

Defence support

- 6.1 The Committee considered the following Defence support matters:
- Unfunded liability;
 - Fuel security, capacity and storage; and
 - Defence housing and accommodation.

Unfunded liability

- 6.2 The Committee was concerned about funding being diverted from Defence estate and infrastructure, thereby creating unfunded liabilities. The Committee raised concerns about the scope and reporting of these unfunded liabilities.
- 6.3 The Committee gave the example of a fuel farm which has had its funding deferred to provide funding to another part of Defence. This affected the state of the fuel farm which in turn created a liability that will have to be funded in the future.¹ Another example is given in the Defence Annual Report 2013-14 which states 'underinvestment in facilities and ICT is starting to catch up with us and, unless addressed, will have a negative impact on ADF capability'.²
- 6.4 The Committee urged that Defence's total unfunded liability and the areas in which this has occurred be reported publically. The Committee also sought reporting of the factors and decisions that led to funding being reallocated. This was framed in terms of visibility and transparency, so funding requirements and the potential impact on the budget is known.

1 Senator Fawcett, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

2 *Defence Annual Report 2013-14*, p. 3.

- 6.5 Defence noted that it constructs its financial statements with reference to Australian accounting standards and the requirements of the government's annual reporting guidelines. Defence highlighted that the total unfunded liability that the Committee sought is not a part of ordinary Australian accounting constructs.³
- 6.6 Defence further noted that accounting standards are underpinned by the concept of certain measurability, and that while some unfunded liabilities such as long service leave have a degree of certainty, many unfunded liabilities do not.⁴ Nevertheless, Defence undertook to examine how this may be achieved, stating that 'it is something we could look at; it is interesting and ... it is something that has not been done elsewhere, as far as I am aware'.⁵ The Committee responded by stating that to ease the 'technical difficulty' it did not need to form part of Defence's formal accounts but the Parliament and Executive needed transparency on the absorbed measures that create unfunded liabilities in respect to the upkeep of Defence Estate.⁶

Fuel security, capacity and storage

- 6.7 A 2014 report by Air Vice-Marshal John Blackburn (Ret'd) outlined Australia's current fuel security issues, with crude and fuel imports dependency rising from 60 per cent to over 90 per cent over the last 15 years. Due to political instability in some Middle Eastern countries and 40% of Australia's oil refining capacity ceasing to exist since 2012, Blackburn argued that 'our stocks have dwindled and our capacity to produce specialist fuels for our Defence Forces has been eroded'. Consequently, Blackburn expressed concern that 'a significant supply disruption to our shipping lanes or trade routes ... could quickly imperil Australia's capacity to provide for essential, everyday services and our military forces'.⁷
- 6.8 Similarly, the Senate Rural and Regional Affairs and Transport Reference Committee noted in their recent report into Australia's transport energy

3 Mr Phillip Prior, Chief Finance Office, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, pp. 11-12.

4 Mr Prior, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

5 Mr Prior, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

6 Senator Fawcett, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

7 Air Vice-Marshal John Blackburn (Ret'd), 'Benchmarking Australia's Transport Energy Policies: A report for the National Roads & Motorists' Association', December 2014, p. 2 <http://www.mynrma.com.au/media/Benchmarking_Australias_Transport_Energy_Policies_Report_December_2014.pdf> viewed 22 October 2015.

resilience and sustainability that Australia is 'almost totally reliant' on fuel for transport and any significant disruption to fuel supplies would have a 'significant impact on safety, national security, national productivity and society'.⁸

- 6.9 The Committee raised concerns about Australia's fuel security as a strategic issue. The Chief of the Defence Force responded:

I think the national issue is far broader than a Defence issue. While that has security implications, that is not an area we are focused on. We manage around the policies that are in place. There is no doubt that we are reliant on overseas refined fuel. That is just one of the factors that we take into account.⁹

- 6.10 The Chief of the Defence Force stated, 'we manage the capacities that we have ... it is one of those key areas that we keep a focus on. We do have adequate reserves for what we need for operations'.¹⁰

- 6.11 Regarding the state of fuel farms CDF stated:

They have been a focus over the last couple of years, hence the secretary had the Wraith review. We are now enacting all the recommendations of the Wraith review, and professionalising the way we approach our fuel farms and fuel management ...¹¹

- 6.12 The Committee also enquired into Liquid Natural Gas (LNG) as an alternative fuel. The Vice Chief of the Defence Force responded by highlighting that LNG was not a safe enough cargo for military use, particularly in the maritime environment. He instead indicated that biofuels are a potential future alternative for fuel.¹²

Defence housing and accommodation

- 6.13 The Committee enquired into the preference of service families for living on or off base.

- 6.14 Defence reported that on-base living in accommodation (LIA) is used for three purposes:

- To permanently accommodate members posted to a base;

8 Senate Rural and Regional Affairs and Transport Reference Committee, *Australia's transport energy resilience and sustainability*, June 2015, p. 61.

9 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

10 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

11 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

12 Vice Admiral Griggs, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

- Accommodate students on courses conducted at Service schools or at bases; and
- Provide transit accommodation for groups and members moving with Australia for duty purposes.

Defence's requirements for permanent LIA have been generally addressed through the provision of high quality accommodation, primarily through Public Private Partnership (PPP) arrangements. Defence advised that there are currently no critical shortfalls against this requirement. Similarly, there are no critical shortfalls for course or transit accommodation.¹³

- 6.15 Defence stated that many families are located off base in housing as that was the preference of families a number of years ago. CDF noted '[t]imes change and I think in some cases people would prefer to be back on base, to have base accommodation, but we have gone too far down the other path to even do that now'.¹⁴
- 6.16 The Chief of the Defence Force noted that there are a range of reasons why people now prefer to live on base:
- ... security is one area that is a changing environment. There is traffic going to and from work and all those sorts of issues also lead to it. Sometimes the bases are at the centre of the community and it is convenient. Predominantly, though, more people prefer living off base at the community, if they end up in a location near schools, day care and all those conveniences that you need that traditionally are not right where the base is.
- Air Chief Marshal Binskin stated that the Defence Housing Authority (DHA) has been quite responsive in providing flexibility to various families in their living situation and location.¹⁵
- 6.17 The Chief of the Defence Force praised the quality of the housing available to service personnel, saying it had improved in recent years.
- ... it is one of those things that is not raised as much when I go out around the bases now as it was five or eight years ago. I think people have a good understanding that the housing that we have, which is subsidised by Defence, is a good standard of housing. ... overall the housing that we have, and continue to have as DHA reinvests in it, is world class. In fact, I can say it is world class.¹⁶

13 Department of Defence, *Question on Notice No. 4*, 5 June 2015.

14 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

15 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

16 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

6.18 The Chief of Army stated:

My memory as an adolescent in Defence housing – and indeed some of my senior warrant officers’ memories – was of coming into a home that had been vacant over the summer during the posting cycle. My mother once mentioned to me seeing grass growing up through the floorboards.¹⁷

Lieutenant General Campbell went on to state:

They are the apocryphal stories of the past. They do not represent the modern housing estates available to Defence families. It is good and that is the way it should be. I think DHA have tried to work with communities of families wherever they are looking to develop the individual facilities for families.¹⁸

6.19 The Returned & Services League (RSL) submitted that housing for the ADF is a key factor in retaining personnel. The RSL agreed with Defence on the improvement of the housing situation for the ADF, stating ‘[t]he housing outlook for the ADF members has improved over the past couple of decades due in part to the establishment of the Defence Housing Authority’. To this end, the RSL recommended that DHA be retained as a government organisation as opposed to privatising it, so it can continue to meet the needs of the ADF and their families instead of ‘the demands of shareholders’.¹⁹

6.20 The Committee expressed concern about the housing situation with the redevelopment of Seaward Village in Western Australia.

6.21 Defence explained that Seaward Village is particularly connected to the Special Air Service Regiment (SASR). A majority of the families at Seaward Village are from the SASR; however families from other Defence units also resided at the village. Defence also noted that a majority of SASR families live in the broader community.²⁰

6.22 Defence advised that the concept for the redevelopment of Seaward Village is in its early stages and it is conducting engagement with families. One option being considered is redeveloping one half of the property at a time, allowing residence to live in one half as the other half is being built. This would be managed in line with the natural posting cycle as well as through offering rental assistance so people can live in the community

17 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

18 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

19 Returned Services League of Australia, *Submission No. 1*, p. 3.

20 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

- during the development. The cost of this development would be offset in part by selling some of the land.²¹
- 6.23 Defence stated that this type of redevelopment process had been done before at RAAF Base Tindal, 'where people have been moved between houses during posting cycles, or within a posting cycle, so they could do groups of houses'.²²
- 6.24 Through this development program at Seaward Village, DHA would go from having approximately 153 married quarters to a new suite of around 160 to 165 married quarters.²³

Committee comment

- 6.25 The Committee is concerned by the extent of unfunded liabilities in Defence estate and infrastructure. Unfunded liabilities arise when Defence is instructed to 'absorb' measures that Government intends to announce. This is of concern as it represents an unknown amount that the Commonwealth may have to fund in the future. It is important that there is visibility of the cumulative effects of unfunded liabilities for transparency and accountability, but also for fiscal responsibility. It is critical that Parliament and the wider public can see the true costs that Defence must bear, beyond costs of operations or platforms, to provide for the defence of the nation. Defence should in future report the amount of unfunded liability, where it is and how it has been created.
- 6.26 The Committee commends Defence for its recent focus on fuel farms, with the establishment of a Fuel Services Branch, and the continuing implementation of the Wraith Review recommendations. As fuel is such a critical enabler for our defence force, the Committee expects this focus on fuel management to continue into the future and recommends that Defence should explore options to engage and collaborate with industry on fuel management and security. However, the Committee considers current reporting on fuel farm remediation and fuel management in the Defence Annual Report to be insufficient. The progress of remediation and the remaining work to be done should be better reported by Defence.

21 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

22 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

23 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

- 6.27 The Committee is pleased with the long term improvements to the housing quality and options available to ADF personnel and their families. Providing quality housing that suits the lifestyle of ADF families is a significant part of attracting and retaining skilled people.
- 6.28 The Committee is concerned at the apparent lack of community consultation and communication regarding the redevelopment of Seaward Village, noting that this may have been recently addressed. Considering Defence has undertaken this type of redevelopment before and is likely do so again, developing a framework for consultation and communication with the community would be pertinent so as to prevent dissatisfaction and frustration with the process in the future.

Recommendations

Recommendation 8

The Committee recommends that, to aid transparency and accuracy, the Department of Defence record and periodically report the quantum of unfunded liabilities held by Defence, including:

- Where the unfunded liability occurred;
- How the unfunded liabilities were created; and, where relevant
- Factors and decisions that led to funding being reallocated.

The Committee does not expect this reporting to form part of Defence's annual financial statements.

Recommendation 9

The Committee recommends that the Defence Annual Reports include appropriately detailed information on the Fuel Services Branch, in particular the progress of fuel farm remediation and remaining work to be done. The Committee further recommends that the Department of Defence actively explore options to engage and collaborate with industry on fuel management and security.

Recommendation 10

The Committee recommends that the Department of Defence, in partnership with Defence Housing Australia, prepare an effective consultation and communication framework with the community for use in ongoing and future redevelopments.

Senator David Fawcett
Chair
Defence Sub-Committee

25 November 2015

The Hon Teresa Gambaro MP
Chair
Joint Standing Committee on Foreign
Affairs, Defence and Trade

25 November 2015