises happen, it helps your decision making in responding to those circumstances to be much more certain and you can be much more confident that you understand the context and the background to the events that are taking place. Finally, and above all others, the principal reason you invest in defence in intelligence capabilities is that, if you get into circumstances of tension or circumstances of conflict, it makes the decision making about the employment of forces, the use of forces, much more certain; it makes the outcome of those decisions and any deployment of forces much more certain; it makes the outcome quicker; and it is the means by which you help protect the safety of your own forces. These are the reasons you invest in intelligence capabilities in the way that we do.

Senator HOGG—Thank you very much, Mr Brady and Mr White. I have appreciated your answers in that area. Yesterday I asked a question about the Americans and you were going to comment. There might have been one or two other issues and I thought we would clear those up before we get into some of the other issues.

Mr White—Why don't I address the US issue first. I am sorry I was not here yesterday when the question was asked. Some of the press reporting on the recent US tips has been a little bit overblown. We do not read what the US has done as in any sense re-establishing its defence relationship in the broad. What it has done is a very modest step of inviting Indonesian observers to a series of linked, combined exercises. They have been running with the Thais called Cobra Gold. Ten or a dozen officers were invited to observe the exercise. This is significant because the US has, since September, had a very complete freeze on relations with TNI, so it is a significant step forward, but it is a long way short of a full re-establishment of the relationship. The US thinking is that they will wait for major re-establishment of the relationship until the evolution of TNI's constitutional place in the Indonesian system and the reform of TNI itself has progressed a bit further.

Senator HOGG—That American exercise you mentioned—Cobra Gold—are we involved in that?

Air Vice Marshal Nicholson—We have not been, but we have been invited to. We have been running exercises in conjunction with either side of that activity.

Mr White—We are running bilateral exercises that are linked with it.

Senator HOGG—Would it be normal where the Americans have had a freeze on their relationship with the TNI to expect that they might not seek our approval but consult with us on whatever steps they might be taking to change their position?

Mr White—I would answer that question a slightly different way. It is very normal for the US and Australia to consult very closely on the way in which we manage a whole range of issues around our region, particularly in difficult and complex circumstances such as we are faced with in Indonesia. It is not to say that either side gives the other side any sense of a veto or anything like that, but we do one another the courtesy of letting one another know how our thinking is evolving. There would have been no sense in which the United States sought our approval for this. I am simply unaware as to whether or not they formally informed us of it in any way, shape or form. But it certainly did not come as a surprise to me. The impression I had from talking to a number of US interlocutors was that they were hoping to take some very modest steps like this and they would be looking for opportunities to do so. So this was very much the sort of thing we would be expecting them to do.

Senator HOGG—Would it be fair to say that, whilst there were no formal consultative processes, in the informal environment you were aware that there was this change?

Mr White—These kinds of steps might be the sort of thing the United States would be doing. I would not say specifically about this particular proposal, but it is the sort of thing that I at least understood they were thinking of doing.

Senator HOGG—How often would those informal consultations take place?

Mr White—At one level, it happens almost all the time. We have staff in Washington and in Hawaii, and the US has staff here. We have a not a daily but a very regular dialogue on a wide range of these issues. It is part of what you might call the ordinary day-to-day dialogue on regional developments, which is such an important feature of the alliance.

Senator HOGG—If we have a freeze on our defence relations with Indonesia, is it appropriate for our defence forces to be involved in something such as Cobra-Gold?

Mr White—I do not think we were in any sense directly associated with it. It is worth making the point that the Indonesians were simply observing the exercise. They were not participating in the full sense. As you know, following the events in September we put very significant restrictions on the defence relationship with Indonesia that would not have precluded us being engaged in an exercise which they were observing. That is regarded as a very low level sort of contact indeed.

Senator HOGG—The other issue that I raised yesterday was mine clearing in Cambodia. You were going to address that as well.

Mr Carmody—I believe the question yesterday concerned whether we fund mine clearance activities in Cambodia at present. The answer is, we do not.

Senator HOGG—Our involvement with the program was providing advisers. We withdrew those about September last year—I think my memory serves me correctly there.

Mr Carmody—That is correct. We were involved in the program between 1994 and 1999. We had a number of advisers there during that period of time. I think the highest number we had was eight, reduced to two in 1999. Our involvement ceased in 1999.

Senator HOGG—Do you know if the project has, in effect, run out of funds—as reported in the press?

Mr Carmody—No, I am not aware of that.

Senator HOGG—Do not worry about it.

Senator WEST—There was also a brief one on the Solomons and reports that the Cubans had been approached for assistance.

Mr White—Yes. Obviously, the situation in the Solomons is quite a worrying one. The government has been very active on that.

Senator WEST—That is at the top level? That is not bubbling along underneath?

Mr White—It was at the top level before Fiji.

Senator WEST—It is now there still, with Fiji, I presume?

Mr White—It is right up there. It would be fair to say it is less acute this week but it is a serious long-term problem. The government has been pretty active. Earlier this month following the Buala agreement, we agreed to expand our support for the Multilateral Police Assistance Group, which has been trying to assist the Solomon Islands Police to keep the lid on the situation in and around Honiara. We have undertaken to fund from DC, the expansion of the MPAG from nine to 50 police. The police themselves will come from South Pacific countries rather than from Australia but we will fund an additional 50. It is quite a big commitment. That is obviously something we have been in very close touch with the Solomon Islands government on.

Obviously, the Solomons Prime Minister has been very anxious about the situation. He has made a number of public comments about concern about the level of support, suggesting that he would be keen to seek support elsewhere. Our understanding is that that is not likely to happen. There has been a series of contacts between the Cuban government and the Solomon Islands government on a range of areas like health care and education, which flowed out of the NAM summit in Havana that the Solomon Islands foreign minister attended, but we have seen no evidence of any likelihood of a security involvement. I just make the point that I think the government would be concerned at the involvement of what you might call outside forces in that sort of situation. Our consistent approach in these situations has been to try to draw on the resources available locally in the South Pacific that understand the environment to help resolve these things. We believe that both the Buala accords themselves and the contacts between the Malaitans and Guadalcanal people since offers some hope that movement is being made at least to stop some of the violence and unrest and start working out a solution, so we do not think the Cuban involvement would be particularly helpful.

Senator HOGG—I want one further issue of clarification on our contact with Indonesia. You said in the Cobra-Gold experience that it could be possible for our representatives to be at the same exercise as Indonesians. I am just trying to clarify our policy.

Mr White—My judgment is that participation of Australians in an exercise which Indonesia had been invited to send observers would not be regarded as contrary to the present rules.

Senator HOGG—What if it went beyond an observer's status?

Mr White—I would be reluctant to be drawn into hypotheticals on that. I think we would look at that on a case by case basis. I guess the key thing, particularly in the land force areas, is that we are not undertaking any exercises with TNI land forces at the moment. There are no particular plans at the moment to resume that—I think that will stay in place for a little while

at least. Participation in bilateral exercises I think would be precluded, but we would look at other possibilities, if they arose, on a case by case basis.

Senator HOGG—If there were an exercise, for example, in Thailand or something such as that, we would then assess the whole situation?

Mr White—We would assess the opportunity on its merits and see what the pluses and minuses were and how the particular details fitted into the sort of approach we were taking, but it would be hard to make a hypothetical judgment in advance of knowing the circumstances of a particular case.

Senator HOGG—Is there a set of guidelines that enables you to make that judgment when you are actually faced with it?

Mr White—Yes, but not in the sense of a detailed set of guidelines. We have obviously had a number of discussions with ministers over the last few months on the approach to the defence relationship with Indonesia. That has been reflected in public comments by ministers and by the Prime Minister. I guess we feel we have a broad understanding of the parameters, but for specific cases we undertake discussions and discuss with ministers to see what their views are.

Senator WEST—MI6 has lost a few laptops recently—stolen—and all contained sensitive and confidential information. Has Defence lost any laptops in the last 12 months or so—misplaced or stolen—particularly if they contained sensitive, secret and confidential information?

Senator HOGG—Look at them all look around the back of the room!

Mr White—I am not even sure which part of the organisation would be best placed to answer that.

Mr Brown—I will start first with the policy we have involved for laptop computers. Under the security directions in the department, computers are classified according to the highest level of material in that computer; therefore, the handling procedures that apply to nationally classified security information are applied, which means that restricted material is housed in a particular way through to top secret material which is carried by hand and housed in security containers, et cetera.

There have been a number of laptops go missing. The exact figures I would have to take on notice and provide to you. To my knowledge, however, the only one containing some restricted information was about some network configurations by a contractor, but I would have to check the exact figures and provide them to you if that is acceptable.

Senator WEST—So it was the contractor that lost the laptop?

Mr Brown—The contractor lost the laptop.

Senator WEST—And how are you able to tie them in to Defence's security?

Mr Brown—They are under the Defence Industry Security program and should be acting in accordance with the instructions for housing classified information. The type of thing that happened in the case of MIR, the UK Secret Intelligence Service, MI6, and the UK Security Service, MI5, was that one of the officers with carriage of the laptops left one behind; another put it down in a hotel. Both of those would be breaches of the defence security instructions.

Senator WEST—They are probably breaches of theirs too, are they?

Mr Brown—In addition to the instructions, under the DST guidance we have particular software applications to provide for password locking over and above the commercially

available processes to meet those security requirements. So, even if lost, it would require sophisticated computer experts to break into those systems.

Senator WEST—What was the sensitivity level of the material on the one that was lost?

Mr Brown—Restricted.

Senator WEST—What is the gradient for security classification?

Mr Brown—It is the lowest gradient for national security classification. It would cause, in definition, some damage to national security. What it would have done was give some insight into some of the processes for our computer system, and, knowing what they were, that can be rectified.

Senator WEST—How long after the loss of this computer was security made aware?

Mr Brown—As the report was done through normal channels I became aware some weeks after, but action was taken immediately in respect of the matter. There is a standard set of reporting when things go missing, and it was acted on at the delegate level. We try to maintain security in a line management control system. It is reported immediately to the line manager who takes appropriate action.

Senator WEST—And the action taken was appropriate?

Mr Brown—As the matters were pertaining to systems configurations, the system could be looked at to see if it created any vulnerabilities. I have not got those details in front of me, but I can make inquiries.

Senator WEST—Can we have them please?

Mr Brown—Yes.

Senator WEST—Do you have Palm pilots?

Mr Brown—In some projects they use them, yes.

Senator WEST—Looking at the latest one I have just purchased, you can do about the same level of things on those as you can on here. What security arrangements have you got for them?

Mr Brown—They fall to the same requirements. By way of example, one project using Palm pilots disaggregates the information that is allowed to be collected in them for the purpose of the project so that not all information is held on any one Palm pilot. It is collected at the end for a secure amalgamation of that information. So we work through, on a project by project basis, the best application for security purposes.

Senator WEST—Could you get that information to us, please, and if you can do it before we finish. We have got a couple more hours here.

Mr Brown—Yes.

Senator HOGG—What about mobiles that send e-mails?

Senator WEST—Mobiles that send e-mails too.

Mr Brown—We will be addressing the issues of information security in another question on notice that was provided this morning to us as to what Defence was doing. There are a whole range of new applications, from pens that can hold 3,000 pages of information through to—

Senator WEST—Yes, I have seen those.

Mr Brown—There is an active program of looking at these applications to assess the threat posed to security and the advantages also from an investigation and/or security perspective.

Senator WEST—How much do those pens cost?

Mr Brown—I could not tell you, Senator.

Senator WEST—I saw one advertised the other day and thought that 3,000 pages was a heck of a lot of material to bring back and download into your computer.

Mr Brown—Yes; and it is infra-red, so you can send it across the room also.

Senator WEST—Yes. We can sit here and send to one another. We are not doing it, though.

Senator Newman—Estimates will never be the same again.

Senator WEST—No, Minister; you will have to become technologically—

Senator Newman—Challenged?

Senator WEST—If you are technologically challenged you have a bit of a problem. I mean that in the nicest possible way. On another matter, has a former employee been recently found guilty of defrauding Defence to the tune of \$21,000 on TA?

Mr Neumann—Yes.

Senator WEST—A former employee, I take it?

Mr Neumann—I am not sure that the employee has actually been dismissed yet. My recollection is that the sentence has not yet been passed. But the employee has returned the money to the department.

Senator WEST—What is the department doing to make sure this does not happen again?

Mr Neumann—In this case, I understand it was a matter of forging and uttering. There are a whole range of issues that the department does. We run ethics presentations. There is the Public Service Act itself, which tells you to behave in an ethical and honest way. There are a range of discipline measures that can be taken including dismissal, at the end of the day.

Senator WEST—Has this one gone to court as well?

Mr Neumann—Yes, this one has gone to court.

Senator WEST—There has been a trial but no sentence?

Mr Neumann—That is what I understand.

Senator WEST—Has there been a review of the process? Are you reviewing your processes?

Mr Neumann—In this case, the processes were correct but the procedures were not followed properly. Cash payments were made which should not have been made even under our current guidelines. This is always an issue; you can have as many procedures as you like in place but if people do not follow them then you have an issue.

Senator WEST—So there would be actually be more than one employee who was not doing the right thing?

Mr Neumann—Yes, in the sense that people should not have made a cash payment.

Senator HOGG—What happened to those other people?

Mr Neumann—I will take that one on notice.

Senator HOGG—All right. It will be interesting to know. In late February it was reported that two sniper rifles had been stolen from 4 RAR last October. Is that correct? If so, have they been recovered?

Mr Neumann—No, not to my knowledge.

Senator WEST—Not, to your knowledge, correct?

Senator HOGG—So they were stolen?

Mr Neumann—Two sniper rifles on issue to 4 RAR could not be accounted for following a road convoy between Townsville and Holsworthy between 16 and 21 October 1999. Both weapons were operational. There was no ammunition carried on the convoy. The military police, which is Army's responsibility, were currently carrying out an investigation in conjunction with the New South Wales and Queensland police services.

Senator WEST—These are the \$5,400 jobs?

Mr Neumann—No. The weapons were a 7.62 mm SR98 and a Barrett 50 calibre anti-materiel rifle. The ones you were talking about this morning were M4s, and the M4s are 5.56, if I remember rightly.

Senator WEST—How easy is it to get ammunition for these weapons?

Mr Neumann—The 7.62 is a standard military calibre and 50 calibre is another standard military calibre and goes back at least to World War II.

Senator WEST—So you can just wander into a gun shop and buy?

Mr Neumann—Or load your own.

Senator HOGG—How many other weapons have been stolen in the last 12 months?

Mr Neumann—I would have to take that on notice.

Senator HOGG—Take that on notice and also how many have been recovered. Last year we discussed a theft from HMAS *Albatross*. Has that been resolved?

Mr Neumann—Was that at the parachute training school at Nowra?

Senator HOGG—I think that was it. I think there was legal action pending.

Mr Neumann—I think that was the one where about \$212,000 was recovered, but I would have to take one on notice.

Senator HOGG—Take that on notice. If you can get back to me, that would be handy indeed.

Senator WEST—On the issue of reserves call out and protection legislation, will the issue of Defence leave as an award entitlement be incorporated in the proposals that the ADF will bring forward for consideration to the minister shortly? Or is this better dealt with under 'personnel'.

Senator WEST—General Dunn is there now. I suppose you may as well—

Major Gen. Dunn—No, it will not be dealt with.

Senator WEST—Has the proposal for a special reserve force involving the staff of Defence contractors, referred to in the *Age* of 28 April, been considered as part of this exercise?

Major Gen. Dunn—No, it has not. Indeed, we have been looking at the sponsored reserve scheme in the UK and taking lessons from that. That is not progressing, and we do not intend to progress in any way that sort of activity here.

Senator WEST—Who is responsible within the department for any of these? Are they are out of your area? Do they come under Defence personnel?

Major Gen. Dunn—The Vice Chief of the Defence Force is responsible for the activities. That is transferring at the moment.

Senator WEST—The government is not going to consider it. The Defence Reserve Support Committee has not looked at these issues in any way?

Major Gen. Dunn—Most definitely. They have been intimately involved with the production of all the proposals that we are putting to government at the moment.

Senator WEST—And those ones, in relation to the *Age* article, have been knocked back?

Major Gen. Dunn—Yes. The sort of reserve environment that is described in that article. and where it has been tried elsewhere. is not one that either the Reserve Support Committee or the Defence organisation think is appropriate for Australian circumstances.

Senator WEST—What is the rationale behind not thinking it to be appropriate?

Major Gen. Dunn—For the scheme to work, it requires a fairly draconian stance to be taken by Defence in terms of insisting on involvement by contractors. Our philosophy is that we would want to encourage the contractors, employers and employees to voluntarily join in a reserve scheme. That is the way we have done it in the past, and that is what makes our reserve scheme somewhat unique around the world. The proposals that we are putting to government we think will capitalise on Australia's unique circumstances to give us a really effective reserve.

Senator WEST—That has probably given you five minutes respite, General Dunn. I turn to an article that appeared in the *Australian* of Wednesday of last week by Paul Kelly, talking about the US relationship adrift on a sea of troubles. He is talking about assessments in a new book called *America's Asian Alliances*. Do you know the article I am talking about?

Mr White—Yes, Senator.

Senator WEST—What comments do you have about it?

Mr White—None, really. Obviously the book, from the reporting we have seen of it, is going to be an interesting analysis of a whole lot of big issues, but I do not think they are necessarily things that we need to take very far at this level and in this forum. They obviously go to very deep issues about the shape of the alliance, particularly the shape of the US alliance structure in the western Pacific.

Senator WEST—The book has not hit your desk yet?

Mr White—It might have. I did ask for a copy and it might be on my desk by now, but I have not been back to my desk for awhile so I am not quite sure. I hope it has. I will be disappointed if it has not. I will read it with interest when I get to it.

Senator WEST—According to this article, it puts forward a view that Australia is not pulling its weight in the region and has too narrow a view of the regions and needs to significantly increase its capability. Are they fair criticisms?

Mr White—No. These are issues, obviously, for government rather than mere officials to address, but I do not think any of those criticisms are fair.

Senator WEST—I am sure the minister is listening and will take that on notice for minister. You do not think it is a common view held by US defence officials?

Mr White—No, I do not believe that view is commonly held by US defence officials. The book is not the work of US defence officials; it is the work of academics.

Senator WEST—There is a copy of it.

Mr White—Mine has not turned up, I will borrow yours.

Senator WEST—I have not got time to go through the marked areas, but in the preface it says:

The Asia-Pacific region has become an increasingly dangerous and uncertain place. As a new century dawns, the strategic situation in Asia remains fraught with old instabilities and new risks. At the same time, fresh opportunities exist to build peace and stability in the region.

Mr White—There is food for discussions in it, obviously.

Senator WEST—Yes. The minister will take on board the comments or the questions I asked there, and I presume you will be able to discuss it further with us at a later stage.

Senator HOGG—I might have missed this because I just stepped aside for a moment. The article said that there is a concern over the defence think tank structure—is that correct? Am I in the right article? The article says:

proposed Australian Strategic Policy Institute is under a cloud ...

Mr White—That is a different article.

Senator WEST—It is a different article.

Senator HOGG—I am sorry. The one that I want to refer to is the article headed ‘Cabinet getting cold feet over defence think-tank’. It was in the *Australian* of Monday, 1 May. Are you familiar with that article?

Mr White—Yes, Senator.

Senator HOGG—It says:

THE proposed Australian Strategic Policy Institute is under a cloud after federal cabinet questioned the structure of the defence think-tank.

Is that right?

Mr White—I would obviously not comment on press speculation about government consideration of such things. I really do not have a lot to add to what my colleague Mr Jennings said on this issue at the supplementary additional estimates a couple of weeks ago. The key issue he mentioned there is that there are some significant structural issues about the way you establish such an institute. The government is taking great care to ensure that those structural issues are properly addressed.

Senator HOGG—What source were we previously reliant upon for this think tank type of information?

Mr White—There is a range of university based, in particular, expertise on this issue. It would be fair to say that the government’s principle interest was in trying to establish, outside normal government framework, some research capability that was focused on these issues not so much from an academic point of view as from a much more policy specific point of view. It is parallel with the range of policy research institutes that have been set up, in a number of social and policy areas for example, in recent years. In a sense, the close policy focus that the

government is seeking from this institute is not really replicated by any of the existing organisations.

Senator HOGG—There are no concerns or doubts internally within the department about the structure?

Mr White—The department is responding to the government's request to explore a range of different approaches to organising and structuring such an institute, and will respond to the government's—

Senator HOGG—When will you respond by? Is there a deadline?

Mr White—I am not aware of any deadline. There is a fairly sustained process. It is not the only thing on our plate at the moment, as you might imagine. It gets pushed to one side sometimes.

Senator HOGG—No. I heard Fiji was around.

Mr White—It has been a fairly sustained development process over the last few months.

Senator HOGG—So there is no fixed time line by which you have to come to a conclusion?

Mr White—It would be fair to say the government would like to get it up and running as soon as possible. But that does not constitute any sort of particular deadline. We have certainly made arrangements to enable it to run this coming financial year if we can get those issues resolved. But I think the government is keen to make sure that it gets the structure right, rather than rushing into something which was not quite—

Senator HOGG—What is currently filling the gap?

Mr White—It is fair to say that nothing is currently filling the gap currently. This is a new capability. It is not as though anything else is doing the job at the moment.

Senator HOGG—Based on what you said to me, surely that implies that there is a void there, if this was not previously being done?

Mr White—That is right. The government has sought contestability of policy across a very wide range of areas of public policy and has taken some quite active steps in different areas. Defence is one of those areas where the scale of contestability is lower than it is in a lot of other areas of public policy. The government recognises and indeed we in the department recognise that we would be better off and defence policy would be better off, if there was more contestability of some of the sorts of issues like the ones we talk about in these hearings, in an environment in which there was genuine independence from Defence.

Senator WEST—Can I turn to DPAO consultants?

Mr Neumann—Can I answer Senator Hogg's earlier question? You talked about HMAS *Albatross* and the alleged fraudulent payment of travelling allowances. The person involved was summonsed on 3 February. The summons was delivered by the New South Wales police on 5 February and he appeared before St James Court in Sydney on 29 February. The matter was adjourned and he is due to appear again on 2 June, when he is expected to enter a plea.

Senator WEST—Can you take on notice how many TA fraud claims or abuses you have kicking around?

Mr Neumann—I can do that for the Inspector-General, but we do not do all of them. If they are below a certain amount, the service police do them so it would be quite time consuming. If you just want to break them out separately?

Senator WEST—Okay.

Senator Newman—Does that mean you are finished with Mr Neumann?

CHAIR—Will you be seeking further questions with Mr Neumann, Senator?

Senator WEST—Not unless he comes up in some other program.

Senator Newman—He might.

CHAIR—Mr White has other pressing engagements, don't you, Mr White?

Senator HOGG—We were not aware of that.

Senator Newman—That is why I asked was he needed.

Senator WEST—No, that is fine.

CHAIR—I can understand that Mr White has pressing other engagements.

Senator Newman—He has been here two days.

Senator HOGG—Chair, we were not aware of that, and we were not trying to delay Mr White's exit from this place. Thank you, Mr White.

Senator Newman—Mr Chairman, it is just that there are some officers who have been here all of yesterday and today, and if they can be released it is helpful to productivity.

CHAIR—I agree absolutely, Minister, but the process does not allow for a lot of flexibility; but Mr White, certainly.

Senator Newman—It is up to the committee, that is why I asked.

Senator WEST—Yes, but it is also up to us following some of this schedule, and some people are all over in all outputs. It is a bit hard for them and for us.

Senator Newman—You could have said no. I was simply asking you, did you still need him here?

Senator WEST—No, we had already indicated that. Now to DPAO—

CHAIR—Just before you proceed, Senator West, is Mr Neumann still here? Do you think you will be using Mr Neumann again?

Senator WEST—I do not know.

Senator HOGG—Can I just clarify my areas of questioning outside of my notes that I have got? I want to ask some questions on the management of major acquisition projects, the retention of military personnel, Defence Estate project delivery and I have got an idea there is one other, an ANAO report.

CHAIR—I think we could be safe in saying, Mr Neumann, you could go and if we need you we can always call you back.

Senator WEST—DPAO: in response to a question taken on notice last time, you provided a table that shows there are actually nine PR and communication consultants being used by DPAO. Some appear to be on monthly contracts and, to date, it has cost more than \$1.8 million. Do you think that that number of spin doctor consultants is entirely necessary for an organisation the size of DPAO?

Ms McKenry—Perhaps if I could clarify that table, Senator. The table refers to public affairs consultants that are being used within the totality of the defence organisation, not necessarily all within the public affairs organisation. Out of that table there, you will see that,

where it talks about the public affairs budget, you will see that two of those consultancies are actually out of the public affairs budget, and the remainder are from other budgets within public affairs. Perhaps if I can give some context to this, if you will allow me the time: the current organisation, public affairs, was restructured—I think that point was discussed here at the last estimates—and what we have had in the department is, I suppose, an organisation with the inability for many reasons to actually handle a lot of the public affairs work within the organisation.

Senator WEST—This is before or after the restructure?

Ms McKenry—Before the restructure. The organisation is currently going through a restructure. That restructure is hopefully going to end on 1 July this year. So what has happened in the interim is that areas of the department that were in need of expertise, that were in need of advice, sought that from consultancies outside the public affairs area, and that is what that table reflects.

Senator WEST—I see. That still indicates, though, that there must be shortfalls of capability or of capacity within DPAO to fill those needs.

Ms McKenry—That is correct, there still are, and we will not be able to have that full capability until after 1 July, and we hope that by the end of this current calendar year that there will not be as great a need for that number of outside consultancies as there are at the moment.

Senator WEST—What are you putting in place to ensure that is the case?

Ms McKenry—The thrust of the restructure is to have within it people who have a different skill base from what we have at the moment, that we will bring in people who have the sorts of skills that the organisation needs. Now, that is not going to mean that the totality of every skill the organisation needs with PR will there, but we will have the majority of the skills within the organisation.

Senator WEST—Okay. What is the skill base that you have got at present and what is the skill base you need?

Ms McKenry—At the moment the skill base we have is predominantly focused around servicing media input. There is very little—there is some, but there is very little—skill base about community interaction. There is not a skill base that is set around research and analysis of that research and there is not a skill base about being able to put together public affairs strategies and campaigns and maintain those campaigns and strategies.

Senator WEST—Why is there a need to move away from the current skill base?

Ms McKenry—The current skill base that has been identified in research and, I think, within the organisation—and probably reflected within that table that is before you—does not in fact give the organisation what it needs.

Senator WEST—I am wondering about what sort of research—market attitude research—and what sort of thing that is going to provide you with. How are you going to use it?

Ms McKenry—We need to have research about how the organisation is perceived, what sort of understanding the community has about Defence, about the level of activity of Defence, about whether or not people believe that the country can be defended by a well equipped organisation. We do not have a lot of that information. We need to have information which will enable us then to be able to engage with the community and develop an education—information—program along those lines. We also need to be able to, when we

develop those programs, track those programs to see whether they are efficient and effective. And there will be a variety of needs in terms of the public affairs campaigns and strategies that we will need to put into place, depending on the areas of the organisation.

Senator WEST—Can I ask about one—Defence Service Centre: Re-engineering Australia; what is that one all about?

Ms McKenry—I am afraid I cannot give you details on that. I do not know whether any of my colleagues could help me. I will have to take that one on notice Senator.

Senator WEST—Well I am interested in knowing about all of them. I mean to say: ‘Evaluation of communications, impact of the RAAF involvement in 2000 Melbourne Grand Prix’.

Mr Corey—Senator that is better placed in personnel and we could have called General Dunn to the table but he is out the back at the moment.

Senator WEST—That is okay.

Mr Corey—We will pick it up.

Ms McKenry—I can talk to you about the ones that pick up the involvement of the RAAF and pick up the involvement of our activities in royal shows. Those activities basically are quite resource intensive. The thrust of those activities is to present to the community an aspect of the Defence Force that they may not see or be aware of. That is to show the community what sort of equipment the Defence Force has and what sort of technology it actually trains with. They are the opportunities that they give us. Basically, the research asks the community their impressions of what they have seen. What we get from that research is an indication from the community that for some of them it is the first time they have ever seen the equipment and the technology and it actually gives them an opportunity to see and evaluate what sort of equipment the Defence Force is using.

Senator WEST—I always thought that was just the old Defence recruitment drive, those displays.

Ms McKenry—If you visit a display at one of the shows—the royal shows—you will always see that there is an opportunity taken by Defence to have a recruitment window if you like, but the thrust of it is to actually display to the community the sort of Defence Force that we have and the sort of technology and equipment that the Australian Defence Force does have.

Senator WEST—Okay. Well with this change in restructure, how many staff have you lost and what levels are they at?

Ms McKenry—We are going from an organisation of 127 people to 105. The majority of the people that we, I suppose, are reinvesting are military positions and there are 22 military positions that are being reinvested within the rest of the organisation. Some of those—

Senator WEST—Can you just explain what you mean by ‘military positions reinvested’ please? You have picked up the jargon pretty quickly, I can see.

Ms McKenry—We have had within the public affairs organisation people who are in uniform either within the Navy, Army or the Air Force who have been performing public affairs functions. Within the forces really only the Army has any public affairs component of training. The remainder of the forces do not have. We are moving to rectify that. The people in uniform who are no longer going to be part of the new organisation will be available for the

chiefs of those forces to be reinvested in other Defence Force activities within the organisation, that is, deployed to other functions.

Senator WEST—So the military people who have been in the area will be going back into uniform into their three services to work in other areas?

Ms McKenry—That is correct.

Senator WEST—Whilst you say you are going from 127 to 105, how many actual redundancies are there going to be and how many new employees are there going to be?

Ms McKenry—We have made an allowance for eight redundancies. We, at this point in time, are not able to tell you how many of those will be taken up.

Senator WEST—But you want to lose eight?

Ms McKenry—We have budgeted to lose eight. There are some positions which are at a high classification level which have been civilian positions where a work and job design of the area has shown that we no longer need positions at that level within the new structure that are then available for redundancies. However, there is always the option for those people to work at a lower level than that. One or two people have taken that opportunity.

Senator WEST—What was your wages bill before the redundancies and the restructure started and what is it going to be after?

Ms McKenry—The projected employee expenses for this financial year are about \$3.5 million. We anticipate that next year with the redundancies in there we will have \$3.8 million. That also takes account of the fact that we have introduced into the structure three SES positions that were not in the structure before. Previously the organisation was headed by a military position and that position is not counted in the baseline.

Senator WEST—So we will go from having no SES positions to three?

Ms McKenry—We have had a one star position which has been a military one star position.

Senator WEST—That is right, and no others, and now we are going to have three?

Ms McKenry—We will have a structure that has three civilian SES and a military one star. One of those civilian SES positions is for a period of two years, for the period of establishment—bedding down the new structure—after which the anticipation is that you will have two civilians and one military position.

Senator WEST—We are actually going from one to four?

Ms McKenry—Yes. We are going from one to four.

Senator WEST—What was your salary cost for the last financial year?

Ms McKenry—For 1998-99 \$3.1 million.

Senator WEST—And you expect it to be \$3.5 this year?

Ms McKenry—That is correct, close to \$3.5.

Senator WEST—And \$3.8 next year?

Ms McKenry—That is correct.

Senator WEST—So in two years with the restructuring going from 127 down to at least 105, maybe down to 97 or 98 you are going to have salary bill components that are going to go from \$3.1 million to \$3.8 million?

Ms McKenry—That is correct, Senator, redundancy figures are built in there; but can I just say, in terms of the total package for expenditure, we anticipate that the amount that we use for both salary and program will probably decrease because there are a lot of savings that will come out of the streamlining of some of our activities and looking at the processes that are within the area.

Senator WEST—What use are you going to be making of communication consultants for other areas of Defence?

Ms McKenry—Part of the structure has us outposting to key areas of Defence that are heavy users of consultants at the moment. There will be an officer from each of the arms of the forces—within the personnel area, within the acquisitions area and within the science area—and we will hopefully be able to do some of the groundwork internally that sometimes costs a lot with consultants, such as strategy development. We would be hoping to save a lot of the strategy groundwork.

Senator WEST—I like the word ‘hoping’.

Ms McKenry—But, as I said earlier, that is not to say that we will not be, from time to time, bringing in outside expertise.

Senator WEST—Can you give me what the total budget for next financial year for DPAO will be please?

Ms McKenry—Yes, it is projected to be \$7,450,000.

Senator WEST—Do you have that broken down into its elements?

Ms McKenry—For the year 2000-01, it is \$7.471 as a total, with program expenditure of \$3.647 and employee expenses of \$3.824.

Senator WEST—I guess what we are going to have to do, because there are a few ‘hopes’ in there, is to watch very carefully—watch what your use of consultants is in the following year if you are going to reduce the use of consultants to save money.

Ms McKenry—We do hope that some of those major costs that are there will reduce.

Senator WEST—Yes, there are some that are on monthly contracts. How long do you think those contracts are going to be going on for?

Ms McKenry—I think the largest one you have there is the Navy one, to do with submarines et cetera. That is the greatest cost one. We anticipate that that would not run any further than December of this year, and that perhaps we will be able to peter down expenditure towards the end of this calendar year.

Senator WEST—And the \$102,000 contract for Chief of Navy?

Ms McKenry—Again, we are filling a position that will be outposted to the Chief of Navy’s office. We would hope that that will also run down and there would not be the need to actually sustain it.

Senator WEST—So that consultancy will disappear out of ‘consultants’ and will actually reappear as one of your staff that you are outposting? Is that right?

Ms McKenry—Yes, it will be covered in that employee expenses figure that I have given you. That is correct.

Senator WEST—So the three SES positions are the ones that are going to be outposted to the three services?

Ms McKenry—No. There are three SES positions, one of those includes me and another one is in charge of a new area called ‘strategies’. There is also the person who is looking after internal communications and corporate communications. Those would be the sorts of activities which would be involved in community relations. The strategies area is a new area of focus. It is one that has been identified as sadly lacking in the organisation. It is an attempt to design an overarching strategy for the totality of communications within Defence, both externally with the community and internally, and to give that focus. It also will bring together research, and it will coordinate activities within the department, which is not happening at the moment.

Senator WEST—Thank you. I will leave it there.

Senator HOGG—I will turn to the ANAO. It is one that I did not flag, but it is on my list. I noticed in the ANAO financial statements audit report 1998-99 that there are a number of matters relating to Defence about internal control matters. I thought we might go through those quickly, and you might tell me if anything has changed as a result of that ANAO report.

Dr Williams—Yes certainly.

Senator HOGG—It noted that Defence holds 70 per cent of the general government sector’s non-financial assets. It went on to say that asset management decisions in the department have direct implications for the Commonwealth’s consolidated financial statements. It said that in the last four years the department has accounted for \$4.4 billion of asset write-downs through its operating statements and they say it is partially explained by technology advancements and capability judgments. It says that ‘the key issues raised below highlight the system and management problems that affect the reliability and usefulness of financial management information in the department’. I have said that by way of setting the issues that they attack. If possible, can you supply us with reasonably succinct answers on these?

It then goes to a number of key defence financial management issues and it says:

The following issues impacting on the department’s financial management were identified during the audit. In 1998-99 the department identified additional assets to the value of \$1.4 billion. This has raised important management issues concerning government and general systems integrity’.

How has that been addressed in light of that determination by the ANAO?

Dr Williams—I can answer that. First of all, I make the comment that the discussion that we had yesterday, starting with Allan Hawke—and I added a bit myself in relation to the possible qualification of our statements last year—is essentially what is being dealt with in that ANAO report. So the answers I gave yesterday in terms of some of our asset issues—things like componentisation of the obsolete stock—are some of the issues that are encompassed within what ANAO was driving at.

Senator HOGG—I realise that. I will go through this sequentially—I am not wanting to waste time—you just answer quickly.

Dr Williams—I can give you some of the issues we are dealing with. On the issue of componentisation of our assets to see whether that changes the depreciation, let me give you an example. If we go to our operating statement, on page 37 of the PBS, you will see that our depreciation and amortisation for the 2000-01 year is close to \$2 billion. That simply is a function of estimating the life of assets and depreciating them on a straight line. So every year you lose value. As ANAO notes, not only do we own 70 per cent of the Commonwealth’s non-cash assets but the natural ageing of that is a very significant impact on the

Commonwealth's overall position. For that reason it is fairly important that Defence is reasonably robust in how it reports. If it is not, then you will get instability and variations.

One of the concerns of ANAO was in relation to whether we ought to componentise our assets, and I mentioned that yesterday. We have already done some work to look at a number of major platforms—things like submarines, P3 aircraft and ships—and we have assessed that it is worth it and it is feasible to componentise. We would hope to book that in our May statement, certainly by the end of the year. So that is one measure.

We do still have a problem with obsolete inventory. That is probably a longer term solution but the concern of ANAO was largely in relation to the fact that in the first year of accrual budgeting—or at least the financial year before that—we had identified a fairly substantial amount. Every year there is going to be some further obsolete stock as we pay off DDGs, for example, or other assets. But ANAO's view is that ought to stabilise; it should not be a growing figure. My view would be that we have gone from identifying \$600 million in the first year we are reporting, another \$300 million was added the next year and we would hope to be substantially less. So I would suggest we are plateauing out and we are getting a better handle on our obsolete inventory. So that is coming under control. The \$40 million that is being allocated for information systems is in part—a significant part probably—to address our supply information system. So that will hopefully assist us to get better control of our inventory and assets.

Another concern embedded within the ANAO comment was that, when we first moved to accruals, in the first year we identified a number of assets at the second round which we had not reported in the first round. This was essentially, again, back to our information systems where some of the facility, the property assets and some of the equipment assets that we had recorded at subordinate information systems, in some cases manual systems, were not all being reflected up into our central databases. So as we refine our processes, as we do individual audits, and as we do our revaluations on a three-year cycle, we were picking those up. ANAO expressed some concern that the figures were fairly large, some hundreds of millions of dollars being found, and they were recorded as assets first found.

Again, with respect to that, we believe that we are now getting to the stage where the rate at which we are finding these is now plateauing out as we are more thoroughly going through our systems. Again, we are making substantial improvement, and I think ANAO would acknowledge that. But, again, given the size of what we are dealing with here in terms of our \$40 billion net assets, small variations do have a pretty big effect on the overall Commonwealth position, and that was really the gist of ANAO's concern.

We are at the moment working very closely with them. We have members of their team who actually reside with us for some period leading up to our end of year financial statements and we have been working fairly closely on all of these issues. Some of the specifics on inventory you could deal with through Support Command if you had any particular questions.

Senator HOGG—I do not think so. I just want to go through some of these key elements that they have raised here. They say:

The inventory and fixed asset recording system recorded 3,863 fixed asset item groups at 50 cents per item.

They then go on:

The ANAO estimates the above understatement at \$350 million.

Dr Williams—The systems we had before moving to accruals did not particularly focus on estimating the value of assets; in other words, we had systems which would keep track of the

fact that we knew what we owned. But, in terms of estimating the values, we did not keep particular records.

Senator HOGG—So are we out of that problem now?

Dr Williams—We are moving out of it. There are still some problems. Again, Support Command are the major area and they could comment in more detail. My impression from speaking with the senior people in ANAO is that they believe we are making sufficient progress in that area, but it will take a little time.

To illustrate: if you can imagine, we have large numbers of line items. Where some of them are quite old but still functional it is very difficult to get a value. The initial purchase price may have little meaning, may well be lost in the mist of time, and so you have got to make some assessment. There is a fair workload in going back through all that material and estimating values. But we have a program to do that. ANAO understandably would like us to move as quickly as we can. We have to offset that with the amount of resources we are able to put onto it.

Senator HOGG—One of the other dot points spoke about inappropriate asset capitalisation policy.

Dr Williams—This is an issue that came up, in fact, in an earlier question on the \$25,000 threshold that was raised. Again, we have a process of recording all the assets we own. We barcode even down to the level of small items, calculators, et cetera. But, in terms of reporting it on our balance sheet, clearly, you have to have some sensible level or you just overload databases down to the pencil level. What we try to do is to define a threshold such that the value of items below we can just expense on purchase and that does not materially invalidate our financial statements. The figure of \$25,000 was set as an initial level.

Just to expand on that, there are areas where you can have, for example, a computer network where individual computers may well be less than \$25,000—in fact, they would be—but the network as a whole has greater value. So for items of that sort, for things like rifles—large numbers, but values below \$25,000—what we will do is group those items. What we have on our balance sheet are any major items worth more than \$25,000 and some lesser items where they are in such numbers that we group them.

The concern of ANAO was that the number of items still below the threshold—either non-grouped or \$25,000 or less—was becoming sufficiently large that it was getting up to the point where they felt it might become material in terms of our statements. We have done a fair bit of work on that, largely through grouping. We believe—and we are working with ANAO—that we have got to a stage now where we have knocked a substantial amount off what was that figure. We think, without actually changing the threshold through grouping and making sure we are reporting against the groups, that we can meet their concerns.

Senator HOGG—The last of these dot points that I will deal with says:

- key asset management data such as the costs of maintaining assets are not collected. This is an important element of informed replace/retain decisions;

Dr Williams—This is probably an area where I would personally argue that it is a little more complex than as is presented by ANAO. If you take a simple example of the private sector, a simple commercial arrangement, then you look at the value of an asset, the rate at which it is appreciating or depreciating, the rise in the cost of operating it, and from those figures you can make a judgment about the appropriate time to replace.

I would argue that in military equipment it is a bit more complex than that. The concern ANAO expressed was really in relation to the fact that perhaps we should be replacing assets and what they felt was a lack of information on the through-life cost might be causing us to make poor decisions. I think that in most of our major assets our judgments on replacement are more linked to capability than to through-life costs. If you take an F111, the costs are obviously rising enormously and, if you looked at the original purchase price, you would say that is not good value. There is really nothing else around that would be a suitable replacement or anywhere near affordable. So the decisions are not linked particularly to economics. It is more to judgments of capability.

In some areas, like commercial vehicles, that may not be the case, and so we are moving and picking up on that recommendation to try to improve our through-life cost assessments to get better information. We are looking now in our major acquisition process. Rather than focusing on improving just the capital component, we are looking to try to capture the through-life element in a full accrual presentation so that our judgments are made on a more whole of life basis. I think in doing that we will be moving towards what ANAO would like. But I think its applicability, from where they are coming from, is more to the commercial end of our business and less to the capability side.

Senator HOGG—I appreciate the brief discussion we have had on this. Having had it, though, what will be the material effect on the accrual accounts that you continue to put before us? You are refining your processes; you are impacting on different elements such as inventory, capitalisation and so on. Will we see any material difference?

Dr Williams—You will see some changes over time. Let me give you a few examples, which will be apparent in the defence report where we actually report our end of year financial outcome. At the moment, our componentisation process will probably increase the level of depreciation that we report. We have tried to estimate this into our budgets for this year and next. Relative to what depreciation we would have had without componentisation, just looking at the major assets we looked at so far we are talking many tens to perhaps 100 or so million dollars. It is a reasonably significant amount that appears on depreciation. You would see some of that. It would affect our depreciation that we would report. That is one item.

You will also see in our financial statements a provision for obsolete inventory. One of the concerns of ANAO is that there are two issues. We need to identify it and we ought not be increasing that dramatically. One would expect small increases every year as we pay off old assets. But ANAO is also concerned that we ought to be getting rid of the old stock. There are value for money issues in how much it costs to get rid of. One would hope that over time we would see a decline in the total provision for obsolete inventory. Again, you would see that in the financial statements. You will see, over the previous ones, that we went from an estimate of \$600 million one year to \$900 million the next. I would imagine that would be plateauing out in the next financial statements and one would hope it would start to fall away as we go through a program of selling off obsolete stock.

Senator HOGG—I look forward to seeing that process evolve as time goes on.

Dr Williams—The defence report would be a good opportunity for you to raise those points, if you wished.

Senator SCHACHT—I want to ask a question of Major General Peter Dunn about medals.

CHAIR—We will close the questions on output 5, policy advice.

[3.19 p.m.]

Supplementary information—People and business process initiatives

People and learning

CHAIR—Welcome.

Major Gen. Dunn—Just before we start, for the benefit of senators I would like to table the report that we discussed earlier on the client induction training program that was prepared by New Focus.

Senator WEST—Thank you.

Senator HOGG—Before we start with Senator Schacht, could we get a brief overview, as we have with the other groups that have been before us, of the people and learning initiatives, just to point out the major differences for us in terms of people and learning and the other groups.

Major Gen. Dunn—The people and learning area has had one major change since we last presented, and that is that we now see the blending of the education and training group into the total people function. In all other respects, the changes that you have seen elsewhere in the PBS do not impact as heavily because we are now supporting—clearly in the way the document is written—the whole of the Defence organisation. I am happy to go through the various dot points on page 107, but I think they are fairly self-explanatory.

Senator HOGG—They are fairly self-explanatory. What I have been trying to do is to get the officers to point out the significant changes. That then goes on the record clearly for us without having to go through each dot point. If there are major significant changes, go through them; if not, do not worry.

Major Gen. Dunn—The significant change is now the blending in of education and training to give us the comprehensive personnel perspective now.

Senator HOGG—What about the other areas? Are there any significant changes?

Mr Corey—The areas that are covered are the corporate support area and information systems area, science and technology and industry. What this actually covers is quite comprehensive now. I think perhaps as we get people up to answer questions, if there are things of significance in their area, then they could point them out at that time.

Senator WEST—Out of the three services, Navy seems to be suffering the highest separation rates and has the greatest problems recruiting. Have you identified any specific human resource management issues that maybe could improve this?

Major Gen. Dunn—Yes, there are a number of issues that are being addressed at the moment. They generally equate to lifestyle issues, and some very strong efforts are being made now to ensure that the lifestyle of personnel in the Royal Australian Navy is such that they can both accommodate family circumstances and any other personal circumstances that do eventuate. The reality is that, at the end of the day, we require people that can go to sea and operate in a war-fighting capacity in the Navy. What we have to do is to work back from there to make sure that we develop new policies to allow that to be accommodated. There will be a number of initiatives that will start to come on stream in the not too distant future. I am thinking of the flexible career management project which is running, and it is due to come on stream in part next year. That will provide somewhat more flexibility in the posting of people and the development of their careers.

Navy has also made some significant changes already in the way in which they promote their people. The system now adopted eliminates a large number of knock-on postings at short notice and now gives people a lot clearer indication of where they are going to go in the future. Steps like that those leadership initiatives, which are in the province of the Chief of Navy, advised from the personnel executive, are moving ahead right now.

Senator WEST—What are the lifestyle issues? You said there were lifestyles issues that were of major concern.

Major Gen. Dunn—The major issue is the long periods of separation whilst they are at sea, and issues surrounding the geographic locations of the various elements of the fleet.

Senator WEST—So ship to shore ratios and times are having an impact upon them?

Major Gen. Dunn—Yes, that is right.

Senator WEST—You have been working with Navy?

Major Gen. Dunn—We certainly have. A couple of Navy teams have been looking at particular issues that need to be addressed in future. Let me give you one example. At the moment, ships operate on minimum manning and, of course, that means that whenever a member of the ship's complement is ill, is required for a course or has a compassionate reason to leave that ship, then a replacement has to be found at short notice. We are considering different manning strategies, or staffing strategies, for those ships to see if we could not benefit from some of the lessons learnt during the East Timor operation, for example, where HMAS *Jervis Bay* ran on two crews which eventually became a single double crew and operated in an extremely effective environment under a very demanding circumstance.

Senator WEST—How did you operate the crews?

Major Gen. Dunn—Initially they were operated as a port and starboard crew, as they were known, each with their own commanding officer and each with their own particular billets. That was introduced in order for that ship to be operated at maximum capacity. After some time operating in that way, they found that it was much better to combine those two crews into a single crew, effectively, and from that scheme of complement to put personnel on board the ship to operate the runs over to Dili. In that way, they were able to give people the opportunity to attend courses, to handle compassionate issues and the like and still maintain very high morale on board that ship. That is a real credit to the people that were operating that ship, that they came out with that solution at the end and it was not one that we expected.

Senator WEST—They were basically running a roster?

Major Gen. Dunn—Yes, I guess you would describe it as overstaffing as opposed to understaffing or running at minimum staff in your ship's company so that you can handle the inevitable absences that will occur with people—I am talking here about single and married personnel as well—who have family commitments and at times family members that they need to attend if they are ill, just as an example. I am not suggesting that we are going to go to doubling of the size of ships' companies in the Navy, but I am just illustrating this as an example of a different way of approaching personnel in the fleet. Of course, what you could do then is change your whole focus on your ship-shore roster process.

Senator WEST—With the HMAS *Jervis Bay*, people were basically rostered to be on board to do that run for that day and the next day they would be on shore—or several days of it?

Major Gen. Dunn—That is the theory. It did not happen on a day-by-day basis and there were various members of *Jervis Bay's* company who really worked very hard indeed and were still very stressed because of the environment in which they were operating. But it did give the captain of the ship the ability to release people to handle those circumstances that might otherwise have caused them to separate from the service.

Senator WEST—We have not seen what is happening with the separation rates yet in terms of Navy post-East Timor?

Major Gen. Dunn—We are still concerned about those separation rates, and you rightly highlight them. That concern on separation rates applies to the other two services as well. We are enjoying a very strong economy at the moment, and the personnel that we have in the three services are highly skilled, they are committed and they work hard and they are a good prize for civil industry. They are in a position where they can get themselves very good jobs very easily. We are not unused to this circumstance, and I would also comment that this is exactly the same circumstance that the armed forces in the UK, the US and Canada are facing at the moment.

Senator WEST—And it is a problem that keeps recurring.

Major Gen. Dunn—Yes. It is something that we can plot routinely. If the unemployment goes down, which we all hope that it does, then this makes the job of the recruiters and the retainers all that more difficult, because we only bring in high quality people.

Senator WEST—Okay. On the issue of reserves, can you tell the committee the total annual cost of reserves and also the breakdown between personnel and equipment, and by service?

Major Gen. Dunn—That would need to be handled within the headquarters organisation. I do not know whether Mr Williams can actually break those figures down or not. I do not have them here.

Senator WEST—Okay. Reserves: total annual costs, breakdown between personnel and equipment and breakdown by service.

Dr Williams—I do not have that sort of detail. We would have to take that as a separate issue.

Senator WEST—If you can take that on notice it will be fine. Allowances paid to personnel posted overseas: have certain allowances been adjusted to take into account the Aussie dollar, which is sort of down to blazes?

Major Gen. Dunn—The overseas allowances that we pay are under a system that follows the DFAT system for overseas allowances, and there are from time to time adjustments made based on the exchange rates. So that is a major factor in determining how much money people actually receive in the overseas post. The aim of the system is to ensure that their spending power and their lifestyle remain unchanged compared to what it would be in Australia—unchanged by sudden changes in the value of the dollar.

Senator WEST—So what is the rate now?

Major Gen. Dunn—I can take the details on notice. The calculation is different for every location overseas. It is a voluminous set of figures and we actually purchase data, as do all other government agencies with personnel overseas, to give us cost of living variations and adjustments. I can provide it for you if you would like it, but it is voluminous.

Senator WEST—Do you think there has been a reduction in allowances paid?

Major Gen. Dunn—Since we moved to following DFAT, which was a decision we took after we reviewed all of the overseas allowances over the last two years, there have been some adjustments. There were some posts where the overseas living allowance has been dropped, other posts where it has been lifted. And this was as a result of an assessment of all of the overseas allowances that are paid for all of our overseas deployments.

Senator WEST—Part of this is prompted by some complaints that we have had and also by the fact that there was a small paragraph in a DSPO digest, I think at about the end of January, where personnel were advised that the annual cost of living review had just been conducted, and that some would see unspecified reductions.

Major Gen. Dunn—The issue of overseas allowances has been a fraught issue for a number of years. That is why we reviewed it and that is why we introduced a new system. I am pleased to say that, whilst it was difficult for some posts to accept that adjustments would be made that in fact would see some of their allowances go down, across the board with all our international representation there is, I believe, an understanding that we want a fair and equitable system for all of the posts for all of the countries in which we are represented. I would have to say that there are a number of posts, indeed in our nearer region, that were undervalued in terms of the allowances they received, and those posts, some of which are classified as hardship posts, have benefited, but we believe it was important to get a uniform system across all of our international posts so people going overseas knew exactly what system would apply and would not look across the borders to a nearby country to see a completely different system in operation. So, yes, some have gone down, but others have gone up.

Senator WEST—We have just had matters raised by family members of junior sailors that are presently in the US undertaking a course of instruction of some form, and the story that we are getting is that pay and allowances have been reviewed and reduced by \$600 a month.

Major Gen. Dunn—The pay has not. The pay is obviously determined by the DFRT. Allowances have been reviewed. I am aware of the case that you are talking about. We are also having a look at that. Having said that we have adjusted as per countries and broad areas within the countries that you are talking about, particularly North America, there are some specific instances that we are now aware of that we can investigate and we will do so. This new system allows us to do that. The old system buried that in a blanket system that really did not allow us to have the ability to get inside the allowances to actually determine who had hardship and who did not.

Senator WEST—Who is dealing with this problem? Do you have an action team in your section looking at it?

Major Gen. Dunn—Yes, this is the normal day's work of our salaries and allowances and entitlements directorate within my Personnel Policy and Employment Conditions branch.

Senator WEST—Is there a problem for those that are on postings more than six months? Do allowances actually go down if you are on a posting for more than six months?

Major Gen. Dunn—The allowances are different. If you go six months or over you are entitled, or you may be entitled, to take an accompanied posting, have a removal or whatever. I would need to see the specific example to see what the complaint was.

Senator WEST—We are talking junior sailors, so we are not talking highly paid.

Major Gen. Dunn—It makes no difference to me whether they are junior or senior as long as they are paid fairly and have equitable allowances so that they maintain their standard of living. It is just as important to me that junior sailors are looked after as senior people are.

Senator WEST—So you are aware of some problems over there?

Major Gen. Dunn—I am aware of the issue with the junior sailors. This is being looked at. I would not at this stage say that it is as a direct result of the change in the system. It could be—and I am doing something I should not do here and that is I am speculating—local conditions. We will have a look at it and we will make sure that the intent of the allowance system, that is, that they maintain the standard of living that they had here in Australia whilst they are overseas, is absolutely met.

Senator WEST—When do you expect to have that resolved?

Major Gen. Dunn—I have not got a particular time frame. It is current work at progress right at the moment. Anyone who sees fit to speak to us about this issue deserves some pretty speedy attention. I might add that three weeks ago I was in Washington having discussions with Defence staff about allowance issues. I was aware of this before I went there. I have had discussions about it over there. It is an active issue at the moment.

Senator WEST—What is the total planned expenditure for recruitment advertising by Defence for this financial year and what will it be for the out year 2000-01?

Major Gen. Dunn—I do have the figures here. The recommendation for the future budget if we are to achieve annual recruiting targets across all of our employment operations is in the order of \$35 million per annum.

Senator WEST—That is the same for this financial year and next financial year?

Major Gen. Dunn—This financial year we increased the allocation from \$19 million to \$32 million to handle the increased requirements for East Timor. I will need to extract the projected figures for you. That, of course, will be dependent on the force levels that we need to maintain. You would appreciate that the recruiting budget figure is a volatile figure dependent on retention rates and also what we need to maintain on operations.

Senator WEST—While you are getting those figures, can you also provide a breakdown of this by state and by medium? Also, are Defence recruiting ads appearing more on one TV station than others?

Major Gen. Dunn—I will take that on notice.

Senator WEST—Or are your advisers picking what they think are the most commonly watched, targeting the—

Major Gen. Dunn—The marketing technique that applies relates to where the target population is sitting, looking, listening or participating and therefore it is possible that you will see advertising appearing in one medium or one location or targeted at one particular group more so than others, but that is purely on the basis of market research.

Senator WEST—Thank you. I will turn now to health issues and outsourcing issues.

Dr Williams—Chairman, whilst there is a short break could I give an answer to a question that Senator Hogg asked last night? The senator asked the Chief of the Navy for a breakdown of group contributions to output 2, the Navy output. There is some information we have here which we can table which will give you that break-up. I just make one observation: on the break-up you will see two fairly significant numbers. There is a fairly substantial drop in the

acquisition organisation contribution and a significant rise in the Navy. The explanation underlying that essentially is the roll-out of some assets: so the capital use charge that was previously under DAO while assets were being constructed, when they roll out they are transferred to Navy. So what look like two large numbers, a minus and a plus, largely cancel. It is a shift. We can pass out that information.

Senator WEST—Thank you. How many separate market testing exercises are going on at present by ADF in relation to health services?

Brig. Ramsey—At present we have two market testing activities under way. The first is in Victoria and that market testing process has been occurring for some period of time and it indeed will probably come to fruition in March next year with the opportunity to pick up a prime contract to provide comprehensive health support in Victoria. We are also rationalising and market testing health services in the ACT and southern New South Wales and that commenced in October last year. The draft consultancy report on rationalisation opportunities will be presented this month. Market testing is planned to start in June this year with public advertisements of request for expressions of interest from industry to provide required health services. In June this year we are going to commence rationalisation and market testing in the Sydney region and there is in fact a rolling program of rationalisation and market testing that will be undertaken on a national basis over the next two years.

Senator WEST—So there are two out at present, that is Victoria and the ACT and southern New South Wales.

Brig. Ramsey—And Sydney is about to start.

Senator WEST—And Sydney is about to start. Are there any others on the drawing board?

Brig. Ramsey—I do not have the program in front of me but the program will include all states and territories.

Senator WEST—On page 33 it talks about non-operational health services and a further exercise on other health services. What does that mean?

Brig. Ramsey—The structure of the defence health service includes those operational units, so they are the health assets that are responsible for the provision of operational health support. That is, health support in support of the combat elements when they deploy on operations. The other component of health service support is the organisational elements that are associated with the provision of health care in base area Australia. So it is the elements that had purely been designed and developed and were responsible for the provision of non-operational health support that have been considered for market testing at this stage.

Senator WEST—When it talks about market testing work on other health services, it is again non-operational health services?

Brig. Ramsey—That is correct, yes. A number of our units have dual roles; a number of our units are both responsible for operational deployment and have a secondary role of providing base area health support. So the base function of those operational units will also be involved in rationalisation and market testing. For example, the Army's first field hospital in Holsworthy was the first unit that deployed to Timor. It has a base element that is responsible for running the base hospital in Holsworthy in Sydney and that base element will be reviewed as part of the rationalisation and market testing.

Senator WEST—Yes, all this market testing, what is it showing of how they are going to overcome the shortage of nurses in the health system across Australia and internationally?

Brig. Ramsey—The notion of market testing is not being driven by the size of the defence health service, it is a matter of rationalising the health services that we currently provide. One of the issues that we have identified is that we have been employing our health staff in non-operational units when in fact we need them in our operational units. This is allowing us to shift our people from providing base support into operational health support.

The issue that you are talking about is one of recruiting retention and the benefits of providing health support in Australia and how we gain the skills that are required for our people to maintain competency to deploy on operations. What we have identified from our recent experiences on operations, and this is going back up to 10 years now, is that the skill sets that our health professionals need on operations, are significantly different from the skill sets that were being attained and maintained in our base hospitals. The notion now is to shift our people out of providing base health support in base hospitals, transferring them to operational units and then ensuring that they can maintain the clinical skills that are required by seconding them to major health facilities where the skill sets are being practised quite routinely.

Senator WEST—What is going to happen to Puckapunyal Health Centre?

Brig. Ramsey—Puckapunyal Health Centre has already been outsourced and Serco have been running that contract for a number of years. That contract was extended through until March 2001 and it has been included in the market testing process in Victoria. So it has already been outsourced.

Senator WEST—Has it got inpatient facilities?

Brig. Ramsey—It does today, yes. One of the issues that occurred as we renegotiated the short-term contract was to decrease the number of inpatient beds that were associated with that facility because of bed occupancy.

Senator WEST—So you are decreasing a number of inpatient beds at Puckapunyal. What do you think will be the situation in March of next year? There will no inpatient beds?

Brig. Ramsey—That will depend on the contractor. If the contractor decides that it is more efficient to maintain beds at Puckapunyal, then that is the contractor's call.

Senator WEST—If they do not maintain beds at Puckapunyal, where will your personnel who require in-patient treatment end up going?

Brig. Ramsey—Part of the contract process has included a very clear definition of the requirements of Defence and the requirements for access to health care. Now that access has been determined in terms of travel time and in terms of wait time for primary health outpatient care and inpatient care, those definitions would ensure that the contractor will provide health care in approximate distance to the Puckapunyal area. If you know that area, there are a number of hospitals nearby that could easily provide the service that is required.

Senator WEST—What sort of hospitals are nearby?

Brig. Ramsey—From Puckapunyal, the nearest hospital is Seymour, a Victorian public hospital. There are a number of hospitals from Puckapunyal to Melbourne and, obviously, on the northern outskirts of Melbourne, there is a very large public health network and large private hospitals in Melbourne itself. This notion is not to lock into either a public or a private provider but into a prime contractor who will manage the provision of our services.

Senator WEST—You are outsourcing it but then they are going to utilise the public system.

Brig. Ramsey—They may. The contractor may utilise the public system or may utilise the private system; whichever is the optimum method of providing it for the contractor. That is not up to us to say.

Senator WEST—But don't you have some preferences—some concerns—about standards?

Brig. Ramsey—Most definitely. And one of the key issues for us is standards of health care. Part of our contract negotiation is to define standards of health care and our access requirements to ensure that our people are receiving appropriate and high quality health care.

Senator WEST—What experience does Serco have in the delivery of health care?

Brig. Ramsey—As I understand, the only area where Serco are providing health care is Puckapunyal. Health care was included in the total garrison contract when it was let in Puckapunyal about 10 years ago. But Serco is not one of the tenderers for the totality of health care in Victoria.

Senator WEST—I was wondering what experience it had in the delivery of health care. How did the system work when the troops were sent to Timor? How did the health system stand up?

Brig. Ramsey—In fact, it stood up very well. The whole process of the provision of health care in Timor was predicated on us maintaining as small a health footprint in the country as we could and evacuating our casualties back to Australia for early and definitive care. For the first three to four weeks, we had only a very small facility in Timor—a very short holding policy of seven days. Most casualties, in fact, were evacuated back to Darwin and from there back to home locations.

Senator WEST—Did the Timor operation have any impact upon the health service that was being provided in the Aboriginal communities program? Has it had an impact on that?

Brig. Ramsey—I am not in a position to answer that question. That issue would be the responsibility of land command. I believe that they were mounting headquarters for that.

Senator WEST—I will put that on notice to them. How many medical staff—and when I am talking medical, I am just not talking doctors—are currently serving in East Timor with the UN task force?

Brig. Ramsey—I do not have the exact figures. The hospital in Dili is a combined hospital. The Australian contribution to that hospital is 50 and the remainder of that facility is provided by the Singaporeans and the Egyptians. Australia has additional health assets allocated to the battalion group and that would be in the order of 40 to 50 but I could confirm that for you.

Senator WEST—I would like you to take that on notice. Are you having difficulties with their rotations?

Brig. Ramsey—There are two components to the rotation. There are the full-time personnel, who deploy for six months. At this stage we are not having difficulty maintaining our contribution to Timor for our full-time personnel. The second component are our reserve specialists, who deploy for one month, and that is based on a specialist team. While there have been gaps of ones and twos in the roster looking out to the next 12 months, at this stage we are continuing to maintain our specialist support to that operation.

Senator WEST—But there have been gaps?

Brig. Ramsey—There are potential gaps looking at the roster ahead, but at this stage we have been able to plug the gap. With our reserve specialists, we routinely deploy them for short periods of time and we have been running rosters such as this from the first deployment of a hospital to Rwanda through Bougainville and now Timor. So our specialists have always been deployed for short periods of time on a roster system.

Senator WEST—Any particular areas?

Brig. Ramsey—Of specialists?

Senator WEST—Yes, shortages. There is no oversupply of orthopods in Australia, is there?

Brig. Ramsey—No, there is not.

Senator WEST—If you wanted one of those for there, or an ENT person—

Brig. Ramsey—The specialist team comprises a general surgeon, an orthopaedic surgeon, an anaesthetist and an intensivist. So it is a four-person specialist team. We have at times deployed an anaesthetist in the place of an intensivist but the notion of our intensive care department is very much for a short-term holding of casualties prior to returning to Australia. We have been satisfied with the skill sets of the anaesthetists who have been performing the role of intensivists.

Senator WEST—Given that there is a shortage of doctors in more difficult to staff areas, such as rural areas, are you experiencing that in Defence also?

Brig. Ramsey—Yes, we are, in particular with our general duties medical officers in our full-time component. We do have difficulties recruiting young doctors to join the Defence Force. At present, our vacancy rate in that group is around 35 per cent.

Senator WEST—The recent budget announced some initiatives to overcome some of these medical shortages. Was Defence included in that?

Brig. Ramsey—Yes. In 1998, a retention benefit of \$90,000 was instituted and it has been paid to medical officers at the completion of their short service commission. We are presently reviewing the impact of that retention bonus on young medical officers. We believe though that a more important initiative is one being staffed through the service chiefs at present and that is a total review of the career structure for our medical officers. There is an expectation that we will be better able to provide medical officers with a career that is appropriate to their needs and allow them to benchmark and transition into the civilian sector at the end of their military career much more easily. We suspect that by introducing a more appropriate career stream we will not have the difficulties in both recruiting and retaining our medical officers.

Senator WEST—But you did not get any of the benefits that the rural areas have got, some of incentives to get doctors to go and practise there? If you are 35 per cent down—

Brig. Ramsey—No, we did not.

Senator WEST—Maybe you can take on notice and give me some of the figures on what you need in all health professions and what you have actually got. The next one goes on to nursing numbers. What is the situation there?

Brig. Ramsey—Our nursing numbers are deteriorating.

Senator WEST—Are or aren't?

Brig. Ramsey—They are. At present, our total shortfall of full-time nursing officers is 22 per cent. The most significant area of shortfall is in the junior nursing officers where the total

shortfall is 60 per cent. This is most significant. We are addressing this matter. Indeed, we have identified already that, in the middle ranks of our nursing officers, a number of them are being employed out of category, not in the clinical stream. It is quite clear that that is a misuse of a specialist health professional and we are seeking the transfer of these people back into category. So that will, to some little extent, address the problems that we have short term.

On the other issue, while the figures appear to be catastrophic, that is not the case. Indeed, we are at present establishment wise overborne compared to the total number of health professionals that we need. As part of the 50,000 draw-down, Defence Health was going to contract down in health professionals, and nurses were included in the numbers that were contracting down, and that will actually bring us out to about the number that we have today. That is fine in the short term, but it does not address the medium-term problem of a critical shortage of nurses in the Australian community, and that is the issue that we are beginning to address, but those shortages will become apparent in the next three years.

We believe that the two opportunities that we have to address that are, first of all, to use the nursing undergraduate scheme. It has been obvious to us in the past that we can encourage nurses to join the Defence Force as undergraduates, so we can get numbers in as undergraduates. In fact, that would then resolve the shortage that we have of our junior nurses. The other area that we have not pursued as vigorously as we should have is the use of our nursing reserves, because this comes back again to the requirement for competent and skilled health professionals, including nursing professionals, and the use of reserves in that capacity we see as being a serious option for us to be using to address that particular shortfall, just as we do with our medical specialists; it is the same notion.

Senator WEST—Thank you.

CHAIR—Can I interrupt you, Senator West, we will take a short adjournment and recommence the hearing at a quarter past four.

Proceedings suspended from 4.02 p.m. to 4.17 p.m.

CHAIR—Welcome back. We are proceeding with supplementary information, people and business process.

Mr Brown—I have a response to Senator West's question concerning the laptop computers. The laptop computer that was lost was a contractor owned computer that was being used as part of the roll-out of Project Diary, specifically for the area of the Enoggera wide area network. The information contained on that computer was not classified restricted; it was a systems architecture map. The material on the network is classified restricted in the sense that there is both restricted and unclassified information on it, so we rate the total network as restricted. Because it had a component of the network map on it, we conducted a security inquiry into the matter. It was determined that the material in the computer was not damaging to national security and, as a result, it was really a loss of computer by the contractor and the material loss to that contractor.

In terms of the other aspects that were raised in discussion on the question, we do put strict controls on the access of portable computers, palm tops, light pens et cetera into areas. The secret systems have only controlled access for floppy disks and the carriage of computers and other IT equipment into top secret areas is banned and they are only brought in under particular supervision for very specific purposes. So there are a number of safeguards in place with respect to that.

CHAIR—Thank you.

Brig. Ramsey—If I may, I have the shortages of health professionals.

CHAIR—You might table those.

Senator WEST—If you have them in a format now that you can just hand up and table, that is even easier.

Brig. Ramsey—Yes.

Senator WEST—Thank you.

Brig. Ramsey—You asked Chief of Army some details about the soldier who had been injured with hand grenade shrapnel in Timor?

Senator WEST—Yes.

Brig. Ramsey—I understand that the injuries are minor—superficial. He was admitted to the hospital in Timor, treated in Timor and will be held there. It is expected that he will return to full duties in Timor. There is no expectation that he will be evacuated to Australia, so it is a minor injury.

Senator WEST—Thank you.

Major Gen. Dunn—Mr Chairman, if I may also just respond to a question that was asked earlier in regard to the number of Defence civilians that were deployed in East Timor. I can inform the committee that during the INTERFET operation there were 16 Defence civilians deployed. The break-up of those was: one from management and reporting division, six from the Defence Science and Technology Organisation, three from the resources and financial programs area, two from public affairs and four from international policy. We have two personnel currently deployed in East Timor at the moment and they are from the resources and financial programs area.

Senator HOGG—Are these personnel entitled to a tax free salary, extra allowances and field leave similar to the benefits of ADF personnel in Timor?

Major Gen. Dunn—The allowances are different. They do not receive tax-free salary. That tax-free status attaches only to war-like service for those people who are engaged in that service. This is the distinct differentiation enjoyed by ADF personnel who are actually armed with rules of engagement to abide. We are, however, in negotiations with the tax office to see if we could not arrange for some form of tax concession similar to that that is afforded to Defence civilians in Bougainville, on Operation Belisi, to be afforded to Defence civilian personnel in East Timor. Similarly we are looking at the leave provisions. The civilians do receive extra allowances for being in East Timor. They also receive the other allowances that would attach to an overseas deployment, such as travelling allowance, hard lying allowance and the like whilst they are on duty.

Senator HOGG—What is the determining factor as to whether or not they get tax free salary, is it that carrying of the weapon?

Major Gen. Dunn—Tax free status applies only to those personnel who are in uniform and operating under war-like conditions. That is determined by the minister on recommendation from the CDF. Quite clearly, the Defence civilians in the area of operations are passive, carry no weapons and, indeed, would have to be defended by the ADF personnel should hostilities commence or should danger exist. There is a fundamental difference, and this is one of the differences in terms of the way it is expressed between an ADF person, in this case East Timor—in the theatre of operations—and a Defence civilian supporting that ADF operation in East Timor.

Senator HOGG—I understand the accrued leave during that period of time is different as well. Is that correct?

Major Gen. Dunn—That is correct because the ADF personnel receive war service leave. That is not provided to Defence civilians in the AO.

Senator HOGG—The reason I raise this is that it has been the subject of correspondence that has been provided to me by the shadow minister in this area. It goes to a letter that was written to the minister on the 30 April. I do not know if you are familiar with that item of Denis Cameron, head of the Directorate of INTERFET and UNTAET Financial Administration Team, East Timor?

Major Gen. Dunn—I think I am aware of the correspondence. I have seen a number of pieces of correspondence on the issue on conditions of service for civilians.

Senator HOGG—What would be needed to change that position? As I see it, the argument being put in the letter is one of equity.

Major Gen. Dunn—The thing that would need to change for those personnel to receive those allowances is that they would need to join the ADF, actually put on a uniform and carry a weapon. Therefore they would be employed under conditions of service that were declared war like. This is the fundamental difference. This is not to say that the civilians in the area are not absolutely essential to our operation—they are—but there is a fundamental difference between the type of work that is done by those two groups: one is passive; one is active.

Senator HOGG—Outside of that, are there other options available to the government?

Major Gen. Dunn—There are always options available to government. I certainly would not be recommending to government that we change the determinations relating to the conditions that attach to warlike service when you are wearing a uniform and carrying a weapon and have rules of engagement that are peace enforcement under a chapter 7 mandate from the UN. I would not be recommending that a change should be made to encompass personnel who were supporting that operation and not actually carrying their weapons. As I have said, we are in negotiations with ATO to seek a tax concession and we will move to have the very best conditions of service for our defence civilians that we can get. However, that is the work that is ongoing at the moment.

Senator HOGG—Thanks very much for that. I will move on to the Cooma call centre. I understand that the minister announced on 30 March a proposal to operate a centre at Cooma. Has there been a tender process for that call centre?

Major Gen. Dunn—Yes. It was a limited tender.

Senator HOGG—Has that been completed?

Major Gen. Dunn—It is almost complete. Certainly all of the expressions of interest have been received and the evaluation is under way, and I think it is very near to conclusion now.

Senator HOGG—When did the tenders open and when did they close?

Major Gen. Dunn—I will take that on notice to give you the dates.

Senator HOGG—All right. And how long before the process is drawn to a conclusion, that is, the tenders are evaluated and the successful tenderer is notified?

Major Gen. Dunn—There are several tenders that are associated with this particular project. Tenders for the training of personnel and the recruitment of personnel have been

finalised, and the successful contractors have been advised and are negotiations are under way. Training is being handled—

Senator HOGG—Could I just stop you there. Who are the successful contractors?

Major Gen. Dunn—Training is being handled by the Moreton Institute of TAFE and the recruitment was won by Employment National.

Senator HOGG—Can I just stop you there? The Moreton Institute of TAFE: where is that?

Major Gen. Dunn—It is based in Queensland. It specialises in call centre training.

Senator HOGG—So do they have an office south of the border? I am just wondering how they are going to handle it.

Major Gen. Dunn—They are conducting service centre training nationally. The third element of the call centre tendering process is for the technology build. That is the more complex area—

Senator WEST—Technology?

Major Gen. Dunn—Technology build. That is the technology for the centre, and we are hopeful to have this finalised and be into contract negotiations literally in the next week or so.

Senator WEST—What is the length of the contract for Cooma?

Major Gen. Dunn—I will have to give you that on notice.

Senator HOGG—And why was Cooma selected?

Major Gen. Dunn—The project team developed a number of criteria that we would need to meet if the call centre was to go into any particular area. Some of the criteria were, for example, the availability of a skilled work force, the availability or proximity of national communications backbones and the proximity of a major IT support and repair centre, and in Cooma's case it came out exceedingly well on all of those assessments. Other issues were the actual cost of accommodation, the availability of accommodation without going into full build, et cetera.

Senator HOGG—Could you supply me with a list of the full criteria that were used?

Major Gen. Dunn—I believe I have supplied that to this committee previously.

Senator HOGG—All right. What other centres were in contention for the call centre?

Major Gen. Dunn—The concept, as I said, was that we developed criteria and then we began a matching process. There were many regional areas that were looked at and some city areas. The list is not exhaustive but includes Canberra, Melbourne, Ipswich, Cooma, Wagga and Puckapunyal. They are examples of some of the areas that we looked at.

Senator HOGG—There would have been an initial sifting-out process, therefore, to narrow it down to the last one or two. Were there any bids from the local councils, local government, as to why their area—

Major Gen. Dunn—There were many bids, as you would appreciate, for a facility such as this. What made the particular difference in Cooma was the availability of suitable accommodation, the availability of quite a large number of personnel from the Snowy Mountains Hydro-Electric Authority and the Snowy Mountains Engineering Corporation, both of those organisations changing their business structures, who had the technical skills. There was the fact that regional telecommunications infrastructure funding had already been

provided into Cooma and a call centre operation had commenced there, and the fact that training had commenced there and that the Cooma TAFE had also developed a very good course for training call centre personnel. All of those factors made Cooma, given its proximity to Canberra, a very good choice. If I can just comment on the proximity to Canberra, that opens up the ability for us, in developing this HR call centre, so it is quite different from an accounts payable call centre or something of that nature, to use this to generate major policy shifts very quickly once we identify problem areas.

Senator HOGG—The minister's release said that there would be a saving of at least \$40 million a year compared to the existing system. On what basis was that statement made?

Major Gen. Dunn—The business case that was presented gave a net present value benefit of in excess of \$60 million per annum after the first two years of operation. That has been confirmed. What you will see here—

Senator HOGG—Who has confirmed that?

Major Gen. Dunn—That has been done by the project team and also a separate business case assessment that was undertaken.

Senator HOGG—Are those figures available for us, or the assessment?

Major Gen. Dunn—Yes, I can see no reason why we should not give you the figures.

Senator HOGG—That would be interesting.

Major Gen. Dunn—I will take that on notice.

Senator WEST—Can you actually explain to us how you are going to save the \$40 million?

Major Gen. Dunn—At the moment personnel administration—in this case the first phase will be civil personnel administration—elements of recruitment, travel and the like, is conducted at a number of centres around Australia. We have been going through a process of rationalisation and consolidation of those centres and we now have three civil personnel administration centres operating. Those three will eventually blend into the service centre, so you are providing the same service to a large number of personnel from, in this case, a single site. There are a number of reasons for doing it, not just the \$43 million. One of the particular problems we have is varying advice provided by different people all around the country. This provides consistent advice to all of the personnel seeking transactional HR advice from around the country. So you see large reductions in numbers.

Senator SCHACHT—Numbers in staff?

Major Gen. Dunn—Numbers of staff, yes; a consolidation. And the military staff that are involved in these activities, as in other reforms, will be moved back into military units to undertake combat and combat related duties. It is a fact that 82 per cent of our HR transactional activity is already conducted on the telephone. We can use the technology to release people in uniform to go back into combat and combat related duties.

Senator WEST—So you will be able to provide us with a breakdown of how the \$40 million will be saved?

Major Gen. Dunn—Yes.

Senator WEST—Some of the things that, according to the PBS, they are going to do look a lot like the FIND network. What is going to happen to that now?

Major Gen. Dunn—FIND will become part of this organisation. Indeed, it will be able to increase the services that are provided. I can give you the estimated staff savings. We would estimate that 376 full-time equivalents, or 50 per cent of the military personnel currently involved in these practices, will be freed up and some 282, or 43 per cent of the civilian positions currently involved in civilian administration, will be freed up.

Senator WEST—And replaced by how many in the call centre?

Major Gen. Dunn—The call centre will be in the order of 150 to 250 seats.

Senator WEST—Will it be operating 24 hours a day?

Major Gen. Dunn—The intention is to operate 24 hours a day, seven days a week. That will not happen immediately. We will provide that service—this is where I say that we can extend services from FIND, if you like—and we will also provide for a crisis centre if need be.

Senator WEST—Will this one also get the 1800 number for the sexual harassment line and those lines as well?

Major Gen. Dunn—It certainly can. The 1800 lines that you are referring to will always be operated by trained counsellors. It will not just be a 1800 line into a call centre. It is quite likely that they will stay with the defence equity organisation. That does not mean to say that we cannot use the technology in the call centre to give us 24-hour coverage to then have it directed to appropriate people.

Senator WEST—It was stressed to me how important it was to utilise FIND and some of the other centres and to utilise military personnel and civilian defence personnel as they understood the culture of the particular organisation: Army understood Army, Navy understood Navy and Air Force understood Air Force. The people requiring to use the service would be much happier relating directly that way. It seems that you are going to be utilising people who are ex-Snowy Mountains Authority employees. Is that correct?

Major Gen. Dunn—Not for the type of counselling that you are talking about necessarily. There is a referral system that operates right now. It is a fact today that the differentiation between who answers the phone in terms of what service they are is now not as important given that the defence equity organisation and those advice lines have now been operating for in excess of three years, and very successfully too. So those differences are blurring. I am making the point that, because we are talking about a specialist service here, we will not be swinging those advice lines into the call centre immediately. However, you would also be aware, as we have discussed this before, that there are periods of time when those advice lines are on a messaging system. It is during those periods of time that we can actually improve the service by using a call centre with a trained person operating from that call centre. This is an HR call centre. It is quite different to some of the others that you may have experienced.

Senator WEST—What 1800 centres do you have at present that are on messaging systems?

Major Gen. Dunn—There are short periods of time at night and on the weekends when the advice lines are on a messaging system. We try and keep that to an absolute minimum but there are some physical limitations in operating those lines. Over the years we have been operating it we have the operating procedures down pretty well now. That is a service that we can improve through the call centre. As you would be aware, there are also times when the 131901, 131902 recruiting numbers are on a message service. Every time that occurs we potentially could be losing a recruit. We will be able to handle that with an operator under the

call centre system. Likewise for travel: there are times when the travel services are on message systems.

Senator SCHACHT—The \$40 million saving, what is that as a percentage of existing cost of doing what the new call centre is doing? Is the \$40 million a 20 per cent saving? It is an extraordinarily big figure based on the operation of a call centre.

Major Gen. Dunn—Stage 1 of the project, as I have said, offers the \$43 million. With phase 1 of the centre, setting up the centre and getting it operating, we would expect that after year 2 is complete the savings would be funding the operation of that call centre. It goes positive after year 2.

Senator SCHACHT—Can I put it around the other way: how much are you spending at the moment before the new call centre is established to provide the same service that the new call centre will provide?

Major Gen. Dunn—I have agreed to provide the elements of the business case for that, and it is all there. We can show you exactly the break-up of the NPV.

Senator SCHACHT—I always support the saving of money, et cetera, at this level but, when you said \$40 million, all that struck me was that you must have been running a pretty gold-plated, diverse, complicated system before you got to the call centre option if you can save \$40 million in a period of a couple of years, and more thereafter. Congratulations on the saving but, by gee, it does not speak much about what was going on before.

Major Gen. Dunn—There is more to come in phase 2 when we go to military personnel administration. What you are seeing here is the results of the creation of a single integrated personnel process and the PMKeyS project. You could not do this without a single HR administrative system. As soon as you go to that system, it opens up all sorts of opportunities.

Senator SCHACHT—Yes. What I am encouraged about by this in one sense is that on and off over the years when I have ever raised issues of communications internally with Defence, the view that Defence had was that it was going to be totally self-reliant and run their own totally secure systems because of all those security issues, when in fact a much cheaper variation of communications was available by using the ubiquitous system we have across Australia run by now several commercial companies. In the non-operational side of Defence, as far as combat is concerned, you are certainly now picking that up and have agreed that this is the best way to go.

Major Gen. Dunn—Absolutely. As I said, the key decision here was the decision to go to a commercial off-the-shelf application for PMKeyS—the Peoplesoft product for HR—a single product for all of the ADF and the APS. We are live now for the civilians and we go live for the military in September.

Senator HOGG—Did PMKeyS come in on budget?

Major Gen. Dunn—No, it has been through a series of delays. Mind you, this project had its inception when we created the personnel executive and about six months later we formed a project team and partnered with the information systems group. It has been an exercise in cultural change as much as it has been in technology. It has driven a whole series of positive changes into our HR administration. As I said, we have been live for some time now on the civilian side and we are about to go live on the military side.

Senator HOGG—Who made the choice of the successful site for the call centre? Was there a panel, an individual or the minister? Who made the choice?

Major Gen. Dunn—We provided a set of recommendations to the minister.

Senator HOGG—A single recommendation, or did you provide a range of recommendations?

Major Gen. Dunn—We provided the criteria and a small number of sites that we believed best met those criteria.

Senator HOGG—What were the sites that best met the criteria?

Major Gen. Dunn—Cooma was certainly one of them. We also were of the view that Wagga or Ipswich would be another two sites that could meet the criteria.

Senator HOGG—There were, in effect, three sites that were put forward to the minister, with a set of criteria?

Major Gen. Dunn—Yes. However, I would emphasise the point we did make that it would be of great interest to us to have ready access to this place—that is, from the policy people in Canberra.

Senator SCHACHT—Why didn't you put it in Queanbeyan rather than Cooma? If you wanted access from Canberra, from Russell it is only four minutes down the road to Queanbeyan; or even Captains Flat or Bungendore or one of those places would be nearer than Cooma. I have nothing against Cooma but, if you are going to use that argument, obviously you could even have done it even in Canberra. I am sure Kate Carnell would have been jumping up and down in favour of it.

Major Gen. Dunn—I did mention before that we were looking also at sites where regional telecommunications infrastructure funding had been provided. Cooma already had a call centre going in, already had the training facility and had already identified a number of suitable personnel and a staffing base there.

Senator SCHACHT—But had the commercial operator said that those things in Cooma were an advantage to them when they bid, or, when they bid, did they bid blind and you decided the location irrespective of the commercial operator's bid?

Major Gen. Dunn—The technique that we used, because this was a fairly lengthy process creating this system from our side of the shop which took us over 12 months, was from the outset to invite tenders on the technology build. In other words, it was location free; it did not matter. That is the nature of these call centres. That is why you can name those sites.

Senator SCHACHT—So it was location free. So they all tendered on the basis that you would decide the location.

Major Gen. Dunn—They tendered on the basis of the technology.

Senator SCHACHT—If they were tendering, what was your interest in saying that there were other things at Cooma? They did not even know they were going to Cooma, so why was that of interest to you?

Major Gen. Dunn—All of those criteria were of interest to us to ensure the efficient operation and continuing operating of the call centre. They were not an issue, particularly in terms of the technology build for the centre.

Senator SCHACHT—But, if you were tendering sight unseen for the location, presumably the commercial operator put in their bid all the things they would need. They probably had a fair guess it was not going to be in the centre of Russell, that it was going to be somewhere else outside of Russell. Therefore, they would have put all of that in their bid and

it would not have been necessary for you to show such interest in what was already available in Cooma.

Major Gen. Dunn—One of the criteria was access to adequate communications infrastructure. The fibre-optic national backbone goes through Cooma, for example.

Senator SCHACHT—Does it go through Queanbeyan?

Major Gen. Dunn—I do not know. It certainly goes through Cooma.

Senator SCHACHT—I bet you it goes through Canberra as well.

Major Gen. Dunn—I think it might.

Senator SCHACHT—I don't think I am using smoke signals when I ring Melbourne. It just seems to me that your sensitivity might be useful in one sense, but for a commercial bid—did you tell them that they had to bid where the optic fibre cable ran through the centre of a town?

Major Gen. Dunn—This is the nature of the technology build tender. We said that our criteria were such that whatever site was selected would give them access to major communications infrastructure. That is all they needed to go.

Senator SCHACHT—But you mentioned three or four other things. The fibre cable goes not only through Cooma. It obviously went through Wagga and Ipswich. Fibre cables have gone through 200 places around Australia. It probably goes through Alice Springs, Tennant Creek and so on. It goes through Ceduna. That is a given, in my view. The other ones you mentioned were there was another call centre under the regional telecommunications fund of the government from the communications department.

Major Gen. Dunn—I only mentioned the one, and that was Cooma. There is another criterion also that we considered initially, and this helped us narrow down some of the sites, because we could have had an endless list, and that was that we sought to get a site that was within reasonable access of a major centre of Defence population. The clear intent here was to try and generate opportunities for spouses for employment in the call centre.

Senator WEST—Wagga.

Senator SCHACHT—So you expect people to drive from Canberra each day down to Cooma?

Major Gen. Dunn—Senator, there a number of people that do that now. It is a one-hour drive.

Senator SCHACHT—Yes, but would you expect people to do that?

Major Gen. Dunn—It is a distinct possibility, and I must say that we have been very encouraged by the expressions of interest that we have had as we have advised Defence staff in Canberra and all Defence staff of the location. We have been encouraged by the number of people who have said they actually would like to move to Cooma to participate in the whole project. In that sense, the selection process, or the criteria, has been quite successful.

Senator SCHACHT—That is one criterion, about place: what are the other criteria about Cooma?

Major Gen. Dunn—As I have said, I have provided the criteria at a previous hearing, but I can provide them again; I happy to do so.

Senator SCHACHT—Fine, we are happy with that. Marginality of a federal electorate was not one of them?

Major Gen. Dunn—I can assure you it was not one of our criteria.

Senator SCHACHT—It might have been on the minister's mind.

Senator HOGG—Can I just ask why a new call centre had to be established, why there were not other existing call centres throughout Australia with surplus capacity now that you could not have utilised for this function?

Major Gen. Dunn—We are using existing buildings. As I said, there is a call centre already in Cooma that we are going to build on. We are going to build on that capacity in Cooma.

Senator HOGG—I accept that, but why wouldn't you use the existing call centre? Why would you go out and build your own centre?

Major Gen. Dunn—The call centre market is moving all the time. Call centres, you are absolutely right, do come on the market. The particular issue that had us seeking a new centre is the level of technology that we are putting into this centre. You would be aware that there are some call centres that you no doubt access that do not give the best service and, as this is an HR call centre, we wanted to ensure that we have a level of technology that not only will provide an outstanding service but also will allow us to grow as more and more use is made of this centre.

Senator HOGG—When will the final result of this be known?

Major Gen. Dunn—We open the call centre in September.

Senator HOGG—Who is the successful tenderer?

Major Gen. Dunn—For the technology build, negotiations are on at the moment. I will provide that information for you on notice.

Senator HOGG—Okay.

Senator WEST—Is it correct that the existing call centre in Cooma is less than 12 months old?

Major Gen. Dunn—I would say so. Having had a look at it, it is certainly a new centre, and it will require further development to meet our needs. The important point is not the building that it is in; it is what has been put in there and what is happening in terms of the TAFE and the training and the like. That is the foundation we will build on.

Senator WEST—It is also under capacity isn't it? It is underutilised at present.

Major Gen. Dunn—Yes, it is.

Senator WEST—Quite significantly.

Major Gen. Dunn—Yes.

Senator WEST—Do you have a call centre in Queanbeyan?

Major Gen. Dunn—No. We do not operate a call centre as such in the personnel executive.

Senator WEST—Where do the recruitment people operate out of?

Major Gen. Dunn—They operate from a number of areas. Almost every recruiting unit does have a 131901, 1902 number siphoned into it.

Senator WEST—When you give us some material on notice, you are going to give us how long the contract is for, aren't you?

Major Gen. Dunn—Yes.

Senator WEST—Two years was ringing a bell in my mind; I might be wrong.

Senator HOGG—Can I just go on to another contract: I am aware of time constraints that are now starting to come upon us. Has the defence recruiting outsourcing process been completed?

Major Gen. Dunn—Yes, the press release was issued yesterday for the trial.

Senator HOGG—Who is the successful tenderer?

Major Gen. Dunn—Manpower Australia.

Senator HOGG—Will the successful tenderer be penalised if they do not meet recruitment targets or rewarded if they exceed recruitment targets each year?

Major Gen. Dunn—The notion will be that they will be paid for the personnel that actually come into the service.

Senator HOGG—Does that say anything, though, about the quality of the people that they recruit? Given that they are going to be paid for the people that they get into the service, what sort of constraints will there be that ensure that they just do not go out there and dragoon people off the footpath, so to speak?

Major Gen. Dunn—Defence remains responsible for the standards and for the final acceptance of the product in this case.

Senator HOGG—How long does the recruit have to stay with Defence before Defence will recognise that person as having been successfully recruited by Manpower? Will there be a minimum time of six months or 12 months?

Major Gen. Dunn—I will provide that detail to you on notice.

Senator HOGG—So there is some sort of criterion there. What type of quality controls will you put in place to ensure that you get the type of people that you are after?

Major Gen. Dunn—There will be no change to the quality controls that are in place. We will set the standards and, as I said, we have the final say in the entrance of the personnel into the ADF. We will also validate any testing mechanisms Manpower is going to actually use.

Senator HOGG—Thank you.

Senator SCHACHT—Major General Dunn, I just want to ask a couple of questions about medals. You are probably not surprised. First of all, I noticed a story the other day in the press where someone was commenting that at the battle of Long Tan in Vietnam the actual commanding officers of platoons who were in action did not get what somebody claimed were appropriate medals for their valour and bravery, whereas the person who was a higher up commander who was not actually in the fighting at Long Tan got a decoration. Have you received any complaint from the public about that, or is that just a steady story that goes around amongst the veteran community?

Major Gen. Dunn—We have had discussions and communications on part of this issue that was recently in the press. The discussions that we have had centred around a Second Lieutenant Sabben. The nomination that we have examined—this was also in the context of the end of war list for Vietnam—indicates that he was recommended for, and awarded, a

mention in dispatches. We have no record at all of any nomination for Lieutenant Dinham, who was mentioned in this article also.

Senator SCHACHT—Is it true that an officer in a higher position who was not actually in the fight in the operation but was a senior officer did get a DSO or some equivalent medal in conjunction with the battle at Long Tan?

Major Gen. Dunn—I understand the commanding officer received the DSO. That was not just for actions at the battle of Long Tan but for commanding the battalion during its tour. Can I say that we have had similar discussions before. The issues surrounding these nominations were dealt with during the end of war list examinations.

Senator SCHACHT—Last year about there was debate over the change for six people who were mentioned in dispatches. There was a review and in the end those six got, I think by public comment, satisfaction in what they were finally awarded. Are you saying that this issue of Long Tan was discussed in that context?

Major Gen. Dunn—No, but I am saying it in the context of the overall end of war list.

Senator SCHACHT—Okay. Is it true that in the Vietnam War there was a quota system operating each year on the number of decorations that could be made available?

Major Gen. Dunn—Yes.

Senator SCHACHT—In subsequent areas of operation since Vietnam, there have been a number of peacekeeping operations: Cambodia; obviously East Timor last year; Bougainville still goes on; Western Sahara, et cetera. Is there any system of quota operating on those, or is it now left to the circumstances that arise for recommendation for a decoration for valour?

Major Gen. Dunn—There is a form of quota system that operates.

Senator SCHACHT—A formal, or a form of?

Major Gen. Dunn—There is a form of quota system that operates, and it still operates today. Indeed, it was in operation, for example, during the INTERFET deployment. That quota system is designed to give commanders guidance as to the relative numbers of awards that would be considered reasonable from a force of a given size. When it comes to issues of gallantry, however, that guidance does not necessarily apply. But it is for guidance only and, as occurred at the end of the Second World War and indeed has now occurred at the end of Vietnam and occurred at the end of the INTERFET operation, the end of war list process comes into play and it is at that time that all of the recommendations are looked at. So, whilst guidance is given, commanders are told that if they believe a person is deserving of an award, whether it is for service, for gallantry or whatever, they are encouraged actively to submit that through all channels.

Senator SCHACHT—Pardon my ignorance, or naivety: is the DSO, a Distinguished Service Order, for service or gallantry, or a mixture of both?

Major Gen. Dunn—That is for service.

CHAIR—That is not quite right. A junior officer who wins a DSO is for bravery, traditionally anyway.

Major Gen. Dunn—That is correct. I am talking in the context of the battalion commander that we described before. The DSO that was awarded was for service over a period of time. But you were right, Mr Chairman, that it can be used—

Senator SCHACHT—That was for good service?

Major Gen. Dunn—Yes.

Senator SCHACHT—What the chairman has raised is that if you were a lieutenant you could get the DSO for gallantry in action.

Major Gen. Dunn—You could under the old system, yes.

Senator SCHACHT—In the system now, if there was a recommendation from INTERFET from last year for an award for gallantry from an army officer with a company, would he be aware that there may be a quota, a rough limit or some guidance on that? Would he know that it was not his decision, he would just make a recommendation for gallantry and then further up the system someone would make a judgment about whether this fits in with the broad quota?

Major Gen. Dunn—People out in the field are encouraged and advised and literally taught to fill out the nominations and the citations for people under that circumstance. The intent is to get all of that properly into the system so that decisions can be made later on, but also decisions that preserve the integrity of the honour system so that nothing can happen to devalue that.

Senator SCHACHT—I completely support maintaining its integrity. There are other countries, which I will not name, that have clearly debased their medal system for political purposes over a long period of time. I do not think our veterans would favour that and I do not think we would as a country. When such recommendations flow up the system, is there a formal committee representative of all the services, or does each of the services have a formal committee, that looks at these recommendations? For example, in regard to a platoon lieutenant—have I got the right title?

Major Gen. Dunn—That is right.

Senator SCHACHT—A lieutenant puts it up saying, ‘Corporal so and so did a very brave thing, he deserves an award for gallantry, I recommend,’ et cetera. It comes to Army personnel. When it gets to your level, are you are involved in making, with others, a decision as to whether that should be granted?

Major Gen. Dunn—I am not personally. The service chiefs are, though, and that is done formally. If I can give an example of what happened after the INTERFET operation, the Chief of Defence Force made it very clear to all of the commanders that were involved in the INTERFET operation and the supporting operations—

Senator SCHACHT—This is the Commander ADF?

Major Gen. Dunn—Admiral Barrie made it absolutely clear that all nominations were to be in. Also all the nominations that had been rejected at various levels were to be sent in to the Honours and Awards Directorate in my organisation. They were all assembled, and the chiefs then sat and examined each of those. I might add that there was an intermediate step in that in that the INTERFET commander, General Cosgrove, was required by the chief to vet all of the awards coming out the INTERFET operation, and you would not be surprised to hear me say that either. The process is one of making sure that we correctly identify persons who either acted in a gallant fashion or provided outstanding service to the force.

Senator SCHACHT—You said the awards directorate. Apart from you, who else is in the awards directorate?

Major Gen. Dunn—The directorate is run by a Navy commander in this case. He has a very experienced staff, and it is an organisation that sits within the personnel executive.

Senator SCHACHT—Is it five people, 25? You can take it on notice if you like.

Major Gen. Dunn—I will take on notice the exact number. You are talking in the order of 10 people.

Senator SCHACHT—That is their full-time job, to service and run the awards directorate, and they report back up through you if there are recommendations. Do they collate the paperwork and the reports that go through to the service chiefs?

Major Gen. Dunn—I do not see that paperwork. I am a staff officer. This is a command function, and I make that as a very clear differentiation here. I am responsible for the process, not the decision. They provide the lists to either the service chiefs or the Chief of the Defence Force, depending on what the circumstance is. They are the same people, for example, that handle the Australia Day honours lists and any other honours that may need to be processed from time to time.

Senator SCHACHT—I presume all three services are represented in the directorate?

Major Gen. Dunn—The organisation is mainly civilian. You will find that within that civilian staff you have a very highly skilled and dedicated staff many of whom have had military service. That organisation also then links into the historical records sections, which again are filled by people who are quite specially skilled in determining just what is needed if we have to go back into history, as we did in the Vietnam case.

Senator SCHACHT—Thank you, General Dunn, for again being patient with me on these questions, but they keep bobbing up out in the community.

CHAIR—Medals are like that. Senator Hogg.

Senator HOGG—I just want to move to the area of some reports that we have had of some horrific accounts of abuse amongst Australian troops whilst serving in East Timor. I have a series of questions, so I will just rattle them off. Have there been any reports of abuse received from and by Australian troops who served in East Timor?

Major Gen. Dunn—I am not aware of specific reports of abuse that was actually conducted by Australian troops. We had one report, you may recall—

Senator HOGG—I think the reports were not looking at the indigenous East Timorese. We are looking at Australians on Australians.

Major Gen. Dunn—Senator, I would have to take that on notice, because clearly there are some internal disciplinary mechanisms there that may have been exercised.

Senator HOGG—I will go through my questions, and if you need to take them all on notice I will respect that. Can we have a breakdown of assaults by number of assaults, type of assaults, numbers by service and numbers by rank of offender and of the victim? Who were these assaults reported to? What actions were followed?

Next question, how long did this take? What disciplinary action was involved? Were there any legal charges and/or convictions stemming from these assaults? Has there been any victim support? If there has been victim support, in what form? What is the current wellbeing of the victims and of any of the offenders? Did these events affect the morale of troops during the operation? If yes, what occurred? In the light of these accusations, has there been or is there going to be a review of training and/or information and/or strategies combating abuse? What are the assault numbers across the Defence Force? Can you give me a breakdown of the assaults by types of assault, by service, by rank of offender, by rank of victim and number of convictions? Who were these reported to? What did they do? Was there disciplinary action?

What disciplinary action actually took place? How long did it take for the disciplinary action to occur? Has there been any victim support? If so, what form? Who is running it? How effective is it? If it is not effective, why is it not effective? Whose decision is it to recommend victim support, and assess the current wellbeing of the victim and the current wellbeing of the offenders?

They are very serious questions, as you would no doubt appreciate.

Major Gen. Dunn—Yes.

Senator HOGG—The instance in particular that has been cited to me I would not wish upon anyone. I await the outcome of your investigations in this area. It is both in East Timor and it is not on the local indigenous people; it is Australian to Australian. It could be male to male, male to female, female to female or female to male. So it is fairly important.

Major Gen. Dunn—I will make two points, if I may. We have previously provided you with information regarding the nature of any disciplinary offences that occurred in East Timor on notice, and so we will correlate these two answers. Secondly, as you clearly do have some information, it would help us in addressing the particular issue that you have got if you could perhaps separately let us know what the circumstances were.

Senator HOGG—Thanks, General Dunn.

Senator WEST—Could I ask about a case before the Human Rights and Equal Opportunities Commission. It is Angela McCarthy; it has been in the media. She resigned from the Army because she claimed she was harassed because she was a single mother. What is the current status of that case?

Major Gen. Dunn—I will take that on notice and give you the details.

Senator WEST—Thank you. Two sailors, I understand, are also suing the ADF for compensation for mental illness allegedly stemming from forced separation from their children and years of abuse. Are you aware of these cases?

Major Gen. Dunn—I am aware of the cases.

Senator WEST—Are you able to give us an indication of their current status?

Major Gen. Dunn—I will take it on notice.

Senator WEST—With the level of harassments being reported, who has got the highest at present?

Major Gen. Dunn—As is our practice, I am ready to table our statistics for you, as I do on each of these occasions. I think that is probably the best way to handle that.

Senator WEST—Thank you very much, if you could do that. So, with the sailors' cases, was a decision made not to have an inquiry by the Navy because the case was too old?

Major Gen. Dunn—I will cover all that in the on notice response, if I may.

Senator WEST—Okay. If you are going to do a detailed response, that will be advice on reasons for decisions being made and the time factor, and who is paying what.

Major Gen. Dunn—Yes. I am assuming that the data that was previously provided to these sessions has been adequate and has met your needs. It is the same data, and we have discussed that before—updated, of course.

Senator WEST—Thank you.

Senator HOGG—I have a couple of quick questions on the retention of military personnel. That was covered fairly well, I think, in a number of issues. I did want to go to the audit report; really, time does not allow me to do so. One of the issues that was raised in that audit report was the cost-benefit analysis of the churning that seems to take place. I was surprised that you have no idea of the training costs of the various levels of Defence personnel; how long you need to retain those people to get the benefit of the outlay that you have made in terms of their training and skills that you have imparted to them. I have read the report on the progress that you are making as a result of this ANAO report. But when can we see some basic information such as that? It really will assist people like me if I can have an assessment of the sort of wastage that is occurring—as I have no doubt—in terms of the high training costs in this area.

Major Gen. Dunn—We will take that on notice.

Senator HOGG—I will just flag now that it is likely that, when you give me that information, I will go back and read the report again and when we get to the supplementary estimates, I will have further questions.

Major Gen. Dunn—Yes.

Senator HUTCHINS—Mr Chairman, I wonder if I could ask the officers at the table or whomever may be here about the *Voyager* and *Melbourne* position. Mr Clark, I assume these questions should be directed at you. This is in relation to the *Voyager* and *Melbourne* collision and the claims for compensation. What is the procedure for seeking compensation from the Commonwealth government by crewman of the HMAS *Melbourne*?

Mr Clark—The procedure is through a common law action.

Senator HUTCHINS—What has been the success rate of applicants who have initiated claims in actually receiving some form of compensation?

Mr Clark—At this point, there are 88 claims currently in hand; 30 claims have been settled; one claim is currently on appeal to the Federal Court and 17 claims, I understand, are currently in negotiation.

Senator HUTCHINS—Have all the claims been defended at every stage of the proceedings—the ones you have referred to?

Mr Clark—There are two steps in all of these claims. The first step is that the applicant needs to apply for an extension of time given that these cases are well out of time under the statute of limitations in the states where the actions are brought. The second part is that, yes; those claims are defended.

Senator HUTCHINS—Has the Commonwealth used the statute of limitations defence in each of these cases?

Mr Clark—Yes, we have.

Senator HUTCHINS—Have these cases involved the use of physical and psychological medical experts?

Mr Clark—Yes. Most of the cases are based on a post-traumatic stress disorder claim. They always involve medical specialist evidence.

Senator HUTCHINS—What are the criteria used to determine compensation?

Mr Clark—Each case is determined on its merits.

Senator HUTCHINS—On its merits. How do you determine merits?

Mr Clark—In terms of the medical evidence and in terms of the degree of damage that the plaintiff, in fact, can show they have suffered.

Senator HUTCHINS—Like loss of earnings?

Mr Clark—Yes, that is the sort of thing.

Senator HUTCHINS—Is it correct that after crewmen of the *Voyager* were granted extension of time orders, cases were referred to mediation?

Mr Clark—Mediation is not the right word. Successive governments have taken a similar approach to this. In 1993 the government agreed to an administrative scheme, which was a settlement scheme, and a number of *Voyager* claims were settled under that scheme. In 1995 a similar scheme was put in place and the remaining *Voyager* claims were dealt with under that scheme.

Senator HUTCHINS—You said there were 88 claims and you had 17 under negotiation. Is that negotiation, mediation, similar to the 1993-95—

Mr Clark—No, these are not the same, although the principles are not all that dissimilar. These are negotiations in the context of defended litigation, rather than an administrative scheme for settlement.

Senator HUTCHINS—There are different criteria established for *Voyager* as opposed to *Melbourne* claimants?

Mr Clark—Yes.

Senator HUTCHINS—What might they be? What might be the background to that difference?

Mr Clark—The difference between *Voyager* claims and *Melbourne* claims? The difference has been accepted by successive governments and that is that the position of *Melbourne* claimants is quite different from that of *Voyager* claimants in that, essentially, the *Melbourne* crew were not on board a ship that was sinking and did not lose shipmates who were by their side a few moments earlier. Those are the kinds of considerations that are at the basis of that distinction.

Senator HUTCHINS—Where in the budget papers would I find the cost of the legal bills and compensation to the Commonwealth arising from claims initiated by crewmen of the *Melbourne*?

Mr Clark—I will have to take that one on notice.

Senator HUTCHINS—What would be the average length of time for Commonwealth law cases with compensation initiated by HMAS *Melbourne* crewmen?

Mr Clark—It would be hard to take an average on that. The process of litigation can be quite different in each case. Some matters can be finalised very quickly and others can go on for some time.

Senator HUTCHINS—In the Maclean case, do you know how much the total legal fees were incurred by the Commonwealth?

Mr Clark—I am sorry, which case?

Senator HUTCHINS—The Maclean case.

Mr Clark—I will have to take that on notice. I have some figures but I will be sure to get correct figures for you.

Senator HUTCHINS—Do you know the average cost to the Commonwealth in defending each extension of time and common law compensation case initiated by crewmen of HMAS *Melbourne*?

Mr Clark—We have made guesstimates in the past, but I think it would be prudent to take it on notice and give you an accurate average.

Senator HUTCHINS—In relation to the cases, who acts on behalf of the Commonwealth in regard to the common law cases brought by the crewmen of the *Melbourne*?

Mr Clark—The Australian Government Solicitor.

Senator HUTCHINS—They are not privately contracted out anywhere?

Mr Clark—No.

Senator HUTCHINS—In relation to the Commonwealth's legal teams, who would give them their instructions?

Mr Clark—Those instructions are taken from the Defence legal office.

Senator HUTCHINS—Who is that?

Mr Clark—That is a person in the Defence legal office, the director of litigation.

Senator HUTCHINS—Who is that?

Mr Clark—Catherine Cochrane.

Senator HUTCHINS—Are there any Commonwealth instructions in relation to these claims?

Mr Clark—Not necessarily in the sense of standing instructions on how to manage *Voyager/ Melbourne* claims. *Melbourne* claims are managed in accordance with legal principle and in accordance with the law. Of course, that means that they are managed in accordance with the litigation instructions and legal services directions issued by the Attorney-General.

Senator HUTCHINS—Would the secretary to the department or the minister ever be consulted or advised on the department's instructions?

Mr Clark—The minister is kept informed of all of these cases, particularly when we come to settlement arrangements.

Senator HUTCHINS—Is there a kitty out there for settlement arrangements?

Mr Clark—There is a legal and compensation vote from which settlements of this kind are paid, yes.

Senator HUTCHINS—In relation to the *Voyager*, how many of the claims for compensation initiated by members of the *Voyager* have been resolved?

Mr Clark—Virtually all of them. There are a minor number of outstanding dependency claims, but the survivors' claims have virtually all been done.

Senator HUTCHINS—In settling the claims, did the government admit liability for the collision?

Mr Clark—Yes.

Senator HUTCHINS—What was the total cost of the two *Voyager* administration schemes in terms of legal fees, admin costs, mediation and compensation?

Mr Clark—The total cost of the two *Voyager* administrative schemes was \$87,756,047.51.

Senator HUTCHINS—You said all the claims from the crewmen have been settled now?

Mr Clark—That is my understanding, yes.

Senator HUTCHINS—I may have asked you this earlier, but how many claims for compensation from the *Melbourne* crewmen have been initiated?

Mr Clark—In total the number of claims from *Melbourne* crewmen is 118. Of those 118, 30 claims have been settled. There are currently 88 outstanding.

Senator HUTCHINS—How many people were on HMAS *Melbourne*?

Mr Clark—There were 960 men on board the *Melbourne* at the time of the collision.

Senator HUTCHINS—So not all of them are seeking compensation?

Mr Clark—Not at this stage.

Senator HUTCHINS—What would be the current cost to the Commonwealth in legal fees and compensation arising from its defence of cases for compensation initiated by crewmen of the *Melbourne*?

Mr Clark—The total figure there at this point is \$10,148,154.77.

Senator HUTCHINS—So that is how much it has cost in legal fees and compensation so far?

Mr Clark—That is correct.

Senator HOGG—Can you tell me where I do Defence Estate?

Mr Corey—It all depends who else you have. The next on the list is DSTO, which is gone. You have missed them.

Senator HOGG—Their questions are going on notice.

Mr Corey—Defence Acquisition and Support Command Australia are next on the list. Do you have some questions for them? You have finished with Personnel, I take it?

Senator HOGG—Yes.

Senator WEST—I understand that General Dunn will never darken our doors again.

Senator HOGG—Thank you, General Dunn. We will miss you. There are a number of questions which we are putting on notice—we should indicate that. Have there been any significant changes in the defence acquisition area in the last 12 months?

Dr Kearns—I am the head of Industry and Procurement Infrastructure Division, and I am representing the Undersecretary for Defence Acquisition. If you look at the section 4 summary points in relation to acquisition and logistic support, you will find directly under that heading four dot points. Those first three capture what I would identify as the largest major development that has been under way in recent months and that refers to the Acquisition Reform Program within the Defence Acquisition Organisation. Those points capture some of the key changes that we are pursuing in that program.

Senator HOGG—I notice that under the third dot point, managing the acquisition of the new patrol vessel, it is talking about a pilot project. What is actually envisaged? Has that been expounded for us before?

Dr Kearns—The approach that we are taking in relation to acquisition reform is that we are taking the opportunity, as projects are coming into the acquisition organisation, to use

those as an opportunity to trial some of the acquisition reform initiatives that we want to pursue. Obviously the *Fremantle* replacement project is an opportunity that is before us, and it is an opportunity in particular to trial private financing arrangements. It is one of the projects that is trialling the new project management method, and it is also one of the projects that is using functional specifications as our preferred way of developing our tenders and moving into contract.

Senator HOGG—When will that be completed?

Dr Kearns—The request for tender, a draft of which went to industry for comment a few months ago, is hoped to go out very soon as a formal request for tender.

Senator HOGG—I will just briefly go to the ANAO report. Are you the right person to direct questions to about the management of major equipment acquisition projects?

Dr Kearns—Yes. There are a number of areas that have an interest in this, but the Defence Acquisition Organisation was obviously a large part of the focus of ANAO in carrying out that report.

Senator HOGG—I want to canvass a few points. Firstly, looking in the overall conclusions of the summary at page 15, it say:

Overall management of acquisition projects has, however, experienced systemic problems arising from a traditional top-down management of Defence's various functional groups without effective lateral communication and other processes by which capability outcomes can be managed better.

What have you done to address that problem?

Dr Kearns—I mentioned earlier Senator that one of the acquisition reform activities that we are rolling out is the new project management method. A key element of that initiative is the establishment of project management boards which are a device by which the project can be overseen through the life of the project, before contract signature and after, to which are invited representatives of the headquarters and of the user communities, such as the environmental commands, who are then able to see and follow and be part of the process of the development and implementation of these projects. These boards would typically run at the director-general and below level, so they provide a way by which the different functional areas such as the users themselves and their functional areas become directly involved in the business of the projects. If I could just add to that, I regard that as one of the particular successes that we are finding in the roll-out of the project management method that ability to get the different stakeholders involved in the oversight of the projects.

Senator HOGG—I now turn to page 49, where they refer to the Defence Audit and Program Evaluation Committee. At 2.24 it says:

The ANAO found that the DAPEC approves an annual program of evaluation audit but does not review them until it receives the evaluation reports and an annual report on an internal audit. DAPEC has not monitored or reviewed ANAO performance audit reports or JCPAA reports, although several ANAO and JCPAA reports have raised matters of concern particularly about management of major Defence acquisition projects.

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I happen to on the JCPAA and I do know some of the concerns there. I do not speak on behalf of that committee but being a member and a member of this committee I have some concerns

as well. What are you doing in that area to address those concerns? Is that review committee working or is it—?

Dr Kearns—It is not so much an area in relation to DAPEC that is my responsibility. Claude Neumann might have been able to enlighten on this, but I wonder if Mr Corey or Dr Williams have anything else—

Senator HOGG—Can you take it on notice.

Mr Corey—What was your question, I am sorry? We may be able to answer it.

Senator HOGG—It was in respect of that paragraph I just read out. I am not going to go through it again. If you can take that question on notice in the interests of time. If need be, I will come back to it at the supplementary estimates. The other thing that I want to pursue is at page 99. It talks about DAOs KPIs, the key performance indicators. About five lines down, on page 99, it states:

However, the KPIs that are still in draft do not yet have values assigned to them and are not in use.

Has any progress been made since the ANAO report?

Dr Kearns—Yes, Senator. The KPIs that were developed and were reported on by ANAO have been developed further. We have a revised initial set of key performance indicators that relate to the classic project metrics such as schedule and cost. These have been recently promulgated within the acquisition organisation. These in turn will be drawn into the further development of our performance monitoring and reporting framework which we expect to be the use of a balanced score card. So the key performance indicators will flow into that kind of reporting tool which we still have to develop. I can certainly reassure you that we have developed further the key performance indicators and have now an initial set in place.

Senator HOGG—When will they be available for us?

Dr Kearns—I would hope I would be able to share those with you very soon. I will need to just check on that when I get back to the office.

Senator HOGG—Subject to the appropriate clearance, you will make them available some time soon.

Dr Kearns—Yes, we will, Senator.

Senator HOGG—The other thing that interested me in going through the report was at page 104, paragraph 6.52. In mid-1998, the then head of DAO, Deputy Secretary Acquisition, was overseas on an APS Senior Executive Service fellowship studying other countries' procurement systems. It says:

The report of his studies was unavailable in mid-1999 at the time of this audit report.

Is that now available?

Dr Kearns—I do not believe so, Senator.

Senator HOGG—Who paid for the then Deputy Secretary of Acquisition to go overseas and look at other procurement systems?

Dr Kearns—I do not have an answer. We will need to check that.

Mr Corey—He was on an SES fellowship, I think you said. The bulk of the funding of that, if not all, is provided by the Public Service Commission. Those fellowships are part of an annual fellowship that is awarded to people in the SES for various projects. There are a

number of them each year—at least one or two—that are sponsored by the Public Service Commission.

Senator HOGG—It comes out of a different fund to your own but one would expect that there would be some benefit seen to Defence by releasing this person, I presume on pay—

Mr Corey—On pay, yes.

Senator HOGG—to attend this exercise.

Mr Corey—In applying for the fellowship the officer spells out the task he intends to undertake, the form of study and the study outcomes that he is achieving. He writes a report and it is published. Any actions that come out of that that are seen as useful are implemented within the organisation.

Senator HOGG—But in this case, there is no report at this stage that you know of?

Dr Kearns—Not that I know of, Senator.

Senator HOGG—Can you check on that for me? If there is not a report, then why isn't there a report? If there is a report, what value has it been to Defence Acquisition in influencing their thinking one way or the other? I would be interested because it seems to me that, if people get these opportunities, it is rightful that they furnish the report and, also, that we get an idea of the benefit of the report to Defence or whoever puts up the money to pay for them to go.

Dr Kearns—I will take that on notice, Senator.

Senator HOGG—Thank you.

Senator WEST—I would like to turn to an article that appears in the 27 April edition of *Defence Report* which is headlined 'Package on suggested priority Defence acquisition practices due about now'. Have you submitted proposals to the minister regarding a number of changes to Defence Acquisitions?

Dr Kearns—Obviously we have been talking to the minister about those acquisition reform initiatives. We will be presenting to government a formal package of those reforms. I would hope that that would be happening very soon.

Senator WEST—I do not want to know what is in them, but has the minister received that proposal yet?

Dr Kearns—Certainly the elements of it are familiar to him. Indeed, I mentioned that we have been piloting a number of those reforms as opportunities have come up. So some of those, as I mentioned earlier, are publicly known.

Senator WEST—Is it going to be a cabinet decision for consideration or is the minister alone to make the decision?

Dr Kearns—The former, I believe.

Senator WEST—So you do not know when it will get to the minister. I guess it will depend on timing, will it?

Dr Kearns—There are a couple of things that have to be lined up for the submission to go forward, but I am hoping that will occur very soon.

Senator WEST—Have you received any assistance from outside Defence Acquisitions in preparing the package?

Dr Kearns—We have been involved quite actively in discussions with industry, particularly of course Defence Industry, in the preparation of the reform initiatives, so I would highlight that special area of outside assistance.

Senator WEST—But you have not employed any consultants or anything like that?

Dr Kearns—To my knowledge, we have not employed a consultant directly in that process, no. I should also add that, although we have not engaged a consultant directly, you would be aware that Dr McGibbon was given a task in relation to the Defence and Industry Advisory Council to look into this, and so he has been doing work in this area.

Senator WEST—And you have benefited from that?

Dr Kearns—He has just submitted a report on his findings.

Senator WEST—You say you are piloting elements of the package already, and I suppose that when it gets started is all dependent upon when it gets the tick of approval from cabinet? Do you have a date that you are working towards, hoping that it will be the implementation date?

Dr Kearns—In effect, where we reasonably can, we have commenced the implementation through the pilots. I would think that, over the next few months, we would hope to see a great deal of the measures that we identify being initially rolled out. The process, of course, will continue on indefinitely after that.

Senator WEST—Have there been any staff changes in Defence Acquisition since the appointment of Mr Roche?

Dr Kearns—There have been some smaller contracts signed, but some projects, of course, have been moving through the process over the period since he arrived in November.

Mr Corey—Staff changes.

Dr Kearns—I am sorry, I must have missed the gist of that. Have there been staff changes since Mr Roche arrived in November?

Senator WEST—Yes.

Dr Kearns—Inevitably in the organisation, there has been turnover of staff, yes.

Senator WEST—Anything different to the norm?

Dr Kearns—No. Of course, a major part of the staff change process has been what we have done through the Defence Reform Program, so that process has been moving through to its completion.

Senator WEST—And will there be further staff changes as part of the package of changes?

Dr Kearns—Are you referring to work force size or turnover of staff?

Senator WEST—Work force size, turnover and even the demographics of the staff—the changes in different classifications and different areas of expertise or levels?

Dr Kearns—In relation to the way we classify personnel within the organisation, there is a good prospect of our making further changes in that area, with the objective of making organisation more flexible and able to retain quality staff. I should say that I think the organisation has been very successful in its quality recruitment, but retaining quality staff is always the hard part of the story.

Senator WEST—Thank you.

Senator HOGG—I think I have asked about the patrol boats. Did you indicate there is an RFT there?

Dr Kearns—A draft of the RFT was circulated to industry for comment and for their guidance. A formal RFT we would hope to see come out soon.

Senator HOGG—Who will prepare that?

Dr Kearns—It is prepared within the Defence Acquisition Organisation.

Senator HOGG—Can you provide the committee with an outline of the work that the PFI network has been undertaking?

Dr Kearns—I think the main carriage of that work resides with the head of MR division. Mr Harper might be able to help with that one.

Mr Harper—I do not have that list with me, but I am happy to take that on notice.

Senator HOGG—How many times there has been a formal meeting of the network? Has a schedule of the issues been drawn up that the network thinks it should look at? Will the network be developing a PFI policy for Defence. Thank you for taking it on notice.

Senator HOGG—Can you provide us with an update of the AEW and C project in the air to air refuelling projects?

Dr Kearns—I might explain by way of a preface that we have been working on the assumption that the individual projects would be discussed in connection with the relevant outputs, so we have sent the heads of system acquisition back to the office. That does leave us a bit thin on the ground so, depending on the questions, I may need to take it on notice.

Senator HOGG—I am just asking whether you can provide me with an update of where those projects are at.

Dr Kearns—I think I probably would be best advised to take it on notice, although my colleague Mr Watters might be able to help us on some matters to do with it.

Mr Watters—AEW and C is still in contract negotiations, and the air to air refuelling is an unapproved project at this stage. It has not been approved yet by the government.

Senator HOGG—When is it likely to be approved? is there any indication?

Air Vice Marshal Nicholson—I think that would be awaiting the outcome of the Defence white paper.

Senator HOGG—Thank you. That is the answer. Are you aware of any complaints that have been received by Defence interested parties with regard to the C1447 project, the capability technology demonstrator bottom-mounted arrays? Are there any disaffected people out there?

Dr Kearns—I can certainly say that I am not aware of that, but we would have to check to see whether there is any other light that we can throw on that.

Senator HOGG—It is not something that I am necessarily going to pursue, but please look into the issue. If we need to get back to you at supplementary estimates, we will.

Air Vice Marshal Nicholson—Before you go on, Senator Hogg, that was a concept technology demonstrator.

Senator HOGG—The capability technology demonstrator?

Air Vice Marshal Nicholson—No, a concept technology demonstrator.

Senator HOGG—It is ‘concept’, is it?

Air Vice Marshal Nicholson—Yes.

Senator HOGG—Are there any problems?

Air Vice Marshal Nicholson—Not that I know of, no.

Senator HOGG—If you will look into that, we can pursue it at the supplementary estimates.

Dr Kearns—It is listed as a CDT, just for the record. It will be a capability and technology demonstrator program, but I do not know whether this particular item is part of that program or some other initiative.

Senator HOGG—Any other questions that I have in that area I will put on notice. I think that completes that area.

CHAIR—Thank you, Senator Hogg. Do you have any more questions on the other areas before we move to defence housing?

Senator HOGG—I have some questions on science and technology.

Mr Corey—We have let Dr Brabin-Smith vanish.

Senator HOGG—I also have some questions on information systems.

Mr Corey—We have somebody here from information systems.

Major Gen. Haddad—I have a point of amplification for Senator Hogg from a question he asked this morning of the Chief of Navy in relation to personal escape masks. Those masks are being trialled by Maritime Command. So they have gone out to the marketplace with some samples and they have sourced themselves to trial whether they can identify an alternative to the current in-service item. That is as far as that activity has gone. As yet they have not put a procurement request to Support Command for purchase of a replacement item.

Senator HOGG—Are they trialling a range of products or are they just trialling one product?

Major Gen. Haddad—I cannot answer whether they have trialled a range, but as yet it has not converted into a procurement action. When we go to a procurement action we will do a request for tender and the market will have a chance to respond.

Senator HOGG—It would seem to me that, if there are a range of products to trial, it might be worth while if they trial as much of that range that will take away some of the potential criticism that might loom on the horizon on that issue.

Major Gen. Haddad—I am sure that will happen through the purchasing action.

Dr Kearns—Could I just take the opportunity to amplify one of my earlier responses to a question about the use of consultants in connection with the acquisition reform process. As I was thinking about some of the other activities I can identify some other forms of professional help we have had, such as in the reform or review of our contracting template for major capital. We have been seeking the advice of legal service providers and other legal experts to get their input on how we can evolve that contracting template. I also think that, as we look at some of the other areas like specification reform, I am reasonably certain that we will have sought some consultant assistant there as well. I think as we get into other individual areas there will be forms of help.

Senator WEST—Do you want to take it on notice, Dr Kearns, and come back to us with a definitive answer?

Dr Kearns—Yes, I will take it on notice.

Senator HOGG—On the information systems side, could you explain the implications of the agreement that has been signed by defence at the Oracle Corporation?

Mr Hannan—Essentially, the implications are that we now have an enterprise agreement which gives us a fundamentally different way of acquiring that which is a rather important database product at good commercial rates.

Senator HOGG—What was the cost?

Mr Hannan—The maintenance fee is \$1.3 million per annum which includes existing licences we already have in place, so it has subsumed existing licensing arrangements.

Senator HOGG—How long is that contract for?

Mr Hannan—From memory, I believe four years, renegotiable. Any licences we acquire during the period are, of course, perpetual licences.

Senator HOGG—Does that limit in any way Defence's dealing with other companies?

Mr Hannan—No. We have, through Microsoft licensing, access to SQL, Oracle, IBM and DB2—a range of them. Clearly, our interest is, however, to limit the number so that we get some reduction to our overhead costs; nevertheless, we should not get ourselves into the position where we do not have the ability to tailor applications to products that are best suited.

Senator HOGG—Why was it necessary to consider such an agreement?

Mr Hannan—Traditional arrangements in many of the software houses are highly intensive to manage. They are a per seat arrangement where we continually have individual purchases at reasonably high marginal costs. There are substantial overheads in administering them. This arrangement essentially means we have a single annual arrangement with the company; it reduces overheads for both us and the company.

Senator HOGG—What sort of reduction in the overheads? Are you able to quantify that?

Mr Hannan—It certainly takes away a fairly burdensome process of counting and validating with the company exactly how many licences we have at any particular time and the rate at which they are used. There are issues about concurrency—where there are assumptions made as to how many people use a product at one time. There is a continual process. To come up with an estimate of exactly what we are saving would be impractical. It is certainly a burdensome process that we have got out of, and the company is very happy with the arrangement as well in that regard.

Senator HOGG—There are some other questions there, but again I will put those on notice.

CHAIR—Thank you Senator. Well that brings us to the end, unless you have anything further.

Senator HOGG—In Corporate Services, Defence Estate, I have one particular interest which I flagged at the briefing that we had Thursday a week ago. That was the \$480 million and the sales. I think some people were going to put together a number of lists of properties. As I understand, Russell is one of those. I asked a specific question in respect of Russell and people were going to get information back to me.

Mr Corey—The \$480 million?

Senator HOGG—What properties are going to be included in that? I understand there are some commercial concerns in this.

Mr Corey—Yes. I can indicate to you the properties that are identified for disposal. There is a commercial office block in Sydney, there is a commercial office block in Melbourne, there is some warehousing facilities in Sydney, Brisbane and Darwin, there is an office building in Wollongong, there is a facility in the outskirts of Melbourne, and there is Russell Offices. They are the principal buildings that I have identified—parts of Russell that is, not the totality of Russell Offices.

Senator HOGG—Not the totality?

Mr Corey—No. There are some specialised buildings in the Russell complex which will not be put up for sale on lease back.

Senator WEST—We will not ask what they, are I suppose.

Mr Corey—The building will be occupied by the intelligence personnel.

Senator HOGG—The secure areas. Firstly, are all of the properties that are up for sale going to be subject to lease back, or are some of those just straight-out sales?

Mr Corey—Almost, without exception, they will be sale and lease back.

Senator HOGG—What is the exception?

Mr Corey—The exception depends upon the outcome of an outsourcing of supply and distribution functions.

Senator HOGG—So we are looking at a warehouse?

Mr Corey—The warehouse that is involved in that could be subject to a different arrangement.

Senator HOGG—Can you tell us which one?—

Mr Corey—No, it really is something I would prefer not to disclose at the moment.

Senator HOGG—So these properties are going to be sold and leased back. In respect of all of these properties, do you have an analysis as to where the changeover point occurs?

Mr Corey—The government decision in 1996 has the genesis of these when the Commonwealth property principles were established. Those principles established a hurdle rate and, if the business case for these sorts of buildings do not satisfy that hurdle, rate the government position is that they should not be in government ownership.

Senator HOGG—What is that rate?

Mr Corey—The hurdle rate is around 14 per cent.

Senator HOGG—How does that rate compare with the commercial world?

Mr Corey—property is a very variable feast Senator. Commercial people make judgments based on investment and taxation advantage—a whole range of activities—which do not necessarily equate to the Commonwealth sector. I am not sure there is a direct equivalence, but the Commonwealth property principles were established pretty much on commercial rates.

Senator HOGG—I understand there is \$20 million allocated in the forward budget to supplement Defence for lease-back arrangements; is that correct?

Dr Williams—Yes, there is a figure indicated in the—

Senator HOGG—I think it is \$20 million. I think that is a correct—

Dr Williams—It is around that figure—\$20.1 million—not in the budget year, but the subsequent year.

Senator HOGG—That is right. I said in the out years. If Defence sell some of these properties and lease them back, how long will it be before they lose the advantage of having been the owner? Where does the opportunity cost run out?

Mr Corey—I do not think we have that information readily available. We will have to take that on notice.

Senator HOGG—I thought I indicated—

Mr Corey—Yes, we did, but we did not do that particular equation.

Senator HOGG—Could you do that for me and give me an idea where the opportunity cost runs out because that is important. How does that compare to what is out there in the real commercial world?

Mr Corey—The commercial one may be more difficult. As I said, because of taxation arrangements that apply to the commercial sector that we do not attract, I think you would find that the equation may be different. But we have had some work done by commercial people that we could probably adjust as necessary so that we are comparing apples with apples. That is the concern I have, that we may not be comparing like with like.

Senator HOGG—That is my concern when it comes down to selling places like Russell and others. How was Russell paid for? Was that paid for out of the defence budget or was there—

Mr Corey—It was paid for out of the defence budget, but the defence budget is part of the wider government budget.

Senator HOGG—I understand.

Mr Corey—But it was paid for out of the defence budget.

Senator HOGG—And all the refurbishments and so on?

Mr Corey—Yes, the refurbishment and the new buildings were part of defence outlays.

Senator HOGG—My concern arises when you look at elements such as part of Russell being offered for sale. I just wonder about the commercial sense in undertaking that sort of action. If you can get those figures to me, that would be helpful. What action is taking place currently on these potential sales?

Mr Corey—Probably nothing in a sense. There is probably some preparatory work being done by the Office of Asset Sales or the Department of Finance and Administration which will actually be conducting the sales.

Senator HOGG—Just because they are up for sale, it is not a foregone conclusion therefore that they will be sold.

Mr Corey—I think you probably should direct that question to the Department of Finance and Administration. You will note that the budget provisions provide for some \$480 million to revenue during the next financial year.

Senator HOGG—That is right. I accept that. I am wondering what is going to happen if that \$480 million cannot be realised.

Mr Corey—I think the budget has been framed on the assumption that it will be realised, Senator. I think, personally, that there would not be a great deal of difficulty in disposing of buildings like Russell and the other buildings in Sydney. I would think that the buildings that have been identified for sale will have a fairly ready market out there.

Senator HOGG—Would you be in the lease-back or the wholly owned part?

Mr Corey—I cannot comment on that. I do not have those sorts of dollars, Senator, so I cannot comment on that. I would have to make a judgment.

Senator HOGG—There is just one other issue, and I will finish on this. At the supplementary additional estimates, I pursued what was happening to the property in Fremantle, the Army museum. I thought it was a very miserable act and I still describe it as such. Where have you progressed with that miserable act?

Mr Corey—Mr Bain has the detail on that.

Mr Bain—The only change from the previous time is that the Minister for Finance and Administration has indicated, given his responsibilities under the Lands Acquisition Act, that the University of Notre Dame does qualify for a priority sale, in other words, a direct sale to the university at market value. We will now be approaching the university to obtain details of their proposal prior to entering into negotiations.

Senator HOGG—Will those negotiations be conducted at normal commercial values?

Mr Bain—Yes.

Senator HOGG—The Army museum stands a real prospect of being thrown out?

Mr Bain—We are looking at alternative locations for the Army museum. The two Defence occupants, the Western Australian University Regiment and the Army museum, are Defence entities and we are responsible for finding alternative locations, and we think we can do that on other Defence properties in the Perth area.

Senator HOGG—It is not your fault, Mr Bain, but I think it is one of the more miserable acts that I have seen Defence engage in, and I will leave it at that. Any other questions I will put on notice. I thank the officers.

Mr Sharp—May I read something in?

CHAIR—Yes.

Mr Sharp—Senator West asked the RG about a fraud case and I have some information on that for you. The officer is suspended without pay. She has pleaded guilty and has paid the money back. She is to appear in court next on 11 July, after which there will be an investigation. As far as the cash office function goes, we retain the strategic objective to do away with cash offices: they are a bit of an anachronism in this day and age. The officers are trying to improve the procedures in the cash office, in particular to avoid paying cash in arrears on travelling and to avoid paying cash against travelling allowances which are photocopies but not certified as true copies.

Senator WEST—Thank you.

Senator HOGG—There is one other thing. I did not get to the ANAO report, but I will next time round, I can assure you.

Mr Corey—There are two other things to read in before we go to DHA. It will take me two minutes.

CHAIR—We will be getting up at half-past six. Make it quick.

Mr Corey—Okay. You asked a question about the Navy patrols in Bass Strait. The background to it is that in—

Senator HOGG—Can you incorporate that in *Hansard*?

Mr Corey—Yes, I can do that. The other one was related to leave without pay. A question was asked yesterday about Mr Tonkins' leave without pay.

Senator HOGG—Yes. Can you incorporate that?

Mr Corey—Yes, I can incorporate that in *Hansard*.

CHAIR—We can accept those documents for tabling. Thank you, Mr Corey, and thank you, gentlemen. We now welcome the Defence Housing Authority.

[6.08 p.m.]

Defence Housing Authority

Senator MURPHY—Mr David, can you tell me about a letter you received on 3 March 2000? Have you received any subsequent advice from the Department of Defence with regard to the provision of housing or the housing requirement for Defence?

Mr David—I am trying to track down that letter.

Senator MURPHY—It is a letter dated 3 March 2000, addressed to you, from Mr W.J. Sanders. I assume it is Wing Commander, Acting Director of Housing, from the Department of Defence, Defence Personnel Executive. Attached to it is a list.

Mr David—I have it.

Senator MURPHY—Is the list that is attached to that a list of what the expected requirements are for the various regions in which Defence housing is provided?

Mr David—That is right, but your question was have we received anything further from that time. The only thing I can recall is a slight amendment for the Canberra area.

Senator MURPHY—You have not received any advice in respect to Darwin that would change the numbers on that list?

Mr David—Not to my knowledge; 1,856 sounds right.

Senator MURPHY—That 1,856 is the new Defence housing requirement for Darwin?

Mr David—That is right.

Senator MURPHY—That is, as I understand the document, for the 1999-2000 year only.

Mr David—That is right, but we would have had early advice on what the projections were for the four years beyond that.

Senator MURPHY—The letter itself talks about reference A, Defence housing requirement for year 1999-2000 to 2003-04. I am just wondering whether this attached list is the Defence housing requirement out to 2004.

Mr David—We get advice from Defence going out to 2004, but this list, as is mentioned in Wing Commander Sanders's letter, is for 1999-2000.

Senator MURPHY—Can you explain to me, then, what reference A is, because reference A in the letter says:

A. Defence Housing Requirement FY 1999/00 to 2003/04

1. A review of the current Defence Housing Requirement (DHR) has been undertaken and the new DHR totals calculated for FY 99/00. A list of the new DHR figures is enclosed.

I just want to clarify what those figures actually represent. Do they represent just one year or years out?

Mr David—My reading of it and the figures, as I relate to them, is that it is for one year, 1999-2000.

Senator MURPHY—Can we check that and, if it is not the case, that these are to the years out figures, could I be provided with those figures, please? Working backwards from that letter to the other correspondence, there is a letter, also addressed to you, of 17 December 1999 from Mr Bell, Acting Director of Housing. It is a response to your letter of 1 December 1999 concerning the government's announcement to increase Army numbers by 3,000 and Air Force by 555, and the impact of these increases on the Defence housing requirement. At point 5, in respect of Darwin, it says:

Darwin may also see a small increase, but it is expected that this increase will consist of newly recruited single members and reservists. The remaining increases will be in the nature of small increases spread across a lot of locations for training and support. It is anticipated that these increases will be able to be managed through the current vacant stock.

Is it true that at the time of the writing of this letter there were around 150 to 158 vacant houses in Darwin?

Mr David—That is right, Senator. About that time, there were around I think 117 houses that were vacant, but the Service Housing Authority, which is responsible for allocation, had made it clear that, without taking into account any increases associated with the government's announcement, based on the numbers coming in, they anticipated those houses to be filled. If my recollection is correct, our last estimate was that we would have only six vacancies at the end of June this year, though, because of Timor turbulence and people moving down south as a result of that, two weeks ago I think the number was round about 40.

Senator MURPHY—Still vacant.

Mr David—But I must stress, identified for allocation of either return of family or other movements coming in. So our estimate was, again, that out of the 1,857 houses required we would be down to about seven or 10 vacant.

Senator MURPHY—Can you just explain to me where the 1,857 comes from.

Mr David—The Defence housing requirement for 1999-2000 for Darwin is 1,856, not 1,857. It is the first column attached to Wing Commander Sanders's letter of 3 March.

Senator MURPHY—And what is the next column?

Mr David—The next column is the actual married quarters on the ground, which is 1,807.

Senator MURPHY—Which leaves you a deficit of 49, doesn't it?

Mr David—Yes. Whilst this is primarily an answer for the Service Housing Authority, our appreciation of the situation is that, with the turbulence associated with Timor, there were quite a few families who were given the opportunity of moving south—

Senator MURPHY—Are they permanent movements?

Mr David—It was difficult to tell. Some moved down and then came back. Some moved down and, if there was a prospect of the spouses being posted down south on the next rotation, they stayed down south.

Senator MURPHY—So they would not be coming back. Some spouses moved out and will go back, but they did not move house. The houses were maintained, to the best of my knowledge.

Mr David—Some did move out, to my knowledge.

Senator MURPHY—This is really creating a bit of a difficulty to try and ascertain, given the correspondence that I have been provided with, exactly what the housing requirement is.

Mr David—The housing requirement as stated to us is an official figure with Defence communication, which is 1,856.

Senator MURPHY—You are talking about houses.

Mr David—Yes.

Senator MURPHY—But what were the numbers you were advised of that you would require? You have got 1,807 there, which leaves you with a shortfall of 49.

Mr David—Yes. We are still aiming for the figure of 1,856. That is our supply order from the Department of Defence.

Senator MURPHY—Does that take account of the subsequent letter, which mentions the newly recruited single members and reservists? Reservists would not require permanent housing, would they?

Mr David—They would not. So the figure of supply is still 1,856.

Senator MURPHY—Relevant to what; for whom?

Mr David—It is for all married quarter requirements in Darwin.

Senator MURPHY—But where are the people coming from that are going to fill them?

Mr David—Based on that, they were either there or, as I understood it, there were some minor numbers coming in from a patrol boat movement and other movements. We can only rely on the figure given to us by Defence on the number of married quarters required. We do not analyse the deployment of units. That is a Defence responsibility.

Senator MURPHY—Perhaps we can go back some months to a letter dated 1 December 1998 to you—again from Mr Bell, Acting Director of Housing, in response to a letter from you dated 11 November 1998 where you seek clarification again on the housing requirements. At point 4 of that letter it goes specifically to Darwin, and it says:

Advice has been received that additional Army units will be moving to Darwin in late 1999, early 2000. Details relating to the exact requirements are currently being investigated and will be advised as soon as possible. There will be a commensurate loss at Army Liverpool.

I have not been able to find an exact number that you were advised of in the correspondence. I am curious as to whether or not you were advised of it.

Mr David—Senator, if I can just indulge the committee for a few moments I will explain how this works. We get our defence housing requirement generally in October of the previous year. That relates to the first year and projections for the next four years. From time to time, we get changes to that requirement advised by the central area of Defence—which is Mr Bell's area—but occasionally the local unit commander talks with our local manager and says, 'Look, your requirements don't seem to be in keeping with my understanding of the situation here.' Our protocol is to relay those statements from the local level back to the directorate of housing and ask them to confirm or vary the existing defence housing requirement. I would

say the defence housing requirement of 1856 would have taken into account Defence's view of what the movements might have been for any units moving into the Darwin area.

Senator MURPHY—Because in a letter dated—

Senator Newman—Excuse me, Senator. Did that say the end of 1999? It may be—I am trying to guess, just to be helpful; it may be no use at all—that some of the families from 5/7 Battalion might have stayed behind until the end of the school year, university year or whatever, and followed the men some months after the unit got there. I would think 1999 would be the time, if you are talking about Holsworthy.

Senator MURPHY—This is a letter from Mr David to Mr Bell of 11 November 1998. It says in part, and this is in the third paragraph of the letter:

The Authority is, as you know, planning to provide as many of the houses required within the posting cycle, but I must place on record the fact that some of the increases for 1998/99 foreshadowed in the most recent document may not be delivered in the posting cycle. The specific areas on which this is likely to occur are Townsville and Canberra.

It further goes on:

I also seek your clarification on the following issues:

The first is in respect of Sydney, and then it goes on:

2. Darwin—Our local manager has been informally advised of a requirement for an additional 70 houses to accommodate the advanced move of 103 MDM Battery.

See attached.

Also, early confirmation of the possible move of 1 Aviation Regiment from Oakey...

Senator Newman—I am sorry, but I was referring to the letter you must have referred to before that.

Senator MURPHY—That is right. That is the response to this letter.

Senator Newman—There will be a commensurate loss at Army Liverpool. I am guessing, because of the time frame, that that very likely was the families of some of the 5/7 Battalion people. That was the only bit I was trying to help you with. I would not know to answer anything else.

Senator MURPHY—I appreciate your endeavour to assist, Minister.

Senator Newman—I am a bit out of date.

Senator MURPHY—It is not the issue I am actually pursuing here.

Senator Newman—No help?

Senator MURPHY—It was not of great assistance, I am sorry.

Mr David, as you know, we are trying to pursue what the Defence housing requirement is for Darwin in particular. As a result of the exchange in correspondence in 1998, we then move to correspondence of 30 March 1999 which is from Mr Bell to you:

A Defence Housing Requirement FY 1998/99 to 2002/03

1. Following advice by Army that it is intended to upgrade the Medium Battery due to move to Darwin to a Regiment, the following amendment to the Defence Housing Requirement is advised:

FY 1999/00:

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from MQ Required 1747 (as amended) to 1956 increase of 209 MQs (49 of this 209 are currently being acquired for delivery in August 1999).

Could you just explain to me where the 49 were being acquired from.

Mr David—Offhand I would not be able to talk about any specific projects, but I could check that out.

Senator MURPHY—There is a familiar ring to it.

Mr David—I do not think it is the one you are thinking about.

Senator FERGUSON—Do you think we have been over this before?

Mr David—If I go back to the correspondence that I sent to the committee secretary yesterday, it was not until 10 February 1999 and a letter dated 27 June 1999 from Squadron Leader Higginson, who is the manager of the Defence Relocation Centre, which is a Defence unit, where the Parap Grove project was given the proceedings. In Higginson's letter she talks about the development being completed by December 2000. So I do not think we were factoring in the 49 at that last time.

Senator MURPHY—I would be interested, if you could provide the information—

Senator Newman—Perhaps if we take it on notice for you. The personnel people are probably the people you need and they are not here now.

Senator MURPHY—I appreciate that Minister, and I am not going to press Mr David on the question. I am happy for him to take it on notice. Perhaps Mr David could provide me with some information with regard to the 49, whether they were a single block and, if not, what quantities they were intended to be purchasing and from where. If I can come forward again, Mr David, to a letter also dated 30 March 1999 that relates to the requirements that, in part, says that there will be a decrease in the housing requirement of approximately 2,000 to 2,500 in the next two years. It says:

As a consequence of this drawdown, a review of the current Defence Housing Requirement (DHR) has been undertaken with each of the Defence Relocation Centre managers and new DHR totals calculated for FY 98/99.

The list is attached. In that list it goes to the question of Darwin. There is an on-ground number of 1,728. Is that correct?

Mr David—No, that is the DHR—1,728.

Senator MURPHY—Yes. Is that the on-ground stock?

Mr David—No, that was the 1998-99 defence housing requirements. That was a figure we were asked to supply for 1998-99. The new defence housing requirement was 1,747 which was a positive change of 19.

Senator MURPHY—Yes. And in the next column?

Mr David—There were 150 vacant at the time.

Senator MURPHY—Can you explain the last column to me?

Mr David—The rental stock is the number of houses that we were actually billing Defence for, as at that date.

Senator MURPHY—As at March 1999?

Mr David—Yes.

Senator MURPHY—The billing aspect raises another question which I might come back to. There is a letter from you dated 11 May 1999 to Mr Bell. It is headed ‘Defence Housing Requirement (DHR)’ and says:

You will recall I have raised with you on several occasions my concern that the Authority achieves a DHR by June ...

and I assume that is June 1999—

and in fact does not oversupply against the adjustment requirement.

Based on my analysis the following centres will be above DHR at the 30th June 1999.

Is Darwin 43?

Mr David—Yes.

Senator MURPHY—Can you explain to me how that goes with the list we were just looking at a minute ago?

Mr David—The list we were looking at a minute ago was as at 30 March. We continually look at what our supply situation will be, based on projects coming on line, houses being handed back and vacancies. My thinking at the time of writing that letter was to tell him that, based on the level of occupation of houses that we were viewing and our supply situation, we reckoned that there would be 43 over. I would need to confirm this on notice but, if I recall, the next year there was an increase in supply and what we would do would be to say that, okay, we would adjust the supply requirements in the following year to take into account any oversupply that occurred at 30 June. This dialogue continues with directorate of housing and I think is necessary to continually watch the supply situation.

Senator MURPHY—Well then there is a letter dated 3 September 1999, from Mr Bell to you, which goes again to the defence housing requirement and it reads:

with the impending move of large numbers of Army personnel to Darwin, the Directorate of Housing needs an indication of the availability of rental properties in the Darwin area.

and so on. I just do not think I had a response from you to that letter. I just wondered if there is a response and if I could get that response.

Then there is a letter dated 7 September 1999 which again is headed ‘Defence Housing Requirement FY 1999/00 - 2003-04, and it says:

1. The Defence Housing requirement FY 1999/00 to 2003/04 is forwarded for your information.
2. Detail of the full impact of the drawdown of the ADF to 50,000 as a result of the Defence Reform Programme remains unfinalised and will be further reflected in future issues of the document. Final details ...

and so on, and there is a list attached to that which is for Darwin, I think, if I am reading it correctly—

CHAIR—Just before you ask the question Senator, we were proposing to finish at 6.30 and I am happy for you to have a few more minutes but—

Senator MURPHY—I appreciate that.

CHAIR—I would like to draw to a close in two or three minutes.

Senator MURPHY—Thank you for that, I am trying to do it as quickly as I can. I may well have to put some of the questions on notice.

CHAIR—Are you happy about that? Well we will run to 25 to seven and then you put the rest on notice.

Senator MURPHY—Yes, because there is a significantly large range of questions that need to be answered.

CHAIR—I appreciate that.

Senator MURPHY—Mr David can you tell me, with regard to the requirement—this is where we come to the 1,856. Is that correct? There is a breakdown of the type of housing needed in Group A, B, B2 C, D and E and then on the right hand side of the list there is reference to potential, as I see it, increases in personnel out to 2004. Is that right?

Mr David—That is right. That is Defence's assessment of units.

Senator MURPHY—And at the bottom part of the table, if I understand this document correctly, they are saying that by 2004 you will need 1,922 houses Is that correct?

Mr David—That is right.

Senator MURPHY—I am just trying to short-circuit some of these things, Mr Chairman. If I can go to the document that you were referring to earlier, Mr David, in respect of all of these things—and there are some questions I am sorry, because of time, I will have to put them on notice.

CHAIR—Do you have them there?

Senator MURPHY—No, I have not and I will have to draw them up. I just want to go quickly to reference to the minutes of a meeting on 10 February 1999. I am sorry, it is a minute which is a Department of Defence corporate support minute, which is the DRC Darwin five-year acquisition and disposal plan, the date of which is 27 June 1999. Is that correct?

Mr David—I have that.

Senator MURPHY—In particular, I want to go to what I assume is the second page—the first paragraph, part of which is missing, I think only because of bad photocopying. What I am interested in is that paragraph which looks at on-base properties and the reference made there. It says:

We have no problems filling the current 750 on-base properties and, in fact, could easily fill another 200 to 300 if available.

The reason I ask you that question is because it then refers to the rent paid and the costs associated with that which is a matter, as you know, that I have pursued in another committee. I have to say that that information does not quite seem to gel with information that I would say has been provided to another committee. I wonder if you could provide me with a further breakdown of that, as the position currently stands, for on-base housing.

Mr David—Just so that I can clarify that, are you looking for clarification on the figures or the demand for on-base housing, or both?

Senator MURPHY—So I do not confuse either you or me, what I will do is put the questions on notice in writing and we will go from there.

CHAIR—Thank you, Senator Murphy, Mr David and Minister. The estimates committee will stand adjourned until 7.40 p.m. For those Defence officials who are leaving, and those who remain, thank you very much. We look forward to seeing you in November.

Proceedings suspended from 6.38 p.m. to 7.42 p.m.

DEPARTMENT OF VETERANS' AFFAIRS

ACTING CHAIR (Senator Ferguson)—I call the committee to order. We move to the consideration of particulars of proposed expenditure for the Department of Veterans' Affairs. I welcome the minister and officers of the Department of Veterans' Affairs and the Australian War Memorial.

The committee will first consider the portfolio overview and then consider outcomes and outputs in numerical order. The committee has agreed that the deadline for 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.

I 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 answer. Minister, do you wish to make any statement?

Senator Newman—No, thank you.

ACTING CHAIR—I call for questions under the portfolio overview.

Senator SCHACHT—In the overview of the budget for the PBS, the total appropriation on page 17 is \$8.4 billion. Can you show me where we can compare that with what you had last year?

Mr Farrelly—You would need to go through each outcome and compare that.

Senator SCHACHT—I know it is not the job of any department to make it easy for senators at estimates. I thought it would not have been unreasonable to have a column that showed what the total appropriation was, what the estimate was for last year, the projection, and the final outcome, which I know still is to be accurately estimated. I understand we still have a month to go.

The only figure which I found in the PBS was towards the end which showed the cash flow, total cash used, on page 78. The estimated actual for last year was \$7.3 billion. I know that is the cash flow but it does show appropriation and others, which is \$7.3 billion or \$7,370,596,000. Is that what you anticipate the total expenditure of the department will be or is there another figure to be added in—the table on page 78 is not the full picture of the estimated actual outcome?

Mr Farrelly—This is the administered cash flow, of course.

Senator SCHACHT—Is there somewhere in this document that you can bring to my attention one line which shows what the estimated actuals are for the total department—administered programs, et cetera; the whole box and dice—to compare with the figure of total appropriation of \$8.4 billion on page 17? Is that total appropriation missing anything? Is there somewhere else in another appropriation bill or a secret hollow log somewhere where you have got money stashed away that you can sneak into the whatever?

Dr Johnston—If you know of it, Senator, we would like to know about it as well.

Mr Farrelly—I think the difficulty is that we compare the PBS from last year to the additional estimates statement and there is a direct comparison that can be made there. But, in moving from additional estimates to the current PBS, we are making a comparison between our additional estimates position and—

Senator SCHACHT—Additional estimates are in the same financial year, so add them on, in my simple non-qualified accountancy view. But I think that is a reasonable thing to do.

Dr Johnston—I am sure we can address this in our next publication, but if there is some particular aspect you are wanting we can probably—

Senator SCHACHT—I know we are all coming to terms with accrual accounting and you have carried this out in accordance with department of finance guidelines which have been discussed with Senate committees, et cetera, but I think it is not unreasonable for a simple column to be added, on page 17, to show the total expenditure in all aspects of the department—just a simple line to find out whether you have actually gone up or gone down. Has the government given you more money, the same money or less money? You said to me that I have got to go through and add up the outputs, different columns. I think a lot of things can slip up doing that.

Dr Johnston—We take your point, Senator.

Senator SCHACHT—Dr Johnston, can you tell me whether you have got more money this coming financial year than you had for the year just about to end?

Dr Johnston—My expectation is that in terms of appropriations the answer is yes. As you pointed out, the tables on page 78 in respect of administered cash flows certainly indicate a sizeable increase for 2000-01 against 1999-2000, but we can draw up the data for you and provide that to you.

Senator SCHACHT—This is the administered cash flow. What else should be added on? Is this the figure for cost of—

Dr Johnston—Departmental running costs.

Senator SCHACHT—Departmental running costs which are \$200 million or \$300 million?

Dr Johnston—\$200 million—of that order.

Senator SCHACHT—So that brings it up to about \$7.6 billion?

Dr Johnston—Yes, it is of that order.

Senator SCHACHT—Is there anything else we have missed?

Dr Johnston—I do not believe so.

Senator SCHACHT—I can make a judgment that the department's budget has gone from \$7.6 billion in total to \$8.4 billion, which is an \$800 million increase?

Dr Johnston—You will not have it available to you, but if you were to turn to the portfolio budget statements for last year, as I understand it the figures for last year are comparable to this year and they show a figure for total appropriations of \$7,497,853 compared to total appropriations this year of \$8,446,257 and will confirm for you that there are no conceptual differences between the two. But we will have to take that on notice.

Senator SCHACHT—You have every right to say to me, 'You are a dill, Senator Schacht. You should be able to work that out by reading through the various output pages.'

ACTING CHAIR—There is no time for confession.

Senator SCHACHT—I know. I knew you would come in as a fellow South Australian, Senator Ferguson. I think it is better when I am dealing with these documents on accrual accounting to plead lack of knowledge, lack of skill and lack of understanding—to start from that base rather than to try to claim that you know what you are talking about when, in fact,

you do not know where you are in the quicksand. That means approximately that the department's appropriation has gone up \$1 billion. Is that correct?

Dr Johnston—That is correct.

Senator SCHACHT—On these figures that is a substantial increase. Congratulations.

Senator Newman—I was going to suggest it might have something to do with being demand driven.

Senator SCHACHT—That is what I want to come to.

Senator Newman—Veterans are ageing and needing more care, and widows are needing help—all the things you know.

Senator SCHACHT—Of course—absolutely. I just want to get the base right.

Senator Newman—I am hazarding a guess.

Senator SCHACHT—That was going to be my hazardous guess too, Minister. I think we both have the same foot on the rock; the other foot is still in the quicksand, but I think you are right.

Dr Johnston—You might recall that, in the additional estimates for this current financial year, we did revise up the expected expenditures under program 1. As I recall, one of the main contributing factors there was evidence that veterans were living longer than is the standard for the community as a whole.

Senator SCHACHT—I suppose the department finds that a troubling aspect, that veterans are living longer and costing them more money.

Dr Johnston—Up until now we have been using the community wide mortality figures, and there was sufficient evidence to persuade ourselves and the department of finance on that and we did vary that in the last additional estimates.

Senator SCHACHT—You did that in the last additional estimates?

Dr Johnston—That is my recollection.

Senator SCHACHT—The additional estimates after the financial year just ending?

Dr Johnston—Just ending, yes.

Senator SCHACHT—So on top of that you have been able to convince them in the budget process that you need another billion dollars?

Dr Johnston—No, that would be part of the reason for the explanation. If you went to a comparison of the estimated appropriation for this current financial year, which is still not completed, you would need to add the additional estimates to provide the relevant dates for this financial year—

Senator SCHACHT—I see. So the additional estimates are not in that figure of \$7.4 billion?

Dr Johnston—No. We would have to do those figures for you.

Senator SCHACHT—Could someone give me roughly what they were? Even allowing for longer life of veterans, a billion dollar increase still seems rather a startlingly big increase.

Dr Johnston—Mr Campbell is drawing to my attention that some \$700 million of the variation is in outcome 1 and some \$200 million is in outcome 2. That is a basic split of the variation.

Senator SCHACHT—For the next year?

Dr Johnston—For the next year. That is from the initial appropriation estimates for this current financial year and the published appropriation estimates for next financial year.

Senator SCHACHT—Can someone advise you how much of that was contributed by the additional estimate so that we can add that on to the \$7.49 billion? I can then start thinking I am comparing oranges with oranges.

Mr Campbell—The increase at AEs in outcome 1 was \$73 million, and in outcome 2 it was \$49 million.

Senator SCHACHT—That is only another \$120 million.

Mr Campbell—Yes.

Senator SCHACHT—So, if you add that on, the increase for this estimated year to what you have in the budget for next year is an increase of \$900 million. Is that correct in rough figures?

Mr Reece—There is also another \$300 million plus for indexation of pensions and increases for the GST.

Senator SCHACHT—Thank you. There was \$300 million in the additional estimates?

Mr Reece—No. This is for this coming year.

Senator SCHACHT—How do you break that \$300 million down?

Mr Reece—There is \$162 million for the aged pension savings bonus; the change to the taper rate from 40c to 50c in the dollar is \$55 million; and the other change is to outlays, \$121 million, which is just a general increase in the level of pensions by four per cent.

Senator SCHACHT—And the four per cent, of course, is the GST compensation?

Mr Reece—Yes.

Senator SCHACHT—Is that explained in this document somewhere? Again, you have to keep forgiving me, if I have missed it.

Mr Reece—I am not too sure. I would have to ask my resources colleagues where it is shown.

Mr Farrelly—Again, you would need to work through the document.

Mr Reece—If you look at page 33, which are the administrative expenses for outcome 1, you will see service pensions go up from 2.5 to 2.9. That would include normal indexation plus the GST figures and so on down through those particular appropriations.

Senator SCHACHT—Is that commented upon in any of the explanations in the PBS?

Mr Reece—Not that I am aware of.

Mr Farrelly—No.

Senator SCHACHT—Again, Dr Johnston, I think that would not have been an unreasonable comment to put in somewhere. It would have been to the advantage of the government to explain that the GST compensation, so-called, of four per cent is in there. I think part of the problem is this accrual accounting system. The layout is still deficient in a number of ways, which is not your fault. We all are still trying to come to terms with it.

Dr Johnston—I think we have to take some responsibility for that. We have, in the past, had a practice of explaining major movements and we do not seem to have done that so well in this publication. We will take your point on those and respond.

Senator SCHACHT—So if we take the \$300 million, which is the four per cent GST compensation, and the normal \$162 million—I think you said, Mr Reece—for the normal indexation—

Mr Reece—No, the \$162 million was for the aged persons savings bonus.

Senator SCHACHT—What was the normal indexation, other than the GST compensation?

Mr Reece—Changes in CPI, \$93 million.

Senator SCHACHT—In CPI, it is \$93 million?

Mr Reece—Yes.

Senator SCHACHT—And \$300 million, approximately, for GST compensation?

Mr Reece—That is right.

Senator SCHACHT—So that makes it roughly \$400 million out of the \$900 million?

Mr Reece—It is actually \$330 million, when I added it up, roughly.,

Senator SCHACHT—So \$420 million?

Mr Reece—Yes.

Senator SCHACHT—So, approximately half the increase of \$900 million is indexation, but the big ticket item is GST compensation?

Mr Reece—It gets more complicated. There is also a debit of \$66 million because our population is shrinking.

Senator SCHACHT—Try that again on me?

Mr Reece—While pensions are going up, we have fewer clients.

Senator SCHACHT—So you knocked off \$66 million in savings. Do you want to take that off the \$420 million?

Mr Reece—If you really want a breakdown, I can give you the details of the ons and offs for outcome 1.

ACTING CHAIR—Can you table that piece of paper?

Senator SCHACHT—I think that would be very useful if we could have it photocopied.

ACTING CHAIR—It would save Senator Schacht doing mental arithmetic.

Senator SCHACHT—Which is even trying me, I must say, let alone the chairman. Can you table that, Mr Reece?

Mr Reece—Yes, I would be happy to table that.

Senator SCHACHT—If we remove the indexation figure and the GST figure, we are left with roughly a \$400 million increase in the appropriation compared with last year. Do we agree on that?

Dr Johnston—I think Mr Reece is more on top of these numbers than I am at this point.

Mr Reece—Only for outcome 1.

Dr Johnston—I think it is outcome 1 you are asking about, is it not?

Senator SCHACHT—I want the total picture. Outcome 1 has the total picture in it, so I am asking: when you put all of what you are doing in the grand empire and you take out the GST compensation and the CPI indexation to pensions that naturally flows, my rough calculation is that your budget increased by \$400 million to do other things. Is that correct—in total—in the empire?

Dr Johnston—That seems to me to be a reasonable statement, but I, like you, would rather have the numbers laid out before me to confirm that.

Senator SCHACHT—Fine. I know that Mr Farrelly might say in response to what I am about to ask him, ‘Read the PBS, you dope, and you will find this out.’ In simple terms: where is the \$400 million increase being spent? We got indexation out of the way and GST compensation out of the way. Now draw my attention to that able.

Mr Farrelly—There are some changes in demographics and demand. For example, in disability pensions there is an \$18 million increase; in pensions for war widows, there is a \$42 million increase for changes in average rates of pension and pensioner numbers; in service pensions, aside from indexation, there is the aged persons savings bonus, which is an increase of \$162 million.

Senator SCHACHT—That is the big ticket item. What is that in the service pension? How did you describe that again? Is that listed in a particular box in one of the outcomes?

Mr Farrelly—The aged persons savings bonus, which is a previous budget measure.

Senator SCHACHT—And that is \$162 million?

Mr Farrelly—That is right.

Senator SCHACHT—Was that predicted from last year in your outlays?

Mr Farrelly—It would have been an NPP—a new policy proposal—I believe.

Senator SCHACHT—In the outlays for this year, did you last year predict that, because of this new aged pension service bonus, you would get a demand for \$162 million?

Mr Farrelly—Yes, we should have.

Senator SCHACHT—Good. That gets us up to \$218 million or \$220 million.

Dr Johnston—But the aged persons savings bonus is part of the GST package, and I think there is double counting in the arithmetic that we are just discussing.

Senator SCHACHT—So the \$162 million is out of the \$330 million?

Dr Johnston—I believe so, Senator.

Senator SCHACHT—Is that right?

Mr Reece—Yes.

Dr Johnston—Yes, that is correct, Senator.

Senator SCHACHT—Suddenly, we are back to finding where the \$400 million was spent. We are back to \$60 million again, Mr Farrelly.

Mr Farrelly—I am just flicking through a series of comparatively minor changes. In service pensions, the CPI figure was some—

Senator SCHACHT—That is already counted elsewhere; that is part of the \$93 million. It is not part of the extra \$400 million we are trying to discover was additional to the department.

Mr Reece—Senator, if I take you back to page 33, which is outcome 1, you will see total expenses at the bottom there. What I did was give you a small selection of increases—obviously not the total; you have got a full list there. The bottom line there is \$4.7 billion increasing to \$5.3 billion. That is the total list for outcome 1.

If you go then equally to page 45, you will find similar figures at the bottom of that page for outcome 2, where it has gone from \$2.6 billion to \$10.8 billion. So you are starting to bridge the gap. You can do that for every single outcome, as I understand it, for administered expenses and get last year's over next year's, this year over next year, and then what you are missing will be your—

Senator SCHACHT—So you are saying to me that on page—

ACTING CHAIR—Senator Schacht, just let Mr Reece finish his answer.

Senator SCHACHT—I thought he had finished.

Mr Reece—Then what you are left with are the other expenses. These are only the administered expenses, and what you are then left with is departmental running costs.

Senator SCHACHT—The figure on page 33, the totally administered expenses, which is program money for pensions, et cetera, has gone from \$4.7 billion to \$5.3 billion?

Mr Reece—Yes.

Senator SCHACHT—But does that include the GST compensation?

Mr Reece—Yes.

Senator SCHACHT—What I am trying to get out of this is removing the GST compensation and the indexation figure, so that we can deal with—I always used to call new program money in the old days—new outcome money so that we know approximately where the \$400 million has gone.

Mr Reece—On that pink sheet I gave you, Senator, the new program money is shown under the 2001 budget measures, which adds up to \$13 million for outcome 1. That is for the budget just handed down.

Senator SCHACHT—But that only comes to—

Mr Reece—You have got a carry through from last year's budget, but it has not been spent. So last year's budget contained the GST, for example; that was not to be spent until after 1 July. So, really, your GST was in last year's—

Senator SCHACHT—So the \$162 million for the aged persons savings bonus—

Mr Reece—Was budgeted for last year—

Senator SCHACHT—But not spent because it does not start until 1 July.

Mr Reece—That is right.

Senator SCHACHT—But you are not going to spend \$162 million in a month, are you?

Mr Reece—Probably, yes.

Senator SCHACHT—You will?

Mr Reece—Because they are bonuses, one-off payments.

Senator SCHACHT—One-off payments.

Senator WEST—When do the letters start going out?

Mr Reece—They have started.

Senator WEST—They started on Monday or something, did they? What is the criterion for an elderly vet getting a bonus, or would you prefer me to ask it later on?

Mr Hay—Basically, a veteran can receive a bonus if they are over the age of 60 and they have a savings and investment income. If it is less than between \$20,000 and \$30,000 they receive a tapered payment; under \$20,000 they receive \$1,000 depending upon whether they have received \$1,000 from savings investment income, and if it less than that it is a dollar for dollar basis.

Senator Newman—Senator, this is in all the information that—that is the reason for it.

Senator WEST—Yes, Minister.

Senator Newman—You have not been the recipient of it, but it has been going out for some time now in different forms to try and make sure veterans as well as aged pensioners—

Senator WEST—Yes, and you will recall I asked questions about this at estimates last week. I am interested to know how many beneficiaries you have under the age of 60, who by virtue of this 60-year hurdle will not be eligible for this bonus?

Mr Reece—The number of veterans under 60?

Senator WEST—Yes, who are in receipt of—

Mr Reece—They would not be getting an income support pension if they were under 60, except for invalidity.

ACTING CHAIR—What about disability?

Senator WEST—Disability and invalidity?

Mr Reece—Invalidity, yes. There are about 13,000 of those.

Senator WEST—There are about 13,000 of those, and they will not be eligible for this particular —

Senator Newman—They may be in the work force, Senator.

Mr Reece—There are about 13,000 invalidity service pensions under the age of 60.

Senator WEST—How many are at the top level?

Senator Newman—It does not preclude them from the work force and therefore being taxpayers and getting tax cuts.

Senator WEST—Minister, would you just—

Senator Newman—Yes, but you wouldn't listen.

Senator SCHACHT—You are only the minister. Be quiet!

Senator WEST—How many of that 13,000 would be at the top rate, or at a rate where it would indicate that they had no other source of income?

Mr Reece—I do not have the figures for the proportion of the invalidity service pensions under the age of 60 who would be on part rates, but the fact is, if they were under 60, they would not be eligible for the savings bonus.

Senator WEST—That is the point I am trying to make. I want to know the number of disability pensioners who are 100 per cent or over TPIs—or whatever they are called these days—which would indicate that they are not in the work force, who will not be able to access this bonus at all by virtue of age. There is a group of people who are dependent upon the government to pay them a compensation or a wage—money or benefit—to enable them to live because, in the case of the veterans, they have acquired a condition that was serious enough for them to be out of the work force and we are compensating them. If they were 59 years and 364 days on 1 July this year, they would not be able to access this \$1,000, but if they were 60 on 1 July, they would.

Mr Reece—They have to be over 60.

Senator SCHACHT—Yes, we agree with that.

Senator WEST—We agree with that, but there is a group who could be 59 years and 364 days.

Mr Reece—That is right. As I understand it—it is subject to correction—if you are on the wrong side of the line, bad luck.

Senator SCHACHT—Bad luck!

Senator Newman—There are plenty of entitlements throughout the whole system of both departments that have always been like that.

Mr Reece—Wherever you draw a line, Senator, you get caught.

Mr Hay—It is an aged person's bonus and the age was drawn at that level. As Senator Newman has pointed out, there are compensation arrangements for people who are in the tax system and, from DVA's perspective, there are the criteria for the granting of a bonus through DVA because people can also get a bonus through Centrelink or through the tax office. You may claim through DVA if you are not submitting a tax return in either this year or the previous year.

Senator WEST—That is right, but there is still the age 60 cut-off, or 55 for self-funded retirees, and I would not think any of yours would come into that category.

Mr Hay—We do not handle self-funded retiree payments.

Senator WEST—So you could have a couple of thousand of your veterans between the age of 55 and 60 on a full disability TPI pension who would not be able to access the \$1,000 pensioner bonus scheme, but you could have a person who is a self-funded retiree between the age of 55 and 60 who could possibly access \$3,000 as a bonus scheme.

Senator Newman—Because they are getting no other compensation by way of—

Senator WEST—I would suggest that a lot of these veterans are getting no other compensation by way of anything because they are totally dependent upon a disability pension from the Department of Veterans Affairs and, as I understand it, that is tax exempt.

Senator SCHACHT—If a person in their mid fifties, probably now a Vietnam veteran on a full TPI, the full special pension, cannot work—they might work a few hours as they are eligible to under the TPI; they have no other source of income other than the pension, but might have a few thousand dollars invested—are they eligible for an aged persons' savings bonus?

Mr Reece—If they are under 60, the answer is no.

Senator SCHACHT—Even though they cannot work? Basically, Minister, in working out the compensation for the GST a line was drawn somewhere and these are the unfortunate ones who are on the wrong side of the line?

Mr Hay—My knowledge is not extensive on the provisions for those who are aged 55.

Senator SCHACHT—I tell you what, I bet your knowledge is more extensive than mine.

Mr Hay—But I believe there is another element of the compensation package which deals with those who are 55 and self-funded. I think you would need to take advice from Treasury.

Senator WEST—Yes.

Mr Hay—Our veterans who fell into that category would deal through Centrelink or the Taxation Office for any benefits that are accrued under that provision.

Senator SCHACHT—Under that provision, but it is not a guaranteed provision?

Mr Hay—Yes, if they are entitled.

Senator SCHACHT—If they are self-funded—

Senator Newman—And they are over 55, they are not getting assistance through the four per cent increase that people on a pension get; they get it earlier. It has to do with their savings.

Senator SCHACHT—But a TPI person at 53 on the special pension, not working—

Senator Newman—They are getting the four per cent increase.

Senator SCHACHT—They are getting the four per cent increase?

Senator Newman—Yes.

Senator SCHACHT—Four per cent is how much per annum, Mr Hay?

Mr Hay—On a TPI pension?

Senator SCHACHT—TPI special one.

Mr Hay—It currently is \$656.70 a fortnight. It will move to \$683 a fortnight in July.

Senator SCHACHT—So \$15 a week, roughly.

Mr Hay—A \$26.30 a fortnight increase.

Senator SCHACHT—Yes, \$13 a week.

Senator Newman—Yes, a week. And rent assistance as well.

Senator SCHACHT—So you can assure us, Minister, that, on the balance of all of these, the package of compensation the TPI recipients get through the four per cent, et cetera, is not less than they would have got if they had access to the aged persons' savings bonus, as a one-off?

Senator Newman—You are missing the point about the aged persons' savings bonus. It is not a finite sum that every person will get if they are eligible. It depends on the amount of their savings. You are trying to compare apples and oranges in terms of dollars again.

Senator SCHACHT—I am rational enough to see the point you are making has some validity, but I am not sure I can totally agree—in the grand sum of the two things, I am not sure which one is better off in the package that is being offered. But, be that as it may, you have now explained that to us. Mr Reece, you said that the \$162 million, for example, for the aged persons' savings bonus, is in the budget for this present year.

Mr Reece—It was zero expenditure this year, the first year expenditure in year 2 of last year's budget. So you do a four-year forward estimates. The cash will not be spent until after 1 July.

Senator SCHACHT—Was the \$162 million appropriated? If it was appropriated it would be in the \$4.7 billion, would it not, even if you had not expended it?

Dr Johnston—No. The sheet which you have builds up the explanation for the difference in outlays in the first year to outlays in the second year. There are a number of items that were budgeted in last year's budget, so they would already be in the appropriations for the forward estimates years. To those you add the new budget measures for the current budget.

Senator SCHACHT—But if they were in the budget measures for last year, they are presumably in the \$4.7 billion—

Dr Johnston—No, they are in the forward estimate years.

Senator SCHACHT—They are in the forward estimate and not in the budget.

Dr Johnston—Not in the first year, as Mr Reece was saying.

Senator SCHACHT—In this column, on page 33, where you estimated actual 1999-2000, the \$162 million is not included in the bottom line of \$4.7 billion because it is an outlay figure—it was not actually appropriated?

Dr Johnston—It was appropriated, but for a forward estimate year.

Senator SCHACHT—If it was appropriated it must be in the \$4.7 billion.

Mr Reece—We can have zero for that year, Senator. When you do your appropriations in forward estimates over four years you have a zero for 1999-2000 and your first expenditure is in 2000-2001.

Mr Mackrell—What we have here are differences in forward years. The \$162 million that we are talking about is the difference between last year and this year, or between 1999-00 and 2000-01 and similarly with all those items that are built up there. Some of these have been moneys appropriated last year and these are the changes. So there are some ons and there are some offs. Those together total the \$2.9 billion budget estimate. It takes us from the \$2.5 billion at the top of the page to the \$2.9 billion. The explanation is the ons and offs in that list.

Senator SCHACHT—The pluses and the minuses.

Mr Mackrell—That is right. So that is what we are looking at. For example, the aged person savings bonus is \$162½ million.

Senator SCHACHT—Plus.

Mr Mackrell—Yes, and there is an off because we are going to get better at debt recovery of some \$61,000. That is the way it is built up. It is built up from all the differences between last year's budget, or the estimated outlays for 1999-2000, and the budget estimate for 2000-2001. It is a reconciliation that takes you from last year's figure to this year's figure.

Senator SCHACHT—Let us go back 25 minutes when we suggested that there was an \$800 million to \$900 million increase in the appropriation between the two years, of which about half was GST compensation and indexation and the other half was other new measures. We have had it explained by the officials, but, because of what you have put before me, is that in a global picture still correct. Or do we have to adjust that, Mr Farrelly, Mr Mackrell, Mr Reece, Dr Johnston or anyone else please?

Mr Campbell—Seeing I am the one you did not name, I might try to answer the question.

Senator SCHACHT—I am not trying to be apartheid selective. It is just that all the others had spoken so I gave them a chance.

Mr Campbell—If we just take the first three items of outcome 1, which are: disability pensions and allowances; pensions—

Senator SCHACHT—This is on what page?

Mr Campbell—These are the pink sheets that you have a copy of. The three major components of outcome 1 are disability pensions, pensions and allowances for war widows and service pensions. If you take into account for those three items, which are the three very large items of outcome 1, the effect of the CPI indexation that Mr Reece talked about, the effect of demographic changes and the effect of the GST for those three items—disability pension, war widows pension and service pension—the estimated increase in expenditure for this coming year over last year is just under \$610 million.

Senator SCHACHT—Of which how much, again, would have been GST CPI? It was not all \$610 million, was it? You added something else in.

Mr Campbell—Yes, the changes in demographics. The net effect in those three of the change in demographics is minus \$6 million. So you can say that the net effect of the indexation GST is just on \$600 million.

Senator SCHACHT—The net effect minus the GST? Just say that last phrase again.

ACTING CHAIR—Mr Campbell will say it again.

Mr Campbell—The total effect on those three, which are the major elements of outcome 1, of demographic change, CPI indexation and the GST adjustments is just under \$610 million.

Senator SCHACHT—Just under \$610 million, an increase?

Mr Campbell—Yes. The demographic effect has some ons and offs and that is about \$6 million or \$7 million, which brings you down to \$600 million. Then the effect of indexation is about \$165 million to \$170 million.

Senator SCHACHT—The effect of indexation—

Mr Campbell—The effect of indexation outside the GST is about \$170 million. These are round figures—

Senator SCHACHT—Yes, of course.

Mr Campbell—A rough effect of the impact of the *Tax Pack* changes on outlays of \$430 million—which is about \$330 million on the sheet you have, which is that \$343 million, but it is a net effect of a number of things there—plus \$47 million for people on disability pensions and allowances and \$58 million for pensions and allowances for war widows.

Senator SCHACHT—I am sure that is a fine explanation, but I still have to admit I am partly as confused as when we began the discussion. I do not want to take up too much time of the estimates going round and round about it.

Mr Campbell—Perhaps if I summarise it just with three figures. There is \$600 million approximately for increases in CPI variations and adjustments because of the *Tax Pack* changes. Of that \$600 million, there is \$170 million from from CPI indexation and \$430 million from changes flowing from the tax package changes.

Senator SCHACHT—I get it. The \$430 million is from the GST tax package compensation.

Mr Campbell—That is right. It includes the savings bonus plus—

Senator SCHACHT—Yes, I misunderstood that first time round. That brings you up to your \$610 million. Does that mean there is still a couple of hundred million increase in other programs?

Dr Johnston—About \$100 million.

Senator SCHACHT—About \$100 million?

Dr Johnston—I thought you were still on outcome 1 on page 33. If you look at the difference in growth between 1999-2000 and 2000-01, there is growth of about \$720 million. So there is a difference of about \$100 million that still needs to be explained.

Senator SCHACHT—Of \$100,000 million—great.

Dr Johnston—In outcome 1.

Senator SCHACHT—Elsewhere it would be increased expenditure within the portfolio. Thank you very much for that.

ACTING CHAIR—Can I just get a clarification of that? Did you say \$700 million? Which of the two figures are you saying for \$700 million?

Dr Johnston—It is \$4,678,571 growing to \$5,301,000.

ACTING CHAIR—I do not make that \$700 million. That is about \$630 million.

Dr Johnston—I am sorry. I have done the calculation wrong.

ACTING CHAIR—You have added \$100 million too much.

Dr Johnston—Yes, I have added \$100 million too much. It is only about \$20 million difference. Thanks, Senator.

Senator SCHACHT—So there is only \$20 million. We are now down to \$20-odd million for increased expenditure elsewhere in the portfolio? Do we have roughly that? Some people look worried—

Dr Johnston—In outcome 1.

Mr Mackrell—I am just concerned that we have been doing all this, but really what you are asking us is what the new policy amount is for this year?

Senator SCHACHT—Yes.

Mr Mackrell—Could I refer you to pages 19, 20 and 21 of the PBS?

Senator SCHACHT—Please do.

Mr Mackrell—Unfortunately, we do not total it for you, but we will do that as we progress for the evening, if that is what you are after. That gives a summary of each budget measure, which is essentially each new policy measure disclosed in this PBS over the four-year period. There are some ons of course, because they are new expenditure measures, others off because they are new savings measures. The totals should equate to roughly about the \$20 million we are searching for. I suspect that is what you are after.

Senator SCHACHT—Yes, the ‘summary of measures disclosed in the 2000-2001 budget’ would have been better described as ‘summary of new measures disclosed’, even though some of them are changes of going negative and there are savings in some of them.

Mr Mackrell—Yes, they are all new measures. I agree with that.

Senator SCHACHT—I think that would have been a little more useful. I think, to save time, there should be a total across the bottom. Does that add up to \$20 million when you put the negatives and the pluses in?

Dr Johnston—This will cover all the outcomes, not just outcome 1.

Senator SCHACHT—Yes. You are not going to tell me, Dr Johnston, after we have flogged our way through outcome 1, that when we go over to outcome 2 there are further measures that are not in the global figure? There must be I suppose, because you have a total budget of \$ billion, haven’t you?

Dr Johnston—Yes.

Senator SCHACHT—We dealt with outcome 1 on page 33. Similarly, when we go to outcome 2, the same table is over on what page?

Mr Mackrell—The table that you are looking for is on page 19 through to 21, which discloses the whole thing.

Senator SCHACHT—Yes, but they are only the new measures.

Mr Mackrell—Yes.

Senator SCHACHT—Even when you put all of those together, they do not add up to an \$8 billion budget.

Mr Mackrell—No, indeed they don’t. The rest of it is derived in similar fashion to the pink sheet that you have in front of you. We do that for each appropriation.

Senator SCHACHT—In outcome 2 on page 45, there is \$2.5 billion roughly?

Mr Mackrell—Yes.

Senator SCHACHT—Does that bring us up to the \$8 billion when we add that to outcome 1?

Mr Mackrell—We would be getting very close, because they are the two major appropriations.

Mr Farrelly—Perhaps I could outline the major movements there. In hospitals there is about \$85 million plus. In pharmaceuticals there is about \$32 million, and in veterans nursing homes there is about \$33 million.

Senator SCHACHT—What was the last one?

Mr Farrelly—Nursing home subsidy.

Senator SCHACHT—How much?

Mr Farrelly—It was \$33 million.

Senator SCHACHT—So it is \$85 million for hospitals, pharmaceuticals \$32 million and veterans nursing homes is \$33 million.

Mr Farrelly—Which is about \$150 million.

Senator SCHACHT—So there is about a \$150 million increase in additional expenditure for services, and in outcome 1 there is about \$20 million? So we have an extra \$170 million other than the GST compensation CPI in the budget for the department?

Mr Farrelly—Yes.

Senator SCHACHT—Dr Johnston, what percentage of your total was that \$170 million? It must be about one per cent or two per cent.

Dr Johnston—I am not sure of the point of your question.

Senator SCHACHT—The increase from last year to this year is \$170 million when you take out the one-offs of GST and the commitment to indexation—\$170 million on \$8 billion. I do not have a calculator on me, but how much is that? One per cent, 0.5 per cent, two per cent?

Mr Mackrell—Two per cent, Senator.

Senator SCHACHT—Thank you very much. You little beauty, we have got the figure at last, a two per cent increase in the budget.

Dr Johnston—No, Senator, because some of the figures you have just had explained to you in respect of outcome 2 are not new policy measures, they are changes reflecting demographic changes and so on in the way they impact on health expenditures. If you want a measure of the total impact of the budget in terms of new measures, we will add for you the sum total of pages—

Senator SCHACHT—In outcome 1 on those three pages?

Dr Johnston—No, we will give you a total figure for the total budget, which is a summation of pages 19, 20 and 21. Do we have that figure? Is that the figure you want?

Senator SCHACHT—I would like that. What you have done is to say that, in outcome 2, the \$170 million on page 45, all of that increase was with a view to demographic change and demand, et cetera, not for new initiatives. Is that correct?

Dr Johnston—Most of it will reflect demographic and demand effects. If you turn to page 19, for example, veterans home care, you will see that the total impact there is a savings measure and it impacts entirely on outcome 2. The outcomes which each of these impact on are listed for each of the measures. So in some cases they impact on outcome 2; in some cases they impact on outcome 1. But in broad terms, Senator, this budget is cost neutral in terms of its impact on total veterans outlays. There are savings and there spending proposals and, more or less, the savings pay for the spending proposals.

Senator SCHACHT—So what you are saying to me after an hour and five minutes of my stumbling around—and I admit that I stumbled around all over this—

Dr Johnston—I think we all have, Senator. I apologise.

Senator SCHACHT—is that, when you weigh everything up and everything else, you have basically got a neutral budget other than for the GST expenditure, which is a given as a one-off, and the CPI, which is a given in policy. The new policy measures are funded by savings from elsewhere in the portfolio.

Dr Johnston—They are all listed—all the spends and all savings—

Senator SCHACHT—I know, but with all of those minuses and pluses—exclude the GST compensation—by and large, give or take the odd million, you are neutral, as you said.

Dr Johnston—Senator, we will have the total for you shortly and then you will be able to be precise in that statement.

Senator SCHACHT—Let me now go to—

ACTING CHAIR—Senator Schacht, I think we have got a total for you. Mr Farrelly, is that right?

Mr Farrelly—Yes, that is right. The four-year figure, which includes administered as well as departmental expenses, is \$87.3 million.

Senator SCHACHT—That is for 2000-01?

Mr Farrelly—That is the total figure over four years of all the budget measures. In 2000-01, the expense to DVA is \$45.461 million, consisting of \$21.700 million in departmental expenses and \$23.761 million in administered expenses.

Senator SCHACHT—So in 2000-01 it is up plus \$45 million?

Mr Farrelly—Yes.

Senator SCHACHT—But over the full four years with the outlays, it is only an \$87 million increase.

Mr Farrelly—Correct.

Senator SCHACHT—In further years, the second, third and fourth year—

Mr Farrelly—There are savings.

Senator SCHACHT—There are savings elsewhere.

Mr Farrelly—That is right.

ACTING CHAIR—Is that partly because you have fewer clients as time goes by?

Mr Farrelly—No. The savings reflect real savings to program expenditure as opposed to the effects of the reducing number of clients.

Mr Reece—Senator, can I take you back to your question, rather than leave it on notice? The number of invalidity service pensioners under 60 is 11,676.

Senator SCHACHT—Thank you. Dr Johnston, you mentioned that veterans home care, which is listed on page 19, has in the first year a further outlay of \$6.4 million, in the next year there is a savings of \$29 million, the following year a savings of \$15 million, and in the last year of the outlays a savings of \$18 million. Is this the program that you have taken over from Health and Aged Care?

Dr Johnston—That is correct, although, I am not sure that that is an accurate description.

Senator SCHACHT—It is in my vernacular—I understand it, and I think if you read the transcript you will understand it. I hope it has been brought to your attention by effective officers from DHAC, but have you read the transcript of the estimates hearing last week, when Senator Evans and I asked a series of questions about this program being switched from HACC to Veterans?

Dr Johnston—Yes, we have been briefed.

Senator SCHACHT—When I start asking a series of questions now, you will not be surprised. You have been forewarned that we have some queries about the way this program has been transferred. Even last week, when I spoke about it at the RSL State Conference, Mr

Campbell gazumped me by speaking second and said I was wrong, which I found was a little rude.

ACTING CHAIR—That was a new experience, Senator.

Senator SCHACHT—No, not a new experience—it happens to me all the time in politics. I want to get this clear and try to keep this simple. The Aged Care PBS on page 111, in the Health and Aged Care Portfolio, says:

The Government will increase the Home and Community Care (HACC) funding available to the general community by establishing a separate Veterans' Home Care Program. The new Veterans' Home Care Program will now provide community care services to entitled veterans instead of those services being provided through HACC.

Then it explains that HACC is 60 per cent Commonwealth and 40 per cent state. It continues:

This measure will, in fact, increase the reach of the HACC Program by potentially 20,000 people to the non veteran community, in that the current level of HACC funding will be retained to provide services to the general community.

So DHAC has transferred out, they estimate, about 20,000 vets who were in the program that they have been funding—on the formula—and you have now take them over. Do you agree with the figure of 20,000?

Dr Johnston—That is consistent with our figuring, and that reflects joint estimates which we have put to the government and had agreed. Yes, Senator.

Senator SCHACHT—And Finance agreed to the 20,000 figure?

Dr Johnston—They have agreed that that is a reasonable basis for the figuring.

Senator SCHACHT—I agree that you cannot be 100 per cent accurate with the figure.

Dr Johnston—That is correct.

Senator SCHACHT—In the examination of DHAC officers on this program—it took a bit of beating around but we finally got there—they said that the transfer of this 20,000 into the Department of Veterans' Affairs would provide additionally about \$60 million a year to the HACC program, which is good for them—that means more people will be eligible for assistance; no-one can argue with that. I have to say, Dr Johnston, I fully support the veterans department taking over this program and running it as a holistic program for aged veterans. I have no argument with that at all. But they are claiming a \$60 million improvement to provide extra services. That is on the record. Have you been provided with an extra \$60 million or thereabouts to provide the same program to the 20,000 vets that you are now responsible for from, I think, 1 January?

Dr Johnston—I will make a few points and hopefully get to what I would expect is the point you are wanting clarified. As you said, there have been comments by Mr Campbell and me at various veterans conferences over recent weeks seeking to clarify this matter.

Senator SCHACHT—You have been doing it to me as well! Has Boswell been around as well?

Dr Johnston—It is certainly a pleasure to lay out the numbers in the estimates committee as well. As you say, the documents indicate that, as best Health and Aged Care can judge, our taking over responsibility for veterans will mean about 20,000 places will be freed up within the HACC program. That is estimated to be worth around \$60 million.

The new program dollars that we have got to add to our existing expenditures on HACC type services—we already provide community nursing and home support services to some extent—the new moneys for a full typical year are of the order of \$60 million as well—about \$62 million on a slightly more accurate basis. So that \$62 million of new money that we will be getting to deliver all of HACC type requirements for veterans adds to existing HACC type moneys which we already have and already expend on veterans. You might say, ‘How does new money relate to a savings measure as indicated in the budget statements?’

Senator SCHACHT—You are not wrong.

Dr Johnston—The explanation, Senator, is that we have proposed that, by being able to take a whole of person care approach to veterans and hopefully having one department take responsibility for administering all of these programs for veterans, we will in fact be able to get good outcomes in our health and hospital expenditures and be able to achieve savings on those items of expenditure. The budget estimates are based on an expectation that will save of the order of \$80 million annually in our total health expenditures on medical and hospital services.

If you take the \$62 million of new money to actually run the program and offset that by some \$80 million of expected greater economy and health expenditures, that gives you a saving in a typical year of the order of between \$15 million and \$20 million. If you add that over four years that gives you the total estimated savings of the order of \$57 million.

Senator SCHACHT—I go back in my simple mind: when you discussed this and reached agreement with Finance, did they initially start off by giving you the \$62 million to pay for the 20,000 veterans coming out of HACC that you will run—to start off with? I am going to go through this in a different way.

Dr Johnston—That is fine. If you like, Senator, yes.

Senator SCHACHT—Once you got the \$62 million you then discuss with them about finding further savings—they were probably on your back about this too, we know what Finance is like—generally for the government’s bottom line on the budget, and you had other claims for new expenditure: the Vietnam vets’ claim, the FESR, the Mohr report, et cetera, which we will come to later. I have to say that I think your portfolio budget paper is deficient because you actually do not mention anywhere that the figure of \$62 million is what the equivalent of coming out of HACC was. It has taken us an argument with DHAC and discussion to finally identify that figure. I just think it would have been useful for the explanation.

Dr Johnston—We are explaining them in a different way in the next issue of *Vetaffairs*, Senator. I think you are right.

Senator SCHACHT—Initially I just could not see where the money was coming from because it was not in the PBS in a way that was understandable. I was sitting in the committee with Finance working out what your savings were.

Dr Johnston—Yes.

Senator SCHACHT—When you got the \$62 million in—

Dr Johnston—I think, Senator, I need to interrupt if I can. Your characterisation of the process is quite inaccurate.

Senator SCHACHT—I am trying to give you a free kick against Finance. I do not think you should turn it down.

Dr Johnston—No, Senator. The proposal that was put forward by our department was for a savings proposal along the lines that I have described.

Senator SCHACHT—Come on, Dr Johnston.

CHAIR—Order! Senator Schacht, you asked a lot of questions and you continue to ask them. I think you could do Dr Johnston the courtesy of waiting until he has finished his answer before you try to interject.

Dr Johnston—The fact is that we believe we can deliver this program very effectively and we believe we can save the taxpayer funds by doing that more effectively, and that is the proposal we have put forward for the government's consideration.

Senator SCHACHT—You are also claiming new money for other areas. I bet you Finance said, 'You can have that as long as you find savings somewhere else'—that is the whip they put on you. You are not Robinson Crusoe on that in any government department in the budget process. The EARC put that on you. That is the process, as I understand it.

Dr Johnston—I have to say that I do not mind criticising the department of finance when it is appropriate, but it is quite unreasonable to be making—

ACTING CHAIR (Senator Ferguson)—Senator Schacht, let Dr Johnston finish his answer, please.

Senator SCHACHT—I think he had finished.

ACTING CHAIR—No, he had not. He was still talking.

Senator SCHACHT—On page 19, the top program, if you add up over the four years—take the \$6.4 as a plus in the first year—there is an increased expenditure in veterans home care.

Dr Johnston—No, these are net figures, Senator. The difficulty is, as you quite rightly point out, the documentation could be clearer in explaining that there is a gross funding or a new funding for home and community care in each year, and that is offset by expected savings in expenditure on medical and hospital requirements. So all the figures in respect of this item are net figures. I do not know how I can explain that to make it clearer.

Senator SCHACHT—First of all, I want to put it on record that I think the way this is laid out in the PBS, even if your position is correct, makes it difficult for a non-departmental person with full knowledge of the negotiations to understand. That is not the way it reads. Let me just do it my own way irrespective of the layout. Is it true that in the second year, 2001-02, you will reduce the outlays on the administration expenses—that is, the provision of money to veterans in home care—by \$37 million?

Dr Johnston—No, Senator. I am trying to explain—

Senator HOGG—We have been listening now very patiently and I think the confusion you are under, Senator Schacht, is a confusion that we all suffer from in the presentation of the PBSs. I think it is our intention to put something on the record later on.

Senator SCHACHT—Tell me, in your own words, you got \$62 million per annum switch over from DHAC?

Dr Johnston—That is correct, Senator.

Senator SCHACHT—I will not take the first year because you have actually got an outlay of \$6 million extra you need, I presume, to get the program up and running. But let me go to the year where there is actually a net saving, in the administrative expenses, of \$37 million

and then a total saving of \$29 million because you have still got departmental outputs of \$7 million.

Dr Johnston—Senator, can I—

Senator SCHACHT—How much are you anticipating saving in running that program in 2001-02? It has got to cost you something.

Dr Johnston—If you can allow me to try another explanation that will be more transparent for you: one of the difficulties we have with each of those years is that, because of some of the demographic numbers, the numbers do move around a bit from year to year. The figures that I mentioned to you of \$80 million in savings in our expenses on hospital and medical expenses—

Senator SCHACHT—But that is across the whole portfolio.

Dr Johnston—No. This is just—

Senator SCHACHT—It is more than just in the veterans home care you are saving \$80 million. Name me the programs you are saving \$80 million in then. It is not just veterans home care because that means you would wipe it out and you would be charging.

Dr Johnston—That is correct, Senator. That is the point I am trying to make. These figures that are shown here are net figures for veterans home care and expenditure on medical and hospital expenses.

Senator SCHACHT—For the veterans in home care.

Dr Johnston—For veterans, as a result of this measure.

ACTING CHAIR—Having listened carefully for an hour and a quarter while Senator Schacht has tried to seek information, I think it is fair to say that, while nobody thinks that you are trying to hide any information, it is not transparent enough in the presentation of these documents. The questions that Senator Schacht has been asking have not been unfair; they have been seeking information that he could not automatically see by reading the documents. I think that the department would do well to re-read the first hour of the transcript to see the sorts of questions that were being asked so that those simple questions—how much more are we spending this year?—are highlighted so that they are easy for all senators to read and understand. We could possibly have saved an hour. As Acting Chair, I can see the difficulty there is in actually getting the simple information out of the figures. No-one is suggesting that you are trying to hide anything; it is just a fact that it is difficult to extrapolate. There is not even a running total which you have had to do while you are here. I think, for future presentations in the PBS, there does need to be a much more detailed and simple explanation.

Dr Johnston—We take note, Senator. It is unfortunate because I think this department has had a good track record with this committee on the quality of its statements. We will take serious note of your comments.

Senator SCHACHT—To put it round another way Dr Johnston—forget the savings issue—you are going to have 20,000 veterans in home care as of 1 January?

Dr Johnston—That is when we expect to take responsibility for expenditures.

Senator SCHACHT—For the following 12 months, how much do you expect to spend on veterans home care on those 20,000 veterans?

Dr Johnston—In addition to money that we already spend on home care-type funds?

Senator SCHACHT—Yes.

Dr Johnston—In a typical year, of the order of \$62 million.

Senator SCHACHT—But the \$62 million is not appropriated to you, because you have had to find, or agreed to find, savings in the total package totalling \$82 million. Is that correct?

Dr Johnston—In this area I think, as you are aware, it is a standing appropriation. In effect we have the funds that we require to transact the business we have the authority to transact.

Senator SCHACHT—What I am trying to do is to find out where the savings are actually going to be made.

Dr Johnston—As I have explained, we expect savings in the level of expenditure we make on medical and hospital services for veterans.

Senator SCHACHT—In veterans' home care, you expect to make savings of close to \$80 million?

Dr Johnston—In the order of \$80 million in a full year.

Senator SCHACHT—Is that on hospital and medical services to those 20,000 veterans in home care?

Dr Johnston—If I could explain it as follows: we expect that a more effective program of home care for veterans will keep veterans in their homes for longer, that they will be healthier and we will have less demand for medical and hospital expenses, and that the estimates have been adjusted accordingly.

Senator SCHACHT—I know you have added a few other things on. You have those other programs, which are excellent programs, to provide assistance for people at home, et cetera, which Veterans already do. But they are in the millions, not the tens of millions. The \$82 million is going to basically come from, over four years—

Dr Johnston—Of the order of \$62 million each year will be new money we will spend on home-care type services.

Senator SCHACHT—But you have reached agreement with the Finance department that, as a result of improved efficiency in delivering the Veterans Home Care Program, you will save \$80 million over four years?

Dr Johnston—The \$80 million is per annum.

Senator SCHACHT—That means you have not only not spent \$62 million in my simple mind, but you are going to spend minus \$20 million.

Dr Johnston—That is what the estimates show on page 19. The estimates show average savings each year in a typical year of between \$15 and \$20 million in net terms.

Senator SCHACHT—In net terms?

Dr Johnston—In net terms.

Senator SCHACHT—When I add up those savings in net terms of \$29 million, \$15 million, \$18 million, I get \$57 million over four years. You are now telling me the saving is \$80 million a year.

Dr Johnston—As I said, there is some variability from year to year because of the particular population numbers underpinning the estimates.

Senator SCHACHT—Even allowing for that, I get minus \$29 million, minus \$15 million, minus \$18 million, which is \$57 million over four years, and you have just told me you will

save \$80 million a year on this program. That means not only are you not spending anything on it but you are going to charge them to get the last \$20 million off them, because it only cost \$62 million when it was in DHAC. We are obviously talking at cross-purposes somewhere.

Dr Johnston—Yes, somewhere we are not connecting.

Senator SCHACHT—I have to agree, Dr Johnston. We are not connecting.

Dr Johnston—Should I ask one of my colleagues to try? I cannot think of any other way to do it?

Mr Mackrell—Can I give a bean counter's explanation? When Dr Johnston is talking about the \$80 million, he is talking gross savings in programs other than the home care program. He is talking \$80 million in round figures per annum in gross savings in programs other than home care. We are spending \$60 million in home care, leaving the difference of \$20 million net. So, it is the difference between gross and net.

Senator SCHACHT—Thank you. Stop right there because I want to ask the next question. It is in the other programs that the \$80 million is going to be saved. Can you tell me where the \$80 million a year is going to be saved in any of those programs, some on them on page 19 through to 21, or elsewhere where the savings of \$80 million are coming?

Mr Campbell—I refer you to page 38 of the book. I will make a comment and then Mr Stonehouse might add to that. This is the way we have to set out the PBSs. The last sentence of that first paragraph actually says what Mr Mackrell and Dr Johnston have been saying—that we have a reduced need for hospitalisation and other health care services.

Senator SCHACHT—I have read that 400 times in the last three weeks, but I want you to tell me exactly where the \$80 million saving is coming from. Let us get to the detail: how much do you expect to save by reducing the need for hospitalisation?

Mr Stonehouse—On page 45 of the PBS, you will see the administered expenses for next year of \$2.8 billion. The \$80 million in total will be saved from that amount of administered expenses.

Senator SCHACHT—I know that. I accept that, in the total budget, you have an \$80 million saving which you put to Finance and they have signed off on. I want to know where the \$80 million is being saved. When I go to page 38, it says that 'this preventive approach will reduce the need for hospitalisation'. DHAC told me that, for every day you keep someone out of hospital and at home, it is a saving of \$600 per bed per day. Is that a figure you would not disagree with?

Mr Stonehouse—That is a reasonable figure.

Senator SCHACHT—How many bed days have you calculated you will save in this program, now that you are running it, because you will keep people out of hospital? You must have a figure signed off somewhere with Finance, I have to say.

Dr Johnston—The calculations have not been done to that order of precision in quite the way you are framing the question.

Senator SCHACHT—What! How could you get Finance to sign off on the saving if you have not done the calculation that says in the PBS that you will reduce the need for hospitalisation? You put figures in here in savings, and it is \$80 million overall. Is it 5,000 veterans out of the 20,000 who will not go to hospital at all? Is it 1,000, with two weeks they will not go to hospital? You have to give us a figure. You must have done the calculation.

Mr Stonehouse—I should point out that, starting off, we expect 50,000 veterans to take up this program; 20,000 at—

Senator SCHACHT—Stop! You expect 50,000 veterans to take it up?

Mr Stonehouse—Yes.

Senator SCHACHT—You have transferred 20,000 positions. Why would 50,000 veterans take it up who are not in HACC?

Mr Stonehouse—The whole point of the exercise is to get those veterans access to HACC that at present do not have access, particularly to the lower level HACC services.

Senator WEST—Do you have any criteria or guidelines as to eligibility to access the service?

Mr Stonehouse—We are developing an assessment tool which will be based on need.

Senator WEST—What level of need are we talking about? I know that I would be critical of some of the HACC services at present, because they take the high level of need and you cannot get things like home maintenance done, you cannot get things like vacuuming done and help to do the grocery shopping—that type of thing. I am trying to get some idea of what your eligibility criteria is, because your department is telling me that, after 1 January, it will be able to help them. I do not want a lot more phone calls coming into my office from people who have bombed out because the eligibility criteria is too strict. I want to know what you have got.

Senator SCHACHT—Is that the 50,000?

Senator WEST—That is the 50,000.

Mr Stonehouse—We are on the same wavelength. The intention is to get veterans access to the basic HACC services—the sorts of things you are talking about, such as personal care, home maintenance and perhaps gardening assistance with lawn mowing and the like. Those are things that they do not get access to now under existing HACC programs. Mr Telford wants to talk to you a little bit more about the assessments.

Mr Telford—The issue, as you rightly point out, Senator West, is that access to lower level services is the problem that veterans have been experiencing. It is also the area in which the greatest savings can be made in terms of preventive health. By the provision of those lower level services, we anticipate that—and there are studies and research both in Australia and overseas to support this—that we can prevent visits to doctors, we can prevent unplanned readmissions and a range of other activities which are costing significant amounts of money in the order that Dr Johnston has been talking about.

We are bringing across the 20,000 from the current HACC program and adding to that those veterans assessed as being in need of particularly the lower level services which we will acquire. We believe they do not have access to the same level we would like them to under the HACC program. Through the introduction of an assessment process which will be based on functionality, on current activities undertaken by carers and a range of those issues which will be very comparable to the way that HACC currently undertake their assessment processes, we will be targeting in a much stricter and stronger way the lower level services of home care and home help. We will be able to target in a way that has not been possible with the current funding under HACC, which is mainly distributed to the higher end of need—both in terms of the younger disabled and some of those other area. This new money will be targeted through a rigorous assessment process to the lower level HACC basic needs.

Senator WEST—Following on from that, I want to know what the assessment process is going to be. Is it going to involve the ACAT teams? What are the criteria going to be? Including my aged, frail mother, I already have a number of Vets' clients lining up and saying, 'Good, it looks like we can get something,' but I am thinking: are you going to be able to meet this need or are you going to have to make your criteria more rigid, start to cull out and not be able to meet the need that is there?

Mr Telford—The process that we will be using will not necessarily involve ACAT teams. We have begun discussions with our state colleagues and state governments. We do not want to have processes which are so totally different to the current HACC arrangement that you end up with provider confusion but, by the same token, we want to make sure that we have a process which is both robust and comprehensive but costing not as much as ACATs do.

Senator WEST—If you are trying to keep people out of nursing homes, the ACATs are the ones who would certainly have some idea of what is in the community.

Mr Telford—Absolutely. There certainly is a role for ACATs. As I said, we are working through these processes. We are thinking of a process which would certainly involve ACATs at the higher level. In those situations where we need to break the nexus between high level usage of home care services and more appropriate residential care or community aged care packages or the like, ACAT has a very important role to play in that. However, at the lower level, the need for such a comprehensive and expensive assessment, as is quite often the case under some of the ACAT arrangements, we are looking at that to see if we can make a cheaper arrangement which can fast track some of these people through to these lower level cheap services rather than having them go through a very expensive and comprehensive process which is not, in the main, necessary, if you were talking about and assessing someone's need for home gardening or a couple of hours of personal care or home help a fortnight or a week. The thinking we are doing in conjunction with Health and Aged Care and others in terms of coming up with a simpler and easier to work through assessment process is well supported amongst the governments.

Senator WEST—I have got no doubts about that because trying to get access to HACC these days, unless you have got a very profound disability and problems, is almost impossible.

Mr Telford—This new program we are introducing has the capacity to re-target in the way that some of the more significant reports of late have recommended.

Senator WEST—This is going back to what the original type of client was with HACC and home care programs back 20 or 30 years ago.

Mr Telford—Indeed. And the idea of a stepped assessment process ending up at the end in an ACAT assessment in fact will create that capacity to keep at the lower level the vast number of clients who require that service rather than having them floating up without having to go through any gateway from time to time.

Senator WEST—To a higher level of need.

Dr Johnston—If I can build on that, Senator. And, as best we can judge, \$62 million per annum will be sufficient to enable us to run the program this way. We need to keep that under review.

Senator WEST—I will be sweating on November to follow up with you what the situation is.

Senator SCHACHT—The \$62 million is a figure that DHAC said cost them to run 20,000 veterans in home care.

Dr Johnston—I think they are using—

Senator SCHACHT—Sorry, that is at that level. Mr Stonehouse, you said that you believe you might have up to 50,000 veteran clients, an increase of 30,000, but at a lower level?

Mr Stonehouse—Yes.

Senator SCHACHT—Separating out the 20,000—we will come back to the hospitalisation issue in a moment—did you provide any costings to Finance or for yourself, for your own edification, of what it would cost you to provide the home care for veterans for that additional 30,000 at the lower level? It is not in the PBS.

Mr Stonehouse—That is the figuring that the secretary was referring to before, Senator, with the \$62 million now for the current clients, plus \$85 million in a full year.

Senator SCHACHT—I thought the \$85 million was a saving.

Mr Stonehouse—No. The total cost is estimated to be \$147 million in a full year.

Senator SCHACHT—Hang on. You have just given me two good figures. You have suddenly said it is now going to be 50,000 additional, which is fine—I have no argument—but that has never been mentioned before in the budget papers and I cannot remember seeing that figure in any of the minister's statements.

Mr Stonehouse—Thirty thousand people, Senator.

Senator SCHACHT—A 30,000 increase on the 20,000, bringing it to a total of 50,000. Now you have just told me that the total is \$140 million.

Mr Stonehouse—I thought the secretary referred to that figure.

Senator SCHACHT—I have not heard that figure before tonight I do not think. I am in a mass state of confusion, I must confess. I might have missed it.

Dr Johnston—Senator, I said that for a typical year there would be \$62 million in new money. The figure that Mr Stonehouse is referring to adds that to our estimate of the funds that are currently being spent on HACC-like activities. That is the basis of the \$140 million.

Senator SCHACHT—That does not make it clear to me at all. I will leave that alone because I am not sure that I will ever get it clearer. I want to go back to the costing side of the savings. Mr Stonehouse, the PBS says there are savings in reducing hospitalisation. What are the estimates, on the \$20,000 you have picked up from HACC, on what you will save on hospitalisation in a full year—on reducing hospitalisation at \$600 a day per bed per veteran?

Mr Stonehouse—As the secretary said, we did not get to that level of detail.

Senator SCHACHT—But how did you get a savings figure if you did not get to the detail? Did you have a dartboard and just throw darts and hit something?

Mr Stonehouse—No, Senator. We took the number of consultations that we might be able to reduce through a local medical officer and then worked out the flow-on effect of that—the local medical officer being the gatekeeper to the Veterans' Affairs health system—right through to specialists, pathology, X-ray and hospitalisation.

Senator SCHACHT—So you did not do it per hospital bed. Thank you! You did it in another way by using a different approach with doctors?

Mr Stonehouse—By starting with the gatekeeper, estimating what reduction might occur in local medical officer consultations, and then seeing what the ratio was between those consultations and the rest of the health services we provide.

Senator SCHACHT—What does that saving come to by using that method rather than the savings of just a straight per hospital bed that I mistakenly thought, by reading the PBS, might have been the basis? By referring to the gatekeeper and all those up stream, you must have got a figure?

Mr Stonehouse—That is the \$80 million that has been calculated.

Senator SCHACHT—That is the \$80 million a year that is the saving on the reduced need for all that sophisticated service for the 20,000 you have picked up from HACC?

Mr Stonehouse—For the 50,000.

Senator SCHACHT—Obviously it is in the budget, so Finance signed off that that was a fair dinkum saving?

Mr Stonehouse—We had an extensive negotiation with Finance, and they have signed off on the basis of an ongoing evaluation, which will be—

Senator SCHACHT—How long did it take you to get them to sign off? Six months? This is one of the dodgiest things I have ever seen on savings. I think you were very lucky to get Finance to agree to this.

Dr Johnston—Senator, as you know, the budget process involves extensive discussion and scrutiny.

Senator SCHACHT—I congratulate you, Dr Johnston, on convincing Finance to sign off on this as a saving, because it is absolutely rubbery, to quote the late Phil Lynch. This is as rubbery as anything.

Dr Johnston—We will be held to account for that, including by this committee I would assume.

Senator SCHACHT—Of course you will. The only thing I am worried about is that you might get the savings by reducing the services and putting the pressure on the veterans. That is what really worries me. The amount of \$80 million is a fair hit of savings. Mr Stonehouse, can you again repeat for me, how you are going to reduce the cost of the gatekeeper's services—the medical officer—to veterans in aged care?

Mr Stonehouse—We have no way of directing the reduction in those services. The only way that they will be reduced is by people accessing them less themselves.

Senator SCHACHT—Because you have done better things at home?

Mr Stonehouse—Exactly.

Senator SCHACHT—Fine.

Dr Johnston—All of the hospital and health expenditures are entitlement driven.

Senator SCHACHT—So, because you have given a better service at home, which I fully support—and I think there is a fair argument that that will be psychologically beneficial and encourage people less to race off to the doctor—you must have done some figuring. In quantum figures, by how many will you reduce the numbers going off to the doctor unnecessarily because they are in a better psychological state because of the holistic approach of providing home care?

Dr Johnston—Can I come at your question in a slightly different way? I think you will see why when I give my response.

Senator SCHACHT—I hope so.

Dr Johnston—As you are discussing the linkages that we would be hoping to make and the better quality of the life and the healthier lifestyles of veterans, there will be a reduced demand for medical and hospital services. There are a range of overseas studies and other reports which indicate the potential for whole-of-person care, effective front-end care and low-cost care for older persons in reducing demand for hospital services. The \$80 million figure, if I could just finish my point briefly, amounts to a saving of the order of two per cent to three per cent on our total health budget outlays of \$2.9 billion in a full year. We would suggest that that is a very small percentage saving to aim for in terms of the improved quality of home care for veterans. You can try to build up micro-estimates and build up a total saving in the way that you are asking, but I suggest to you respectfully, Senator, that the accuracy of such an estimate would be questionable. You can go to other studies which look at a macro-perspective and suggest that there is scope for worthwhile savings.

Senator SCHACHT—Dr Johnston, if you had a budget of \$8 billion and you were going to save \$80 million across the whole of the portfolio, that would be one per cent.

Dr Johnston—It is of the order of 2.75 per cent per annum.

Senator SCHACHT—We have a total budget for everything of about \$8 billion? We agree?

Dr Johnston—That is including benefits.

Senator SCHACHT—Everything—benefits, the whole lot. If you said to me, ‘We are going to save \$80 million across the total budget, which is actually one per cent,’ that would be less than the normal efficiency dividend they used to have back in the eighties and the early nineties, wouldn’t it? You probably would have got that by changing the teabags for senior people who have a cup of tea each week. That is an easy saving. I would have accepted that much better than this convoluted structure that defies description. All I have heard is, ‘We are going to have a better system and we are going to get \$80 million savings. We are going to get big savings because we are going to reduce hospitalisation because there is better care.’ I think that is right; you will reduce it. But when you cannot explain to me about the PBS saying ‘reduce hospitalisation and other health care services’, you should expect that I will ask the question: what is the reduction in hospitalisation? You put it in the PBS; I didn’t.

Dr Johnston—In composite, we are saying in the order of \$80 million on hospital and medical expenses.

Senator SCHACHT—You may as well have put the donkey’s tail up on the wall and thrown a dart at it. What are the other health care services where you will get the savings that are outlined here on page 38? I have the reduction in hospital. What are the other services that you think you will save to get that figure of \$80 million—in the broader portfolio area then?

Mr Stonehouse—I just make the point that, of the \$2.9 billion on health, \$80 million represents 2.75 per cent of that, so it is less than three per cent of the total. The savings are across the board. They start with the local medical officer. They go through things like physiotherapy. We expect some savings through community nursing, we expect some savings in hospitalisation, and we expect savings in specialist services.

Senator SCHACHT—In each of those steps, the funding for those services is not actually under the veterans home care program is it?

Mr Stonehouse—No.

Senator SCHACHT—If a veteran had to go to hospital, out of which program would you pay for his hospital bed?

Mr Stonehouse—It comes out of output 2 on page 45—the administered expenses.

Senator SCHACHT—I think you would have been a lot better off explaining that the savings would come out of that \$2 billion figure by saying that you pay for the hospital bed out of another program. The way this reads is that you are going to take it out of veterans home care. That is why you had me perplexed—I still am somewhat perplexed. But I think that now I understand—and I will be able to tell people, Mr Campbell, at the next RSL meeting—that the \$80 million saving to pay for all of this is across the health budget for veterans, which may be a sustainable figure. The way this reads is that it was going to come out of home care.

Dr Johnston—We believe it is sustainable.—

Senator SCHACHT—I just told you a better explanation, I suspect.

Dr Johnston—We have taken note of the chair's earlier comments. The next issue of *Vetaffairs* will try to provide a more readily understandable explanation of the measure.

CHAIR—Can I just interrupt you, Senator Schacht. In view of the constraints on time, I will not be proposing to take a smoko break tonight. I am sure the committee will understand. Dr Johnston, if you or your colleagues have to slip out for a short time, please feel free to do so. For those who are not at the table, tea and coffee is available in its usual place at all times. I want to give you as much time as possible, Senator Schacht, so please proceed.

Senator SCHACHT—I will now turn to this issue of eligibility for people to receive veterans home care. Will it be the gold card or white gold qualification?

Mr Stonehouse—It will be for all gold card holders and all white card holders. That is unlike access to other veterans services where white card holders are restricted to treatment for their specific entitlements only.

Senator SCHACHT—Are there many veterans at a different level who do not have a white card who would therefore miss out on this veterans home care?

Mr Stonehouse—Not veterans who are within our system. But there are veterans who have never lodged a claim.

Senator SCHACHT—Just explain to me for the record: any veteran who gets a benefit of any sort from Veterans' Affairs, do they get a white card?

Mr Stonehouse—No. The white card is available for those who do not qualify for a gold card for treatment of a specific accepted disability. Can I try and explain that a little bit more fully? Say a veteran lodges a claim for, for example, post-traumatic stress disorder and has that accepted as due to service but does not get a pension of sufficient rate to bring him into the gold card eligibility. He will get a white card and receives treatment for that condition only—for the post-traumatic stress disorder. That is the difference between a white card and a gold card. Once they qualify for a gold card, treatment for any condition—

Senator SCHACHT—How many veterans have received benefits from the department who are neither white nor gold card holders?

Mr Stonehouse—For health benefits there are none.

Senator SCHACHT—Pardon?

Mr Stonehouse—If you do not have a gold card or a white card, you do not receive health benefits through the department.

Senator SCHACHT—You do not receive a health benefit.

Dr Johnston—There are 340,000 veterans on gold or white card under treatment benefits. There are of the order of 500,000 clients on our books.

Senator SCHACHT—So there are 200,000?

Dr Johnston—There are 200,000. They might be dependant children of veterans. They might be veterans who do not have a disability but who are on a service pension and so on.

Senator SCHACHT—Would there be any case to say that some of those veterans would be in just as much need of aged care as those who have a white or a gold card?

Dr Johnston—Potentially. But in putting the proposal forward, the department wanted to have a set of criteria that would be well understood within the veteran community and practicable to administer. That is always subject to review but at this stage we thought this was the best scope for us to try and take on this responsibility.

Senator SCHACHT—I understand that. There is a limit to the money and you always have to draw a line somewhere in the sand about who is eligible. I suspect that those other 200,000 veterans may well, as far as aged care is concerned, have just as much need as those who have a gold card or a white card, in their particular circumstance. I do not think there can be any argument about that, can there?

Dr Johnston—No.

Senator SCHACHT—I will stop there on this particular issue of the veterans home care budget. But I will certainly reserve my right, if necessary, to put further questions on notice as I try to wade through some of this stuff and assess the answers given by the department today.

Dr Johnston—We would be pleased to provide you with further questions.

Senator SCHACHT—I will also take this opportunity to apologise for having to cancel the briefing that was organised last week. The vagaries of Senate estimates timetabling collapsed that on top of me, but I still wish to take that private briefing up.

CHAIR—You have no further questions on the portfolio overview or outcome 1?

Senator SCHACHT—Sorry, no, I am not saying that. I might do what I usually do which is just take a series of issues which cut across both outcomes.

CHAIR—Outcomes 1 and 2?

Senator SCHACHT—Yes. I think it often means that we get through it quicker that way than sticking to the strict formality of the various programs.

CHAIR—Very good, Senator Schacht.

Senator SCHACHT—In early May, at the estimates, I mentioned the outcome of the Vietnam veterans morbidity study and the Far Eastern Strategic Reserve. You were not able to answer because it was going to be a budget measure, or looked like being a budget measure. In the morbidity study, there are the recommendations on page 34—these are the recommendations in the report. Dr Johnston, those recommendations, page 34, chapter 4, go through for several pages in some detail—and I think the report has been an extremely useful

one. Were any of those recommendations not taken up or will be deferred for further consideration compared with what was announced in the budget measure, which I think you will find on page 38 of the findings of the Vietnam veterans health study—the validation study? You have outlined increased expenditure to the department over four years of something like about \$25 million or \$26 million. I think that is right, roughly.

Dr Johnston—Yes.

Senator SCHACHT—What I am getting at simply is, were there any recommendations that were not accepted and if so, what was the reason—if there is any reason; and, secondly, are other recommendations still open for study?

Dr Johnston—I think I will ask one of the officers to respond, Senator. But there are no recommendations that have not been broadly accepted and acted on. There are a couple of validation results that are still outstanding and some matters have been referred to the AMA as recommended in the report; but I will ask Ms Grimsley if she will cover it in detail.

Ms Grimsley—Senator, the secretary is correct. There are no major recommendations that have not been picked up.

Senator SCHACHT—And since the government announced it in the budget—and the report was, of course, available before that—in consultation with the Vietnam veterans organisations, have they raised any further issues that they believe have been missed in the report? Have there been any complaints that any particular issues have not been dealt with to their satisfaction?

Ms Grimsley—Senator, I think the best way would be to use the words they used to me recently which was that they thought it was a very good package, that it gave them a lot of the things that they needed but, of course, you can always do more no matter how much you do.

Senator SCHACHT—Yes, I understand that. How many of these recommendations being accepted by the government will now require amendment to the Veterans' Entitlements Act?

Ms Grimsley—There are a number of them. We are going to need to—do you want me to go through them or?

Senator SCHACHT—No, I think take that on notice to save time, if you would not mind.

Ms Grimsley—Yes, sure.

Senator SCHACHT—And I just want to make a suggestion to Dr Johnston, the department and the minister that the more rapidly you can get this legislation into the parliament to be referred to a legislative committee the quicker we will get it through and give the opportunity to the veterans community in particular to have one last comment through a process that I think is very useful, that is, is the legislative committees of the Senate—basically this committee.

Dr Johnston—We will take note of your comment.

Ms Grimsley—Senator, I believe it is actually going to that committee early in June. There is only a very small number of things that do actually need legislative change.

Senator SCHACHT—This has also been suggested in the second reading speech and explanatory memorandum of those amendments. You might also make mention of what you are able to do administratively to meet the recommendations that do not require legislative amendment to the Veterans' Entitlements Act. What will happen if you do not do that is that some people will believe you are missing out on some of the recommendations.

Ms Grimsley—Thank you. I will pass that on.

Senator SCHACHT—When will the actual legislation see the light of day? We are now nearly at the beginning of June. You said it will go to the committee as soon as it is tabled. Is that next week?

Ms Grimsley—I cannot remember off the top of my head, Senator, but I believe the meeting is on 6 or 7 June.

Senator SCHACHT—That is all I want. The technical issues on that legislation we will deal with in the committee at that stage. I am very pleased with the outcome. It appears to me that the outcome is very good. Concerning the issues of children of Vietnam vets who clearly have health problems and genetic defects—spina bifida, et cetera—I would be interested to see how the legislation is drafted so that benefits can be provided to those children that are the next generation. We are stepping into new ground, but I think we have to. I now turn to the review of the service entitlement anomalies in respect of South-East Asian service. Are there any recommendations in here from the Mohr report that the government has not taken up? That is a better way to put it because I know you have taken most of them up.

Mr Reece—Senator, there are two—one was with respect to civilian nurses employed by the Department of External Affairs, as it was then, in Vietnam. The second one, I recall, was a very small contingent in Thailand where the Department of Defence could not find—according to the circumstances found by Justice Mohr—that their service was either warlike or non-warlike. That is with respect to the service issues, not the medals issues.

Senator SCHACHT—What were the number of nurses involved?

Mr Maxwell—I think I would prefer to take that question on notice because we never, ever had a firm handle on them. Their names do appear on the nominal roll. I could get it for you fairly readily.

Senator SCHACHT—Since the report came out, has that group of nurses or representatives of that group of nurses made representations to the government to reconsider its decision or the Mohr report's recommendation?

Mr Maxwell—Not that I am aware of, Senator.

Senator SCHACHT—Did the Mohr report recommend that they should be given entitlement.

Mr Maxwell—The Mohr report did.

Senator SCHACHT—And the government has rejected it?

Mr Maxwell—The government upheld the longstanding policy that, for a civilian to be deemed a member of the forces, they must be attached to and under the control and command of the Australian Defence Force deployment.

Senator SCHACHT—Have the nurses made representation to the minister since the government made its decision public in the budget?

Mr Maxwell—Senator, I think I have just answered that question. Not that I am aware of.

Mr Reece—Not that I am aware of, Senator.

Senator SCHACHT—The same with the other small allotment of service people in Thailand?

Mr Reece—Not that I am aware of, Senator.

Senator SCHACHT—And how many were involved—

Mr Reece—I do not know. I would have to check the report. I will take that on notice. It would be very small.

Senator SCHACHT—To refresh my memory, did the Mohr report make any assessment of cost of those two groups that have missed out?

Mr Maxwell—No, Senator. The Mohr report makes no assessment of cost on any of its recommendations.

Senator SCHACHT—Did the government make any assessment of the cost of those two?

Mr Maxwell—Not that I am aware of. The answer is no.

Senator SCHACHT—Will there have to be legislation to the Veterans' Entitlements Act to cover the recommendations of the Mohr report?

Mr Maxwell—There will. Some of those particular deployments, as you may recall, in the schedules to the act have blocking provisions at the moment— for example, the Far East Strategic Reserve naval forces—and those blocks will need to be removed.

Senator SCHACHT—Will that be in the same legislation as the Vietnam health study or a separate bill?

Mr Maxwell—No, I doubt that, Senator. I think it will go through as a normal amendment act.

Senator SCHACHT—When will that be? What is the plan of the government to introduce the legislation?

Mr Maxwell—Those measures which implement budget measures normally flow between now and the end of the calendar year.

Senator SCHACHT—Like the Vietnam veterans study, would you introduce any plan to have it tabled at least this month so it can be referred to a committee?

Mr Maxwell—No, Senator, because in fact I am only meeting the Office of Parliamentary Counsel tomorrow—

Senator SCHACHT—The other issue that I think some people raised was that the decision is that the benefits take place from 1 January rather than from the night of the budget. Is there any particular reason why benefits are not paid from the night of the budget? A lot of other benefits and tax increases take effect on the night of the budget, but these benefits are put back to 1 January.

Mr Reece—Our simple reason is that we need time to amend the systems to get the database changed and to allow our claims assessors to then process the claims. There is a lead time logistically in gearing up to receive the claims.

Senator SCHACHT—But you can pay them retrospectively.

Mr Reece—You could, but that is not an option the government took.

Senator SCHACHT—That is very succinctly put, Mr Reece.

Mr Maxwell—I point out as well that measures such as the Gold Card extensions two years ago were 1 January start-ups.

Senator SCHACHT—At least Finance save themselves six months of expenditure. You won the case—well done—and Finance save themselves at least six months.

Mr Maxwell—I think I am saying, Senator, that prospective start-up dates are a common feature of governments in my experience.

Senator SCHACHT—I know. When you draft the legislation, the areas that do not require amendment in the explanatory memorandum of the legislation and the second reading speech should be explained as well so that when people are reading it they do not mistakenly believe that they have missed out.

At a previous estimates hearing earlier this year, Dr Johnston, we dealt with the ANAO report on the administration of veterans health care and spending in the non-metropolitan area. I think the department's response was pretty positive and you were quite concerned that, whatever the reason, there had to be some thorough investigation to show that no matter where you live in Australia you got equal treatment. Are there any measures in this budget that deal with overcoming the discrepancy that the ANAO found—irrespective of whether we do not agree to the last dollar—were significant enough to be notable?

Dr Johnston—Senator, as you might recall, when I was last speaking here on that matter, the gist of our comments was the view that the ANAO's analysis probably significantly overstated the problem, but we were certainly taking their analysis seriously and checking it further. Mr Stonehouse I think is well placed to give you a bit of a summary of what we have been doing. I would also note that the government, in the last budget, has announced a significant number of measures in the Health and Aged Care portfolio to address health needs in rural and remote areas.

Senator SCHACHT—I noticed that too. Will you automatically have a say in those programs to assist veterans in the rural areas or will it happen as a matter of course that by having more provision of doctors in regional and rural areas and that that will automatically improve services for veterans?

Dr Johnston—We would hope both, Senator. We certainly work actively at the local level to try to improve access for veterans. Mr Stonehouse can comment on some of those measures.

Mr Stonehouse—I think the most significant item in our budget was the one we are just discussing, veterans' home care, in terms of addressing potentially shortfalls in community care for veterans in rural and metropolitan areas. Ms Hohnke has actually prepared herself to answer this question, so I might ask her to do so.

Ms Hohnke—The department's investigations are continuing in this area. So far we have done a fairly comprehensive analysis of the provision of services. The ANAO just took a 12-month snapshot of service provision and we have expanded that now to look at two years and to compare services, looking at it both from provider location and veteran location. We have also undertaken a comparison of the services that are provided under Medicare and looked at the services provided to veterans under Medicare as well as under our own services and compared that to the general community. I have to say that we found in that that LMO services for veterans are at a considerably higher level than GP services for the general community, even in rural and remote areas. Currently, we are also exploring with the state governments—

Senator SCHACHT—What you are saying is that in the civil area under the Medicare area there is even a bigger discrepancy in the provision of services to people in non-metropolitan Australia and metropolitan areas than there is with veterans in metropolitan and regional?

Ms Hohnke—What I am actually saying is that, whether you are looking in metropolitan areas or in regional areas, veterans are using a higher proportion of services than Medicare. I have not actually analysed the gap between the high and low in Medicare, but overall we are providing more services. At the moment we are working through our state offices. We have asked three of them to hold focus groups in some of the regional areas where there is low service provision and to explore, in focus groups in talking to providers, access issues. This we are hoping will provide us with some strategies to further develop and supplement service provision in those areas.

So far our investigations have indicated that there are some underlying cultural issues, of course, that occur between metropolitan use of services and some of the rural use of services and also between male and female use of services which will be affecting some of the results that we get at the moment. As Mr Stonehouse mentioned, we are also looking at our ability to use the government measure country health budget package this last budget. We will be talking to Health and Aged Care about our access to that.

The other area that we have started working on at the moment is the client survey that is due later this year. We are asking for more focus on regional issues in that survey. We should get some better information on use of services by veterans through that. I can give you some examples of some of the work that we have been doing in some of the areas to supplement services at the moment. We have a number of examples. In podiatry, we have helped—

Senator SCHACHT—In view of the time, could you provide that to us on notice?

Ms Hohnke—Yes.

Senator SCHACHT—It is a very good report and you outline the issues. Can you take that on notice; otherwise, our time is going to expire on all of us. I appreciate that. I appreciate, Dr Johnston, your taking on notice to provide us with that information and the way you have responded to it. You will have further discussion with ANAO about your response and what you are doing?

Dr Johnston—We have actually been going back to the detailed data to see if we can get a consistency check on the analysis that was done by us and the ANAO. We will certainly be consulting with the ANAO on that work.

Senator SCHACHT—I appreciate that. Dr Johnston, I want to ask about staffing in the department. This may not be under program 1 or 2; it may be under corporate, but I think it is a quicker way to deal with all of this before the deadline. How many staff are being made redundant in the department by the end of this financial year?

Dr Johnston—I will ask my colleagues if they have an aggregate figure, but I might preface that with a comment if I can. As you have been aware, and the committee has been aware, we have been forecasting for many years that our business would peak and start to trend down and we have been proven wrong many times. But, on the evidence that we now have, it seems that our workload, as best we can measure it, did in fact peak last financial year. Our workload is now starting to trend down.

Having accepted that that now is in prospect, we are having to work at shaping our organisation or those parts of our organisation that would be impacted in that way. That is principally at this stage in the processing of pension and income support claims. Shortly after Christmas we advised staff that there would be an offer of voluntary redundancies this year—

Senator SCHACHT—This financial year?

Dr Johnston—in the expectation that quite a few staff would have an interest in moving to new career options before the new tax principles impact on superannuation in the next financial year. Those processes are in train. I am not sure whether we have an actual figure of the expected reduction.

Mr Farrelly—It is in the order of 140.

Senator SCHACHT—So, 140 by 30 June. Is there any plan for further redundancies in the budget year 2000-2001?

Dr Johnston—We have tried to anticipate likely staff requirements this year and next year, but if workloads continue to decline over the next few years, we will have to manage that. We are still working through how we can best do that.

Senator SCHACHT—So the redundancies are totally driven by reduced demand for services?

Dr Johnston—We have tried to align them in that way at this point in time. That is correct.

Senator SCHACHT—What will be the total cost of the separation packages for the 140?

Mr Farrelly—We are estimating in the order of \$5 million in cash.

Senator SCHACHT—Is that \$5 million in this year's outlays?

Mr Farrelly—Yes.

Senator SCHACHT—You have not had to bring money forward to pay for it?

Mr Farrelly—No.

Senator SCHACHT—Have you put any money aside for next year for redundancies, in a contingency way?

Mr Farrelly—When I say \$5 million, that is cash. Because of the timing of the voluntary redundancies, there will be some paid out this year and some next.

Dr Johnston—I think we need to expand a little on the response. We expect to have a cash borrowing requirement this financial year of the order of \$7 million to carry us through our cash budget requirements. In part, that is to help pay for the up-front cost of the voluntary redundancies that Mr Farrelly has referred to. Those figures are in the budget statements.

Senator SCHACHT—After you pay the \$5 million, there are ongoing savings to the budget. Do all those savings on the reduced salaries go straight back to Finance and the government as a saving? Or are you lucky enough to negotiate a little bit being kept for the services of the department?

Dr Johnston—They remain within the forward provision for the operations of the department, but as part of this year's budget process we have agreed to a comprehensive unit cost review and benchmarking of our costs with other organisations. We expect that will be the subject of discussion in next year's budget, and probably the following budget, and we will have to justify the resources we need.

Senator SCHACHT—But until then, you have been able to keep the savings of the reduction in staff even though it is because of reduced demand for services?

Dr Johnston—It is available to us to help live within the means that are available to us.

Senator SCHACHT—After the \$5 million is deducted, what is the ongoing saving in salaries for 140 people, on average?

Mr Farrelly—The saving we are estimating and have scheduled is \$4 million a year.

Senator SCHACHT—Are you recruiting any people this coming year? Are there any new staff coming in?

Dr Johnston—Yes, but I would not say large numbers. We recruit graduates each year, we recruit staff as we need to, with changes in our responsibilities. As you know, we are reviewing a range of responsibilities with the Department of Defence. It is not always that the staff move across from other departments when you take on responsibilities. There are also the budget measures in this year's budget which will require staffing and sometimes that will be achieved by transferring existing staff to those responsibilities. In other cases, we will recruit.

Senator SCHACHT—Can you take it on notice and tell me how many people you will recruit and for what categories?

Dr Johnston—We will give you an estimate and, given our current rate of turnover, what that would imply in terms of new staff. Is that the sort of thing you are looking for?

Senator SCHACHT—Yes. Also, some indication that you are not recruiting all dentists, doctors or computer scientists, that you will be recruiting a range of people to keep a balance in the department.

Dr Johnston—We will try and give you a feel for that.

Senator SCHACHT—Referring to the performance indicators on pages 35, 47, 54 and 60 of the PBS, what effects will the cuts on staff have on these performance indicators?

Mr Farrelly—Of course the effects of those cuts are already built into —

Senator SCHACHT—Into the performance?

Mr Farrelly—Into the costs that we face that year.

Senator SCHACHT—That is the cost. What about the delivery of the service? Are you very confident that the reduction of 140 staff will not reduce the quality of the delivery of the service?

Dr Johnston—As best we can tell, Senator, it will be in line with reduced workload. That does not mean to say that we will not have to work hard to maintain service standards. All I can say is that we have a pretty good track record over recent years of maintaining or even improving service standards while reducing staff numbers.

Senator SCHACHT—Where will the 140 jobs go from? Will they go proportionately from around the states and head office or will my state cop an extra load of redundancies because you don't like South Australia or some other reason?

Dr Johnston—They more or less correspond to the changing workload in each office. So they tend then to be in state offices rather than the national office. As you can understand, that is a point of sensitivity with state office staff in some respects. Each state office, of course, is reviewing their staff profile across their broad business requirements and it may be that they will be varying their staff profile at the same time.

Senator SCHACHT—Can you provide to me on notice—which is only a month to go—the breakdown of the 140 redundancies per state?

Dr Johnston—Yes.

Senator SCHACHT—I am not paranoid about South Australia, but I will watch with interest. I know that head office are policy driven and run the whole show and I accept that,

but the state staff are the ones who deliver and have the most contact with individual veterans, I would presume. Is that correct?

Dr Johnston—I think that is a reasonable statement. I would have to say that I am meeting you in a lot of places around the country talking to veterans.

Senator SCHACHT—If you stop telling lies, mothers will keep telling the truth. Never mind, that is an old saying. We do keep meeting and every time I go there, there is always a complaint—you have heard the complaint because you have been to meetings more than I have, Dr Johnston—about the length of time it takes to get an answer in a state office and the experience of some of the staff to handle issues in a timely manner. Are you confident that the reduction in staff at the state offices is not reducing the quality of the service and response to the veterans in the various states?

Dr Johnston—I think it is fair to say that we have a commitment to the veteran community that that will not happen. That does not mean to say it is not hard work to ensure that is the case. I think you will see in this year's annual report that where we measure processing times and so on they have continued to trend down, even though the Repatriation Commission is telling staff, 'Don't try and improve timeliness anymore. If anything, give priority to improving the quality of decision making and other priorities that we have as a department.' But generally timeliness continues to improve.

Senator SCHACHT—I am more interested in the quality; I just phrased it in terms of time.

Dr Johnston—We would share that.

Senator SCHACHT—The commission is now saying that, for efficiency's sake, the quality of the time given is more important than the length of time.

Dr Johnston—We are saying, and we are testing with the veteran community, that the time taken for decisions now is broadly satisfactory. Where resources permit, we should be giving priority to quality of decision making, not to timeliness.

Senator SCHACHT—Do you still get complaints? I have heard that, when veterans have to access information through Centrelink, there is a loss of knowledge now in Centrelink in handling some of the ins and outs of veterans issues.

Dr Johnston—That is not generally the feedback we are getting. The general feedback we are getting in respect of the Centrelink contracts where we have them is very positive. I will not say that is the case in respect of all of the Centrelink offices, but in the great majority that is the case.

Senator SCHACHT—Thank you for putting that on the record. How many contracted staff do you have engaged in each state office and the national office by program?

Dr Johnston—We will have to take that on notice.

Senator SCHACHT—Is it approximately 150 or 180? Would that be a figure that is in the ballpark? Is it under 200 or 500?

Mr Mackrell—It depends.

Senator SCHACHT—If you get it wrong, I am not going to put you before the Privileges Committee.

Mr Mackrell—It is a fairly movable feast in a way. Our IT contracts are fairly fluid—we have a large number of contractors in our IT area. We have the contractors that you and I have discussed in previous estimates, and about which we are going to have a chat later.

Senator SCHACHT—If normal trends continue.

Mr Mackrell—That is probably about it. I would hazard a guess and say about 300, but I would not stake my life on it.

Senator SCHACHT—You have mentioned the heavy preponderance of IT. How many of those, apart from IT, would have a medical qualification—doctors, nurses, psychiatrists, et cetera? Take it on notice.

Mr Mackrell—Apart from IT, the bulk of them would be in that sort of area, I would think.

Senator SCHACHT—Would you give me an idea when you come back about the length of the contracts? Are they annual and renewable? Are they five years? I have raised before this issue about using outsourced staff to deliver programs. Unfortunately, because of the cancellation of my briefing that we agreed to have at the last hearing, we were not able to have a private discussion on this. But I still am intrigued by a couple of aspects about it. As I understand it, section 180 of the act—function of the commission—gives the commission very broad powers but only in accordance with the act. Where does the commission get the power to help itself to running costs? Isn't it unusual that it seems to be possible, and yet there are strict limitations put on the benefits and welfare provided to veterans under the act?

Dr Johnston—I do not know whether we want to get into the detail of legal advisings, but the advice that the commission has is that it does have a degree of discretion in the way it uses the funds available to it.

Senator SCHACHT—The funds for benefits or for running costs?

Dr Johnston—The funds that are available to administer our programs and responsibilities.

Senator SCHACHT—But if the act clearly defines the funds for benefits, and they are delivered by contracted staff who are not full-time employees and therefore are paid out of the funds of the program—what is now called 'administered services'—isn't that using money that should go to veterans as a benefit rather than to contracted staff for salaries?

Dr Johnston—As we have discussed in the past, we have, in most cases, standing appropriations to meet the funding requirements for our responsibilities. There is no question of funds being diverted from one purpose to another. We have access to any funds that we require to reasonably meet our obligations. As we have said before, the issue of whether any personnel who might be employed in administering our responsibilities are paid out of our operational budget or our program budget—to use those two terms—is something that we have regard for in terms of good practice, including in consultation with the Department of Finance and Administration. I want to assure you that there is no question of funds being diverted from veterans to pay for any personnel.

Senator SCHACHT—Doesn't section 199 of the act specifically provide for the appropriation of money only for the payment of pensions, medical and other treatment services? Where is the authority under that section to pay running costs?

Dr Johnston—We have got to be careful here in terms of the terminology and getting caught up in terminology that can be potentially misleading.

Senator SCHACHT—I certainly agree with that, because I am not a lawyer or a parliamentary counsel, but section 199 of the act says:

Appropriation: The consolidated revenue fund is appropriated to the extent necessary for the payment of:

pensions granted under part 2, 3, 3A or 4;

medical and other treatment services provided under part 5; and

allowances and other pecuniary benefits granted under this Act.

That is pretty clear.

Dr Johnston—I can make a comment and then ask Mr Pirani if he could answer your question more directly. If I take an example of funds for treatment of veterans, of course in years past those funds have covered the costs of operation of repatriation general hospitals and the employment of thousands of personnel in delivery of those services. We are not any longer in that position, but at the margin, in the delivery of some treatment benefits, we do employ staff under those provisions to undertake that work.

Senator SCHACHT—Under which provision, to employ them?

Mr Pirani—The provision you have quite rightly referred to, section 199, deals with the issue of the standing appropriation. The key words, as you have correctly pointed out, are that money is appropriated to the extent necessary for the payment of pensions, medical and other treatment services provided under part 5, allowances and other pecuniary benefits. When you turn, however, to provisions like part 5, section 80 of the Veterans Entitlements Act, for example, starts off with defining what is medical and other treatment services, and you have these words there:

In this Part, unless the contrary intention appears, ‘treatment’ means treatment provided, or action taken, with a view to:

- (a) restoring a person to, or maintaining a person in, physical or mental health;
- (b) alleviating a person’s suffering; or
- (c) ensuring a person’s social wellbeing,

and, without limiting the generality of the foregoing, includes:

- (d) the provision of accommodation, medical procedures, nursing care, social or domestic assistance or transport;

It goes on to talk about supply or renewal, maintenance et cetera of artificial replacements, provision of diagnostic and counselling services, and then it goes on:

... for the purposes of or in connection with any such treatment or action.

For example, when you have a look at treatment, as but one example under part 5, it includes a range of matters and includes not only treatment that is actually provided by the commission but treatment that the commission arranges for the provision of to veterans. So it is just not as cut and dried as to exactly where does the provision of treatment end? Is it just the providing of, for example, a hospital bed, nursing home care et cetera, or, in regard to this phrase ‘in connection with’, how far does that connection go?

Senator SCHACHT—I appreciate your reading that section out. From your side of the argument, I think it may be grey at the best. I have had this discussion, and I will seek a further private briefing, Dr Johnston. But I have to say I am not convinced yet about this, and I may seek the advice of the Senate clerks, who have a particular interest in ensuring that on

appropriations et cetera these matters are in accordance with what the law says. I appreciate that I will have further discussion with you about it. I think that section 199, which I read out, is a pretty specific section of the act and what you just read out to me some might say is not a very long bow, but might be an above average length bow, to get round the problem of using appropriated money that provide benefits to employ contracted staff.

Mr Pirani—Also, if you have a look at other provisions, for example, section 181, which is the one that you have referred to previously in relation to the engagement of contractors, those contractors are engaged pursuant to the powers of the commission under the act, and the appropriation in section 199 deals with that as well.

Senator SCHACHT—You are saying to me that 180(1) does give some general power. I think it is arguable.

Mr Pirani—Those are the functions that you referred to previously, but I was also referring to section 181. For example, the provision you have referred to previously, section 181 subsection 3 paragraph (d), says that the commission has the power, for or in connection with the performance of its functions, to engage persons to perform services for the commission.

Senator SCHACHT—I am not arguing with that. You have the power to do it, but whether you can use appropriated money from the benefits to the veterans to do so I think is at the very least an arguable point that ought to be looked at. If this trend continues, it is very easy to say, ‘Instead of employing full-time staff out of the salaries appropriation, we will take it out of the appropriation for the benefits and employ contract staff.’ If this trend continued right across, not just in your department, I have to say that it is something that one ought to treat with some care. You may have to amend the act. If you want to do it, you may have to amend the appropriation act. I will have a further discussion with you, Dr Johnston, because we are running out of time here, and I do say that I will probably seek the advice of our very dedicated Senate clerks, who always love looking at this stuff. It gives them something to do as well, to have a look at this. I am sure they will be delighted to have that chance and maybe they can have a discussion with you, Dr Johnston. I thank you very much, Mr Pirani, for drawing further sections of the act to my attention in this discussion.

Moving on, there are still a couple of issues to go. Dr Killer, I want to ask you about aged care nursing homes. I do not know whether it has been brought to your attention about the discussion that took place last week in the estimates with Health and Aged Care over the issue of treatment of veterans—subsequently two of them died—at the Alchera Nursing Home in the Rockhampton area. Has the transcript of those estimates been brought to your attention?

Dr Killer—I have not seen the transcripts, but I actually saw the estimates program.

Senator SCHACHT—You watched it live.

Senator WEST—You are a masochist, may I say.

Senator SCHACHT—You waited patiently for us to turn up.

Dr Killer—I am familiar with that rather protracted session.

Senator SCHACHT—It was protracted because trying to get reasonable information out of the Department of Health and Aged Care was literally like trying to extract teeth from a raging elephant who refused to be cooperative. I have to say, Dr Killer, that it was your evidence previously to this committee that actually forced that department to start acknowledging some deficiencies. I thank you for that, and I think the veterans’ community thank you for it.

What I want to raise with you is the issue of the letter you wrote to the Department of Health and Aged Care under Dr Johnston's name earlier this year. There was much argument about who was ABC XYZ in identifying people or not identifying them, but we had a letter from the daughter of the veteran who died making it very clear that the family had no objection to any publicity being given as far as the issues of the treatment of that veteran were concerned. The Department of Health and Aged Care said they could not release the letter because there were some medico-ethical issues or something else, and in particular issues that we have to consult you about before the letter could be released or tabled. What are the issues, in view of the fact that the relatives are very happy to have the letter tabled? Do you have any objection to the letter being provided?

Dr Killer—Maybe I could defer to the secretary, who might want to comment in this regard.

Dr Johnston—In reality, it is probably my decision on whether the letter gets tabled or not, in terms of the department's decision making procedures. I think, as you and Dr Killer discussed at the last estimates hearing on this matter, there may be medico-legal considerations that are relevant here. Another matter might be any sensitivity for the family, and you pointed out that the family has no objection to the tabling of the letter. I understand from the estimates hearing with Health and Aged Care that Mr Podger has advised that Health and Aged Care have no great difficulty with the tabling of the advice. We have advised you in our written response to the questions from the last hearing that we believe that the medico-legal considerations do warrant care. We would be happy to provide the correspondence to you for your use. If you feel that they need to be tabled in the committee, we would live by your judgment.

Senator SCHACHT—I think it should be tabled in the committee because of the issue of privilege. These hearings do have parliamentary privilege. The issue that I took great care with was the issue of the family. The letter from the daughter I read into the transcript in the hearing last week, which the family had no objection to, did describe the medical condition of the veteran, which was horrific, in my view. Of course, there was emotive comment, which I do not blame the relative for, on the veteran being a survivor of Changi as a prisoner of war for three and a half years. I do say, Dr Killer, that I appreciate your proactive efforts compared with DHAC, but a veteran who survived Changi died in this nursing home in circumstances that are not very good, to say the least. Unless there is something particularly about the medical condition of the veteran, or there is something that would embarrass the doctor—

Dr Johnston—That is the very point—

Senator SCHACHT—I do not want to take the letter privately, because I think that is the worse possible outcome. You have given me the letter privately and, if something else leaked, I am then blamed for the leak. It either has to be tabled here in the committee, or at the very least tabled in confidence for all members of the committee. Can we table in confidence?

Dr Johnston—Your last comment is the one that is on our mind. In addition to any sensitivity of the family, and you have assured us that that is not a point of sensitivity, there were discussions between Dr Killer and two doctors. They are doctor to doctor discussions and there are ethics in relation to that. We do not want to make too much of the point, but we feel it is a matter with a little bit of sensitivity.

Senator SCHACHT—I appreciate all of that, and I certainly don't want to be a Rambo about it. Therefore, I will ask you or Dr Killer to contact the doctor who made the comments to Dr Killer that led him to advise you to write a letter to HACC, to see whether that doctor,

whom I have not named and who has not been named in the other hearing, has any objection to the letter being tabled in the estimates.

Dr Johnston—We would be comfortable in doing that, Senator.

Senator SCHACHT—The other thing that came up at the hearing, Dr Killer, which you obviously watched, was that HACC referred your letter off to the coroner. The coroner referred it to the Queensland Police for investigation. It came out in the hearing that it was a pretty desultory investigation. They talked to, I think, one or two of the doctors. They provided a copy of your letter but they did not provide any other material regarding other complaints that had been made about the conduct of the nursing home, and all that led to a very standard letter from the police going back to HACC. As you have probably now seen the letter, as it was tabled, do you think that letter was a satisfactory response to an investigation which your genuine efforts started?

Dr Killer—Not being a practitioner, I only had the information provided to me by the practitioners. I must admit that the process that appears to be followed in Queensland, where you refer to the Police Commissioner or to the coroner, does not seem to produce, shall we say, a beneficial result.

Senator SCHACHT—Hear, hear! Dr Killer, thank you very much for putting that on the record.

Dr Killer—I think this is just the nature of the process in Queensland.

Senator SCHACHT—Dr Johnston, in view of Dr Killer's comment, will you take the opportunity to write again to HACC to say that you would want a further investigation made about the circumstances of the death of at least one veteran in this nursing home?

Dr Johnston—I think that, as you were advised in the last hearing, the Department of Health and Aged Care did make inquiries themselves on these matters. They exchanged views with you extensively on those matters. I have the understanding from those exchanges that they are writing further to the Commissioner of Police, and we will see what transpires as a result of that.

Senator SCHACHT—That is true, but I have to say that getting HACC up to the starting line on this issue is very difficult indeed, and I have only come in on one episode. If Senator Evans were to come and brief you about the efforts he has made for a long time now on these issues, I think you would get further reasons why I would appreciate it, and I think the veterans community would appreciate it, if you were again just mildly proactive and wrote to the HACC department to say that, in view of what Dr Killer has just said—and I appreciate what he said and the straightforwardness of his remarks—something further should be done.

Dr Johnston—I would be pleased to talk with the sister department—we work closely with them—and discuss how they are responding to your questioning.

Senator SCHACHT—If you are going to talk to them, I would ask you then to take on notice and give me a response of what the outcome of the talks was. You can talk to them over a cup of tea, you can talk to them on the phone, you can talk to them wherever—we actually want an outcome about what happened to this veteran. I think it is incumbent upon this department, which has a proactive role in protecting veterans' interests, to be proactive once again. That means probably a bit more than a phone call. But I will leave it at that at the moment.

Senator Newman—I do not know the background to this, but wouldn't it be appropriate for you to write to the minister? Wouldn't it be appropriate, as is the normal case when dealing with a constituent's issue, that you would write formally to the minister asking that this discussion between the departments take place and that you be advised of the result? I would think that is the normal, courteous way, and appropriate for private persons' affairs.

Senator SCHACHT—I will write to Minister Scott. I will take all suggestions from all angles.

Senator Newman—I would think that that is the way you would have expected it.

Senator SCHACHT—Minister, if it had not been for Dr Killer being proactive some months ago, this issue would not have been exposed in the way it has and this tragedy would have probably just quietly washed away.

Senator Newman—I am not suggesting that should happen.

Senator SCHACHT—I know you are not; no-one has. I have to say that Dr Herron, who was the minister at the DHAC hearing, was very sympathetic. He explained the deficiencies of the Queensland law about the way this thing operated. I will write to the minister.

Senator Newman—Drawing attention to the problem of the individual, and therefore could the departments look at this together.

Senator SCHACHT—I will write to Minister Scott, but I also believe that it is not a difficulty for the head of this department, having regard to the veterans entitlement provisions and looking after the interests of veterans, to take proactive action, as he did, quite rightly, and he has been congratulated for it, in March of this year when the letter was sent.

Senator Newman—But you were just saying that you would like to find that there was an outcome for you relating to that constituent.

Senator SCHACHT—Yes.

Senator NEWMAN—Therefore, I was suggesting that that was a route in order to achieve that.

Senator SCHACHT—I appreciate the suggestion; all angles will be covered. Dr Killer, since then have any other cases of concern come to your attention where veterans in nursing homes have been apparently badly treated, and even to the unfortunate circumstances of Alchera where one died in circumstances that, at the very least, sound bad?

Dr Killer—The department has had a look at Alchera Nursing Home in relation to veteran deaths, and there have in fact been four deaths since 1997. There is no indication that there have been complaints in any of these cases. On the information provided, I do not think there are any additional cases. I think the one we discussed previously is the only one that I am aware of where there were some problems in relation to the treatment that may have resulted in a certain outcome. I certainly have not explored any other cases. Our complaints mechanism is out there. We get very few complaints from nursing homes, from residential accommodation. I think we have to take into account the nature of patients in nursing homes. Very often they are old, they are infirm and they are poor advocates for themselves.

Senator SCHACHT—I understand that. In the letter from the daughter she acknowledges that side of things as well. The veteran was 80 years of age. Because of what he went through when he was 20 or 22, I would not blame him for being a little prickly. That is just my personal opinion.

CHAIR—Senator Schacht, in view of the fact that it is 10.30 p.m. and we will be finishing at 11, are there any of the outcomes that you do not wish to inquire into? If that is the case, those people involved can go.

Senator SCHACHT—This issue of the nursing home and the veteran I have dealt with, so that concludes that.

CHAIR—Are you doing anything on the War Memorial?

Senator SCHACHT—I want to deal briefly with the war graves; it will not take too long. I am sorry, General Gower—you have waited patiently. Next time round we will get you to explain the new developments at the War Memorial, which are all positive and we all support.

CHAIR—Thank you, General Gower and your people.

Senator SCHACHT—I think that mainly now I will deal with the corporate area of budgeting for promotion and an explanation on the GST. Then I will go to war graves. I think in the circumstances even I will call it stumps. Dr Johnston what money has been provided in the budget to promote and to explain the GST and all its aspects, including tax reform and the compensation to veterans?

Mr Mackrell—We seek a bit of clarification. Are you looking for moneys that were for the purpose of promotion or for the purposes of implementation or either?

Senator SCHACHT—Promotion. The implementation I presume is—

Mr Mackrell—There were some moneys in the last budget for implementation. There has been nothing in this budget for either implementation or promotion for this department.

Dr Johnston—If I can add to that, implementation would include mail-outs to veterans, fact sheets and general information activities of the department. You will have noticed over a period of quarters that in *Vet Affairs* we have taken the opportunity to explain the various benefits and changes to veterans as best we can so they can understand what is going on.

Senator SCHACHT—By the way, before someone leaves, Mr Mackrell are you the one who deals with computers and information technology?

Mr Mackrell—Fortunately, Senator, I am not. Mr Harrison is, and he is still with us I am very pleased to say.

Senator SCHACHT—I was not at the meeting yesterday of the estimates with the Taxation Office, but one of my Senate colleagues has advised me that, according to the ATO officials at yesterday morning's estimates, Vet Affairs has its own budget for the GST promotion. Is that true?

Mr Mackrell—We have got money in last year's budget to—

Senator SCHACHT—How much?

Mr Mackrell—For 1999-2000 it was \$3.6 million. For 2000-2001 it was around \$3 million, then \$42,000 in 2001-2002 and \$42,000 in 2002-2003. That was to implement the government's tax reform package. There is no mention of promotion in that measure. Some of that money, as Dr Johnston said, we would have used to produce fact sheets and informative material in the publication *Vetaffairs*. To my knowledge, we have undertaken no promotional activity as such nor have we undertaken any advertising as such.

Senator SCHACHT—Just describe to me—in last year's budget and this year's budget, which totalled \$6.6 million—what the implementation money has been spent on, just so I get the difference clear from promotion.

Mr Mackrell—I would have to take that on notice to give you a detailed explanation, Senator.

Senator SCHACHT—Take it on notice. I appreciate that.

Mr Mackrell—At the moment we are training 1,400 of our staff to be able to deal with the GST. That training is going on as we speak. We have produced manuals, we have produced manuals, we have produced facts sheets, modification to our IT systems—

Senator SCHACHT—Software programs, yes.

Mr Mackrell—Yes.

Senator SCHACHT—Take it on notice, but you have given me an idea. Have the Prime Minister, the Treasurer, your own minister, the Defence minister or any other minister sent letters out—personal letters or printed letters—to the veterans community in any form explaining about the GST, the tax compensation, et cetera?

Mr Mackrell—Not to my knowledge. I have sent a letter out to providers of services, under my signature, explaining various facets of the GST or seeking information thereon.

Senator SCHACHT—What do you mean ‘to service providers’? Is this like nursing homes?

Mr Mackrell—Yes, people of that type.

Senator SCHACHT—How many letters have you sent out?

Mr Mackrell—I sent out 62,000.

Senator SCHACHT—That came out of the implementation budget?

Mr Mackrell—It would have, yes. Some of those would have been to grant recipients, but they were matters of fact about the GST and how it would impact on those various groups as far as DVA was concerned.

Senator SCHACHT—Did anyone else in DVA send letters out to any part of the veterans constituency explaining GST and GST tax compensation? By the way, Mr Mackrell, could you provide a copy of that letter you sent out?

Mr Mackrell—Certainly.

Mr Reece—We have been constantly answering letters from veterans, providing material on request and educating them about the impact the GST on pensions in the compensation scheme, which is being driven for their benefit, but at very modest levels.

Senator SCHACHT—You might have sent back 1,000 or 2,000 or 3,000 letters?

Mr Reece—It would be less than that.

Senator SCHACHT—That is okay. You have not sent out a standard letter to all those receiving the GST compensation?

Mr Reece—Only with respect to the bonus. We had to write to them on that to inform them on what their entitlements were, but I will ask Mr Hay to answer.

Senator SCHACHT—How many letters were there?

Mr Hay—For the aged person’s savings bonus, they have to claim that bonus. We have written to people who we believe are eligible, inviting them to claim. Essentially, it is an application form, and in that letter it outlines the nature of the bonus and the information sought from us in order to make a claim.

Senator SCHACHT—How many letters were there?

Mr Hay—About 268,000.

Senator SCHACHT—There were 268,000?

Mr Hay—Yes.

Senator SCHACHT—You didn't miss many. Will you take it on notice how much that cost?. The same for you Mr Mackrell, how much your 55,000 letters cost.

Mr Mackrell—It was 62,000.

Senator SCHACHT—I presume, Mr Hay, your cost was paid for out of the \$6 million of implementation funding?

Mr Hay—That is correct.

Senator SCHACHT—Dr Johnston, are there any other sections we have not here at the table who have written letters to the veterans community?

Dr Johnston—As you will have noticed, I did ask Mr Hay to come to the table. It was because I had in mind the item he just described. They are the only ones that come to mind, but we will take on notice and confirm whether there are any other ones.

Senator SCHACHT—Mr Hay, would you provide a copy of the letter?

Mr Hay—I can. I might point out that the letter is a government letter.

Senator SCHACHT—They are all government letters.

Mr Hay—It is different to the extent that it is delivered by Veterans' Affairs on behalf of the government. It is not a Veterans' Affairs letter per se.

Senator SCHACHT—Who signed it?

Mr Hay—I think it is unsigned. I can provide you with a copy of it.

Senator SCHACHT—Is it on letterhead from the Veterans' Affairs department?

Mr Hay—No it is not.

Senator SCHACHT—What letterhead is it on?

Mr Hay—The new tax system.

Senator SCHACHT—I see! And it was unsigned? Mr Costello did not want to sign it?

Mr Hay—I will have to confirm the signature, but I am pretty sure it is unsigned.

Senator SCHACHT—Mr Mackrell, you signed your letter I presume?

Mr Mackrell—Yes, Senator.

Senator SCHACHT—Mr Hay, who asked you to put the letter out?

Mr Hay—The government.

Senator SCHACHT—You are all the government. Who in the government asked you put it out?

Mr Hay—This is an exercise that is being conducted jointly between Veterans Affairs, Family and Community Services and the Taxation Office. I believe a government committee is charged with the oversight of the implementation of the new tax system. As part of that consideration, this was one of the elements.

Senator SCHACHT—Are you a member of that committee?

Mr Hay—I am not.

Senator SCHACHT—When did the instruction or the request to send the letter out come from the committee down through the system to you, as the responsible officer?

Mr Hay—As part of the implementation team that is dealing with the aged persons' savings bonus, the information that is required to carry out the legislative provisions requires the issue of a claim form.

Senator SCHACHT—So the letter had a claim form attached to it?

Mr Hay—The letter is a claim form.

Senator SCHACHT—The letter is a claim form?

Dr Johnston—In effect, the difficulty we have is a common entitlement that is the administrative responsibility of three agencies. There is a common advice that is being used, and we are mailing that advice to the people we have administrative responsibility for.

Senator SCHACHT—But it is on blank paper with no letterhead and no signature. It was requested from the GST implementation committee and it was sent out.

Mr Hay—It is not a blank paper.

Senator SCHACHT—No, but it has no letterhead and it has no signature.

Mr Hay—It is identified as A New Tax System, under the new tax system initiative.

Senator SCHACHT—Does it say it is from the Commonwealth of Australia?

Mr Hay—I cannot—

Senator SCHACHT—By implication.

Mr Hay—Yes. I cannot recollect the exact words.

Senator Newman—There is nothing unusual about this. You have not stumbled upon some—

Senator SCHACHT—No, I know.

Senator Newman—I actually had a press conference about two months ago announcing the various stages of the information exercise that would go out to families, to older people—

Senator SCHACHT—Why didn't you sign the letter?

Senator Newman—It was not for me to sign. It is the implementation of A New Tax System. You have just been told that. It is going out to people in various categories who have entitlements to compensation of one kind or another for the new tax system. You have just heard the secretary say that three departments are involved and that it has been coordinated and operated under the new tax system banner. All that was announced by me, and perhaps Mr Scott also announced it, I am not sure, but it certainly was announced by me as to when TV ads would be on, when mail-outs would come out, when there would be press advertisements, when there would be more mail-outs—all so that we could get through to people who maybe had not taken it in, just like you and Senator West obviously had not taken it in when you were asking questions about compensation earlier this evening.

Senator WEST—I had taken it in.

Senator Newman—You were not eligible for these, so you would not have got a mail-out.

Senator WEST—I had taken it in; I just wanted to highlight—

Senator Newman—You asked the questions as if you did not know.

Senator SCHACHT—Minister, I do not believe I have discovered Watergate.

Senator Newman—You sure have not. You seem so excited.

Senator SCHACHT—No, I just wanted to go through the process of simple questions and simple answers, saying, who had signed it? No-one signed it. Was it on a letterhead? I presume it would have normally been on a letterhead of the department in view of the database of the department being used. Those are just simple things that crossed my mind about it. No, I am not overly excited about it. I just want to find out roughly what the department has done. That was 200,000-odd letters. Does the form to be filled in as part of the letter, if people think they are eligible, come back to Veterans' Affairs or back to the taxation implementation task force committee?

Mr Hay—It comes back to us if they are claiming a bonus through Veterans' Affairs.

Senator SCHACHT—When did the letter go out?

Mr Hay—The letters are in the process of being distributed now and will be progressively dispatched over the next few days.

Senator SCHACHT—So it is too early to tell what sort of response you have got?

Mr Hay—That is correct.

Senator SCHACHT—Could you take it on notice for the end of June to let us know what the response was from people to the 200,000-odd letters?

Senator Newman—From my own perspective, it would be pretty early. If you want that information, I think you would want to get it in July. The reason I say that is because people are to complete this form with their own personal circumstances, and their eligibility will be determined by Veterans' Affairs, and in my case by fax, and they will then be getting a response telling them what their entitlement will be. That will not really take place until about the beginning of the new financial year.

Senator SCHACHT—What is on the letter? What is the suggested return date for people applying?

Mr Hay—It depends on their circumstances. They can return that form whenever they feel it is appropriate to return the form.

Senator SCHACHT—Is that a reasonable suggestion, Minister? I am happy to suggest that the question on notice be replied to some time in July. Dr Johnston, as far as you are concerned, you do not have a specific budget for GST promotion, as suggested by the ATO officer. It may be a loose description by him.

Dr Johnston—We have discussed that. We will give you a breakdown of the way we are using the moneys available to us.

Senator SCHACHT—There is no suggestion that veterans will enter into any form of media, print media, the daily or weekly press magazines, TV or radio, to promote the compensation package of the GST to veterans?

Dr Johnston—Not that I am aware of, Senator. My guess is that the government will be keen to make sure veterans are aware of their entitlements. We are working towards that end.

Senator SCHACHT—Dr Johnston, has any other department—namely, Taxation and Treasury—requested access to your database?

Dr Johnston—Not that I am aware of, Senator.

Senator SCHACHT—Does anyone know?

Mr Mackrell—Not that I am aware of, Senator.

Senator SCHACHT—Will you take that on notice and provide me with a copy of the letter. In the time available, can I just quickly go to some other matters in the corporate area. I come from South Australia, Dr Johnston, and I am particularly interested in the future of the Australian car industry. I noticed there was some publicity about the fact that SES staff may be allowed to lease imported cars. Is that a proposal that will be allowed within the SES level of Veterans' Affairs?

Dr Johnston—There has been no discussion of that, Senator.

Senator SCHACHT—No requests from staff to have a souped up Maserati or something?

Dr Johnston—Not that I am aware of, no.

Senator SCHACHT—I want to recommend that a well-made Holden or Verada from South Australia will be more than adequate. If there is any change to that, would you let us know?

Dr Johnston—Yes, Senator.

Senator SCHACHT—Who would handle the Clauden consultancy?

Mr Campbell—It would depend on the questions you have to ask about that. A number of the activities under that consultancy would have been in respect of outcome 2 and those officers have left.

Senator SCHACHT—I will ask a couple of questions about Clauden contract. Mr Harrison, I do not think the Clauden contract is your area, is it? I doubt it. Clauden is a consultancy, is it not?

Mr Campbell—That is right, it is.

Senator SCHACHT—What was the provision of the service of the consultancy they provided to DVA?

Mr Campbell—I think all that is set out in the question on notice that was provided to you after the February hearing. It covers a range of issues including IT and contracting—particularly contracting issues.

Senator SCHACHT—Was the contract for Clauden reached by a tendering process or by private agreement?

Mr Campbell—Again, I think that is answered in the question on notice. I do not know whether the committee secretariat has a copy of that answer from the February hearing. I think you put on notice after that hearing a series of questions. While I do not have it in front of me, I think the details were that it did not go to tender. But certainly, the committee secretariat—

Senator SCHACHT—It did not go to tender.

Mr Campbell—That is right. The committee secretariat does have an answer and it is from the February hearing.

Senator SCHACHT—Thank you for reminding me that I missed that. I appreciate that. Was there any reason why it did not go to tender?

Mr Campbell—It is question No. 9, asked on 9 February. The answer is in the folder that has been given to you.

Senator SCHACHT—If you have already answered these, very quickly, who signed the contract? Who contracted Clauden? Was it the DVA or the commission?

Mr Campbell—It was the Department of Veterans' Affairs.

Senator SCHACHT—Did I ask you in that question what the daily rate was?

Mr Campbell—No, the question did ask how much had been paid.

Senator SCHACHT—And how much was that? Remind me.

Mr Campbell—We give the amounts from 1993 until the present. There is no total, but I think it adds up to about \$1.2 million to \$1.3 million. It can quickly be added up in part (a) of the answer.

Senator SCHACHT—It had been doing very well for a contract that was not put out to tender. It is a fair amount of money. I know \$8 billion may not sound much. As to the services that they were providing, if I understand it correctly, there are plenty of people around that would be competitive consultants who would be willing to tender for this contract?

Mr Campbell—I will make two comments on that. The various activities that Clauden have undertaken have been over a period of seven years, from 1993.

Senator SCHACHT—It is \$1.3 million over seven years?

Mr Campbell—Yes. Don't hold me to the exact figure, but these will add up to about \$1.3 million. I would also make the point that Clauden was for part of that time, I think in 1998, on the DOFA CTC standing offer arrangements. We chose them through those arrangements. That, again, is set out in the answer.

Senator SCHACHT—You commented that there was no need to tender as they were on the list of DOFA as a—what did you call it?

Mr Campbell—Their CTC—competitive, tendering and contracting—standing offer arrangements.

Senator SCHACHT—They are on standing offer arrangements because of their —

Mr Campbell—They were for part of this period of time, from 1998 onwards. I know that part of the contracting arrangement that we had with—

Senator SCHACHT—Who put them on the DOFA? Did you recommend to the department that they go on the DOFA list?

Mr Campbell—No, that was done through the DOFA arrangements. They have a number of standing offer panels.

Senator SCHACHT—Are there any other companies that have a consultancy bigger than this over the last couple of years? Take that on notice.

Dr Johnston—I think we should take that on notice. I would make the observation that they are an excellent group—

Senator SCHACHT—I didn't say that they weren't.

Dr Johnston—with considerable expertise in some of our important areas of business. They have served us very well.

Senator SCHACHT—Mr Harrison, I am asking you to turn up now and give a running report on the annual report or the half-yearly report on how the computer system is operating and outages, et cetera. First of all, as to the contract with IBM, the level of outages is now at a level that is not creating a problem?

Mr Harrison—That is correct. We had a major implementation of a significant suite of systems over the Easter period which we had some difficulty with in the first week or so after that. That is not unexpected and now corrected we believe, but that was not related to the IBM system.

Senator SCHACHT—Were there complaints from veterans that they were not able to get their queries dealt with in a timely manner because the computer system was down for a while?

Mr Harrison—None of those complaints fed themselves back to me. The staff were disadvantaged by those outages during that week.

Senator SCHACHT—How long was that outage—not over Easter itself, but around that time?

Mr Harrison—I can take it on notice, if you wish. There were a series of outages for a maximum period of about an hour in the course of a week. When it fell over, we got it back up in an hour and we corrected the problem that was causing it to fall over in about a week and a half.

Dr Johnston—If I can add to that. I think that in a sense understates the impact on functionality for our staff. It is through dint of our staff's effort that these occasions do not impact on service to veterans, and we have a good record in that regard. As you would understand, nobody welcomes the difficulties, but our staff do rise to the occasion.

Senator SCHACHT—The penalties within the contract, the adjustments to the contract because of outages, are all being dealt with in a speedy manner with IBM? I raise this generally with you from time to time.

Mr Harrison—Yes. You may recall that at the last hearing we agreed that at the end of the financial year we will report on the annual performance of that.

Senator SCHACHT—And that will be in the annual report?

Mr Harrison—I think we agreed to report that back at the estimates hearing after the end of the financial year.

Senator SCHACHT—In the budget, how much is set aside for any new initiatives of information technology in your area, running the computers et cetera?

Mr Harrison—There are significant numbers in there. I can point to them, if you wish.

Senator SCHACHT—What I want is any new extra numbers.

Mr Harrison—Primarily, an item called managed health care, which is, in effect, a data warehouse exercise. It is roughly \$5 million a year over the four-year period for IT. The veterans home care package itself has about \$1 million of IT.

Senator SCHACHT—That is in the veterans home care new budget, Dr Johnston?

Dr Johnston—Yes.

Senator SCHACHT—What is the managed health care?

Mr Harrison—It is referred to the budget papers as the managed health care initiative. It is health care information. That is a program we have in the health area of the organisation that is essentially technology based and based around technology that is called data warehousing. So we will be putting our health data into what we are calling a warehouse and then extracting information that enables us to manage our health care in a more sensible way.

Senator SCHACHT—I look forward to the report, Mr Harrison. Dr Johnston, right on the death knock now, there is a question I asked on notice and got back an answer to last week. I asked a question about the cost of extending the gold card, et cetera. I got back an answer—clearly written by Treasury, not from polite people in Veterans' Affairs—saying basically, 'Go jump. This is a matter you will have to discuss with us at the time of the next election under the Charter of Budget Honesty.' I was not actually raising the issue because of what a policy development for the Labor Party may be; I was actually raising it because I, like you, get endless letters about people wanting to extend the gold card to groups in the community. One of the things I try to be reasonable about in writing back to them is to explain the cost. I could easily write back a cheap letter saying, 'Those dozos in government are really trying to not be helpful to veterans.' I actually try to write back the information, because I think people have to make that judgment.

So in this particular case I was not writing in just to say, 'This is a wonderful idea from the Labor Party. We are going to extend the gold card to all the overseas veterans and all those who did not go overseas from Australia.' I was actually wanting the information because I wanted to explain to people that, irrespective of who is in government, this is a big ticket item. And, as you and I have explained at RSL meetings and veterans' groups, if you actually get that up you might lose something else because it is such a big ticket item. I appreciate that you have probably been given an instruction from Treasury down to not provide this information. If that is the position the government has—and I would ask you to review it—I will then write back to all the veterans and say, 'If you're pushing for this issue and you want information, the government has refused to provide it.' I think that is a short-sighted statement on behalf of the government. I think it is a political decision. I do not blame the department for it because you have always been extremely helpful, and I have always tried to treat veterans issues on a bipartisan basis wherever I can. That is why I was writing to people explaining the cost. I found the response politically sharp, but I do not blame you. I know where it came from. I suspect it came as a directive down from the Treasurer.

One last question I wanted to put on notice is to ensure that when you come back to me on the aged veterans' home care you will try to explain to me that the saving of \$80 million a year flows through, as Mr Stonehouse explained, those steps, what that actual figure was and what the savings are in the other areas of programs to get you to the total of \$80 million a year.

Dr Johnston—We will have an opportunity to brief you further, as I understand it, and we will try to answer your inquiries. I am not sure that the analysis is available in quite the detail you seem to have in mind, but we can explore that with you.

[11.01 p.m.]

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

Output Group 3.2—Maintenance, construction and refurbishment of war cemeteries, gardens of remembrance, post war commemorations and construction of overseas memorials

Senator SCHACHT—I just wanted to ask Air Vice Marshall Beck, vis-a-vis the ceremonies at Gallopolli. What role was decided that the Leader of the Opposition could play at the ceremonies?

Air Vice Marshal Beck—The position taken by the government was to reflect the very same protocols that were used in 1990. Because the service was an international service, the Leader of the Opposition never took part in either laying a wreath or making a speech. However, at the Lone Pine service, because it was an Australian service, he did take part.

Senator SCHACHT—What was he asked to do?

Air Vice Marshal Beck—He laid a wreath at the Lone Pine service.

Senator SCHACHT—But he was not asked to do anything at the dawn service?

Air Vice Marshal Beck—Because anything we did there was on an equal basis between Australia and New Zealand.

Senator SCHACHT—Was the New Zealand Leader of the Opposition present at either the dawn service or at the Lone Pine service?

Air Vice Marshal Beck—No.

Senator SCHACHT—Not at all?

Air Vice Marshal Beck—No.

Senator SCHACHT—Was there any representative of the New Zealand opposition?

Air Vice Marshal Beck—There were two New Zealand parliamentarians, but I am not sure which party they were members of.

Senator SCHACHT—Fine. You have already provided me with the cost of the new memorial; what do you call the place now?

Air Vice Marshal Beck—The Anzac Commemorative Site, North Beach.

Senator SCHACHT—I know you got flooded again with 10,000 people or more, and it will always be a problem even with the expanded one. In view of what happened with even the larger number, will you have to talk to the Turkish authorities about making some adjustment to any of the layout of the North Beach new area?

Air Vice Marshal Beck—Yes, we certainly will. There are quite a number of issues that have come up as a result of it, and we will be working to improve them. The minister already has me working on that. We will improve all those elements next year. There will always be difficulties with the transport.

Senator SCHACHT—How far North Beach from Arni Burnu?

Air Vice Marshal Beck—About 300 metres.

Senator SCHACHT—Was the small cemetery at Arni Burnu still trampled because you had too many people any way?

Air Vice Marshal Beck—No, there was absolutely no damage at all and there was no-one who slept there overnight.

CHAIR—You have one more question, Senator Schacht.

Senator SCHACHT—All I want to say is that, at the next estimates, I would be interested in any further developments on how you have adjusted in discussion with the Turkish authorities. There are some other questions about the war graves, but they can wait till the supplementary estimates.

CHAIR—Thank you, Senator Schacht. Thank you, Minister, for your two days. I understand you will not be with us tomorrow. Thank you, Dr Johnston. I hope you take on the comments made by Senator Ferguson concerning the simplicity of the PBS. A necessarily easy way to compare last year's performance with this year's performance will be helpful to the committee.

Committee adjourned at 11.05 a.m.