



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

ESTIMATES

(Additional Estimates)

WEDNESDAY, 23 FEBRUARY 2011

CANBERRA

BY AUTHORITY OF THE SENATE

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**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
LEGISLATION COMMITTEE**

Wednesday, 23 February 2011

Members: Senator Bishop (Chair), Senator Trood (Deputy Chair) and Senators Forshaw, Hutchins, Kroger and Ludlam

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

Senators in attendance: Senators Barnett, Mark Bishop, Brandis, Bushby, Faulkner, Fielding, Forshaw, Humphries, Hutchins, Johnston, Kroger, Ludlam, Macdonald, Parry, Ronaldson, Sterle and Trood

Committee met at 9.05 am

DEFENCE PORTFOLIO

In Attendance

Senator Feeney, Parliamentary Secretary for Defence

Department of Defence

Opening statement by Secretary of Defence

Opening statement by Chief of the Defence Force

Dr Ian Watt AO, Secretary of Defence

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

Questions arising from Secretary/CDF opening statements

Portfolio overview and budget summary

Mr Michael Gibson, Acting Chief Finance Officer

Mr Simeon Gilding, Acting Deputy Secretary Strategy

Mr Brendan Sargeant, Deputy Secretary Strategic Reform and Governance

Air Vice Marshal Ian Smith AM, Deputy Head Strategic Reform and Governance

Commodore Robyn Walker AM, RAN, Acting Commander Joint Health

Air Commodore Bill Hayden OAM, Acting Commander Joint Logistics

Mr Andrew Nikolic, First Assistant Secretary, International Policy Division

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

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

Program 1.9 Vice-Chief of the Defence Force

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

Air Vice Marshal Kevin Paule, Head Military Strategic Commitments

Program 1.10 Joint Operations Command

Program 1.12 Chief Finance Officer

Outcome 2—Advancement of Australia's strategic interests through the conduct of military operations and other tasks directed by government

Program 2.1 Operations contributing to the security of the immediate neighbourhood

Program 2.2 Operations supporting wider interests

Outcome 3—Support to the Australian community and civilian authorities as requested by government

Program 3.1 Defence contribution to national support tasks in Australia

Defence funding and financial statements

Outcome 1

Air Marshal John Harvey AM, Chief of Capability Development Group

Major General Steve Day, Head Joint Capability Coordination

Rear Admiral Rowan Moffitt AO, RAN, Head of Future Submarine Program

Program 1.11 Capability development (general topics)

Program 1.11 Capability development (specific topics)

Defence Materiel Organisation

Outcome 1—Contributing to the preparedness of the Australian Defence Organisation through acquisition and through-life support of military equipment and supplies

Program 1.1 Management of capability acquisition

Program 1.2 Management of capability sustainment

Program 1.3 Provision of policy advice and management services

Dr Stephen Gumley AO, Chief Executive Officer

Mr Warren King, Deputy Chief Executive Officer

Mr Harry Dunstall, General Manager Commercial

Ms Shireane McKinnie PSM, General Manager Systems

Mr Steve Wearn, Chief Finance Officer Defence Materiel Organisation

Air Vice Marshal Kym Osley AM, CSC, Program Manager New Air Combat Capability

Air Vice Marshal Chris Deeble AM, CSC, Program Manager Collins and Wedgetail

Rear Admiral Mark Campbell CSC, RAN, Head Helicopter Systems Division

Major General Grant Cavenagh AM, Head Land Systems

Rear Admiral Peter Marshall AM, RAN, Head Maritime Systems Division

Capital facilities and Defence support

Outcome 1

Program 1.6 Defence support

Mr Simon Lewis, Deputy Secretary Defence Support

Mr Mark Jenkin, Head Defence Support Operations

Mr Mark Cunliffe, Head Defence Legal

Mr John Owens, Head Infrastructure Division

Mr Kieran Gleeson, Chief Operating Officer Defence Support Group

Mr Mark Sweeney, Director General People Services

Program 1.14 Defence Force superannuation benefits

Program 1.15 Defence Force superannuation-nominal interest

Outcome 1

Program 1.13 People strategies and policy (general topics)

Mr Phil Minns, Deputy Secretary People Strategies and Policy Group

Mr Steve Grzeskowiak, Head People Policy

Mr Craig Pandy, Head Workforce and Shared Services Reform

Air Commodore Tony Needham AM, Acting Head People Capability

Brigadier Bill Sowry, Deputy Head Cadet, Reserve and Employer Support Division

Program 1.13 People strategies and policy (specific topics)

Remaining Defence programs

Outcome 1

Program 1.2 Navy capabilities

Vice Admiral Russell Crane AO, CSM, RAN, Chief of Navy

Program 1.3 Army capabilities

Lieutenant General Ken Gillespie, Chief of Army

Program 1.4 Air Force capabilities

Air Marshal Mark Binskin AO, Chief of Air Force

Program 1.5 Intelligence capabilities

Mr Stephen Merchant, Deputy Secretary Intelligence and Security

Program 1.7 Defence science and technology

Professor Robert Clark, Chief Defence Scientist

Program 1.8 Chief Information Officer

Mr Greg Farr, Chief Information Officer

Mr Matt Yannopoulos, Chief Technology Officer

Mr Clive Lines, First Assistant Secretary ICT Reform

Major General Michael Milford, Head ICT Operations

Mrs Anne Brown, First Assistant Secretary ICT Development

Program 1.16 Housing assistance

Program 1.17 King's Highway upgrade

Program 1.18 Other administered items

Department of Veterans' Affairs

Portfolio overview

Corporate and general matters

Mr Ian Campbell, PSM, Secretary

Mr Shane Carmody, Deputy President

Mr Barry Telford, General Manager, Support

Mr Ken Douglas, General Manager, Services

Major General Liz Cosson, AM, CSC, (Rtd) Executive Division

Ms Narelle Dotta, General Manager, Corporate

Mr Wayne Penniall, National Manager, Veterans and Veterans Families Counselling Service

Mr Doug Humphreys, Principal Member, Veterans' Review Board

Ms Carolyn Spiers, National Manager/Principal Legal Advisor, Business Integrity and Legal Services Group

Mr Adam Luckhurst, National Manager, Rehabilitation and Entitlements Policy Group

Mr Neil Bayles, National Manager, F111 Implementation/MRCA Review

Ms Sandy Bell, National Manager, Rehabilitation Compensation and Systems Support Group

Mr John Sadeik, National Manager, Income Support Group

Mr Graeme Rochow, National Manager/Chief Finance Officer, Resources Group

Mr Roger Winzenberg, National Manager, People Services Group

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

Program 1.1 Veterans' income support and allowances

Program 1.2 Veterans' disability support

Program 1.3 Assistance to Defence widow(er)s and dependants

Program 1.4 Assistance and other compensation for veterans and dependants

Program 1.5 Veterans' children education scheme

Program 1.6 Military rehabilitation and compensation acts payments—income support and compensation

Program 1.7 Adjustments to the military rehabilitation and compensation acts liability provisions—income support and compensation.

Mr Ian Campbell PSM, Secretary

Mr Shane Carmody, Deputy President

Mr Barry Telford, General Manager, Support

Mr Neil Bayles, National Manager, F111 Implementation/MRCA Review

Mr Sandy Bell, National Manager, Rehabilitation Compensation and Systems Support Group

Mr John Sadeik, National Manager, Income Support Group

Ms Carolyn Spiers, National Manager/Principal Legal Advisor, Business Integrity and Legal Services Group

Ms Jennifer Collins, Deputy Commissioner for NSW/ACT

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

Program 2.1 General medical consultations and services

Program 2.2 Veterans' hospital services

Program 2.3 Veterans' pharmaceutical benefits

Program 2.4 Veterans' community care and support

Program 2.5 Veterans' counselling and other health services

Program 2.6 Military rehabilitation and compensation acts—health and other care services

Program 2.7 Adjustment to the military rehabilitation and compensation acts liability provisions—health other care services

Mr Ian Campbell PSM, Secretary

Mr Shane Carmody, Deputy President

Mr Ken Douglas, General Manager, Services

Mr Barry Telford, General Manager, Support

Mr Wayne Penniall, National Manager, Veterans and Veterans Families Counselling Service

Ms Judy Daniel, National Manager, Primary Care Policy Group

Ms Jennifer Collins, Deputy Commissioner for NSW/ACT

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

Program 3.1 War graves and commemorations

Program 3.2 Gallipoli related activities.

Mr Ian Campbell PSM, Secretary

Mr Shane Carmody, Deputy President

Major General Liz Cosson AM, CSC, (Rtd) Executive Division

Mr Tim Evans, National Manager Commemorations Group

Brigadier Chris Appleton CSC, (Rtd) Director, Office of Australian War Graves

Australian War Memorial

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

Program 1.1 Commemorative ceremonies

Program 1.2 National memorial and grounds

Program 1.3 National collection

Program 1.4 Exhibitions

Program 1.5 Interpretive services

Program 1.6 Promotion and community services

Program 1.7 Research and information dissemination

Program 1.8 Visitor services

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

Ms Nola Anderson, Assistant Director, National Collection

Ms Rhonda Adler, Assistant Director, Corporate Services

Ms Linda Ferguson, Assistant Director, Public Programs

Ms Leanne Patterson, Chief Finance Officer

CHAIR (Senator Mark Bishop)—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I welcome Senator Feeney, the Minister representing the Minister for Defence. I also welcome Air Chief Marshal Angus Houston, Chief of the Defence Force and Dr Ian Watts, Secretary of the Department of Defence and officers of the defence organisation. Thursday, 21 April 2011 has been set as the date by which answers to questions on notice are to be returned. Senators should provide their written questions on notice to the secretariat by close of business on Thursday, 3 March 2011.

Under standing order 26 the committee must take all evidence in public session; this includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised, and which I now incorporate into Hansard.

The statement read as follows—

Public interest immunity claims

That the Senate—

- (a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;
- (b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;
- (c) orders that the following operate as an order of continuing effect:

- (1) If:
 - (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
 - (b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.
- (2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.
- (3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.
- (4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.
- (5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.
- (6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.
- (7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).
- (8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(Extract, Senate Standing Orders, pp 124-125)

[9.07 am]

Department of Defence

CHAIR—Senator Feeney, do you or an officer wish to make an opening statement?

Senator Feeney—Yes. I understand that the CDF will make an opening statement.

Air Chief Marshal Houston—It is customary for the secretary to go first, so I will follow him.

Dr watt—I would like to address a couple of topical issues at the outset of the proceedings today. First of all I would like to advise on the progress of the Strategic Reform Program, as I have done in this committee every time that I have appeared before the committee since becoming secretary.

The SRP is on track, and it is building on the foundations established in 2009-10. To recap, Defence successfully delivered larger savings than the \$797 million in the cost reductions program for 2009-10 without adverse impacts on capability or safety. This has been reinvested to help deliver Force 2030.

To remain on track we need to deliver \$1 billion in cost reductions in the 2011 financial year. Defence groups are operating within lower budgets by combining reduced discretionary expenditure, greater cost consciousness, the flowthrough of previous years' savings initiatives and the rollout of SRP reform initiatives. Let me provide you with a few examples. In the area of capability, we have seen Navy move towards using a mobile network for its communications in Australian littoral waters. This means that Defence can relinquish commercial satellite subscriptions worth around \$2½ million per annum. Air Force, with the DMO, have revamped FA18 Hornet routine maintenance functions, leading to increased aircraft availability rates and lower industry support costs to achieve cost reductions of up to \$15 million out to July 2013.

In other areas of business, the reforms have resulted in a reduction of personnel from all groups and services, but predominantly from Defence support, Army and Air Force. This has been achieved largely by way of standardisation, reducing low-value tasks and removing duplication. Again, a new contract combining removals and relocations contracts is providing greater efficiency gains and is saving approximately \$4 million per annum. The opening of the new Defence service centre, as part of the distributed computing central network services project, is forecast to achieve \$20.5 million in cost reductions in 2011. The implementation of the Army's 1st Reserve related reforms, including more appropriate annual training readiness requirements, will deliver around \$16 million in cost reductions out to 2018-19.

There is, however, no underestimation of what lies ahead for Defence. The reforms and the savings targets will become more demanding. This means that Defence will have to make increasingly more difficult decisions. We will need to work hard to adhere to the schedule for achieving the cost reductions program in future years. Risk management, especially in relation to interdependencies across the reform streams, will also be imperative.

Secondly, let me turn to some recent major set pieces in the international defence relations area that have occurred, in particular the ministerial consultations at AUSMIN, AUKMIN and the Anzac defence ministers meeting or ANZMIN, as well as the Australia China Defence Strategic Dialogue of defence officials.

November 2010 saw the 25th anniversary of the annual Australia-United States Ministerial Consultations—AUSMIN—and also marked the 70th anniversary of the establishment of diplomatic relations between our two countries. Among the most significant items that were raised and reaffirmed at the AUSMIN meeting, Australia and the US welcomed each other's civilian and military contribution to Afghanistan. The two countries also signed a space situational awareness partnership statement of principles, which will enhance our defence

cooperation on space surveillance. Australia and the US also agreed to set up a bilateral working group to explore possible areas of cooperation flowing out of the US global force posture review.

At the third Australia-UK Ministerial Consultations—AUKMIN—on 18 July 2011, our two countries reaffirmed their commitment to ISAF in Afghanistan, and welcomed the reinvigoration of bilateral strategic and defence relationships. Both agreed that our defence and security agencies must continue to evolve to respond to the challenges of a changing environment. Both countries also recognised the value of regular AUKMIN consultation to provide the political leadership and strategic direction necessary in framing appropriate responses to such challenges. One of the highlights of AUKMIN was the signing of a strategic policy partnership which formalises collaboration between the UK Ministry of Defence and the Australian Department of Defence.

Even more recently, on 10 February, the Minister for Defence met with his New Zealand counterpart, Dr Wayne Mapp, to discuss a range of defence and security issues. One of the main items of interest was that, following completion of the two countries' respective white papers, the two ministers commissioned a review to determine how to strengthen strategic cooperation and priority setting for Anzac engagement in promoting security and stability in the Asia-Pacific region. Ministers asked their respective secretaries, in full consultation and involvement with their CDFs, to produce a joint report by 31 July detailing preliminary proposals to improve bilateral engagement structures and to strengthen strategic bilateral exchanges. This report will also detail proposals to ensure more cost-efficient cooperation, including in relation to complementarity in military capabilities to improve prioritisation and efficient implementation of Anzac policies.

In mid-December 2010, the CDF and I met with China's Chief of the General Staff, General Chen Bingde, to co-chair the 13th Australia-China Defence Strategic Dialogue. This was the second time I have participated in this dialogue with China and the third time for the CDF. I am pleased to report that the talks, held in General Chen's home town of Nantong, were successful.

As the cornerstone of our engagement with the PLA, the talks provide a valuable opportunity for us to discuss issues of strategic concern with one of the major powers in our region. We also need to continue to develop our defence cooperation, including navy-to-navy engagement, humanitarian assistance and disaster relief and peacekeeping. Following the dialogue, the CDF and I met with the Vice President and Deputy Chairman of the Central Military Commission, Xi Jinping, and confirmed our respective countries' commitments to working together on areas of common security interests. Copies of the communique of AUSMIN, AUKMIN and ANZMIN are published on the minister's website. We can get them to you, if you want them.

Finally, let me deal with delays in finalising the Defence annual report 2009-10 and questions taken on notice at the last estimates hearing. Regarding the annual report, this was a case of competing demands on the Defence organisation in the lead-up to final drafting, including on the CDF and me. These commitments were influenced by the timing of the election, the lengthy caretaker period and incoming government requirements. All of this meant that we could not meet the usual deadlines for production and tabling, which should

have seen the report tabled on 31 October 2010, consistent with appropriate processes. We sought, however, and were granted, again consistent with appropriate processes, an extension by the Minister for Defence on 22 and 27 October 2010 respectively. As required by section 34C(6)(a) of the Acts Interpretation Act 1901, both documents were laid before each house of parliament on 27 October. The annual report itself was tabled on 25 November 2010, 25 days late.

Chair, as you will recall, during the hearing of 19 October 2010, 19 questions were taken on notice and a further 35 written questions were submitted to the committee following the hearing. Many of the 54 questions in total had multiple parts. Indeed, this meant that there were a total of 237 actual questions asked and answered. Some of the questions involved sensitive and complex issues that required extensive consultation, research and verification. In some instances, follow-up advice and more detailed explanations were required and sought. Despite the best efforts of Defence, we were unable to complete the task within the appropriate time frames. Both matters are disappointing, I am sure, to the members of this committee. They are disappointing to Defence. The delay is genuinely regretted. There is no getting around the fact that we need to do better coming out of this estimates hearing. Thank you, Chair.

CHAIR—Thank you, Dr Watts. I welcome the Chief of the Defence Force.

Air Chief Marshal Houston—Good morning. Thank you for the opportunity to make an opening statement this morning. I will begin with operations for my customary update.

Following the devastating earthquake in New Zealand yesterday, overnight two of our C130s provided strategic airlift of New South Wales emergency services urban search and rescue personnel along with 20 tonnes of equipment. That was flown from RAAF Base Richmond to Christchurch. One aircraft is on the ground at the moment in Christchurch, and I regret to say that in the unloading of that aircraft at about 3.30 am there was an aftershock and there was contact between the unloading equipment and the aircraft, causing a little bit of damage to the aircraft. I think that highlights just how difficult the environment on the ground is in Christchurch. The other aircraft is currently airborne and inbound to Christchurch. It is also anticipated that a G17 will depart from RAAF Base Amberley later this morning carrying Queensland based search and rescue personnel and another 20 tonnes of cargo.

Of course, the ADF will remain responsive to any tasking it receives from the Australian government in response to requests from the government of New Zealand. For the information of the committee, we have a longstanding direct link between our two operational headquarters. That was activated almost immediately after the earthquake, and there has been frequent contact as the New Zealanders get on top of the scope and scale of the disaster that they are dealing with.

Over the past two months the ADF has supported a number of response and recovery operations in Queensland, Victoria, Western Australia, the Northern Territory and Timor-Leste, following a series of natural disasters. This was the largest ADF response to civil emergencies to date. All told, we were able to deploy the equivalent of an entire joint brigade group of about 3,500 people on the two major operations, as well as the other defence assistance, the civil community tasks, at short notice and during a period when our people are

normally stood down for the Christmas and New Year period to spend time with their families. Enabling our assistance were helicopter and fixed wing support aircraft, including Black Hawk, Kiowa, Seahawk, Sea King and Agusta A109 helicopters and G17, G130 and King Air aircraft; amphibious mine clearance and hydrographic vessels, including HMAS *Benalla*, *Brunei*, *Huon*, *Labuan*, *Melville*, *Mermaid*, *Leeuwin*, *Paluma*, *Shepparton*, *Tarakan* and *Wewak*; four lighter amphibious resupply cargo vessels; three landing craft; as well as Bush Masters, Mac trucks and engineering plant such as bulldozers and excavators.

Our people undertook a range of diverse tasks. They went door to door to deliver warnings and advice, built sand-bagged levees, evacuated residents, conducted aerial reconnaissance, assisted with the clean-up, rebuilt critical infrastructure, cleared roads, delivered emergency food, water and other cargo such as laptops, mattresses, tents and stretchers, surveyed waterways, redirected creeks, conducted damage assessments and assisted with search and rescue operations.

Senators, without the intervention of the ADF I think life would have been lost, certainly in two or three of the sets of circumstances that we were involved in. With little warning the ADF was able to be ready and then deploy a substantial force which we then sustained for the best part of six weeks, and indeed some elements continue to support communities in need right now. All of this was achieved concurrently with the 3,300 ADF men and women we have deployed to 12 operating locations around the world, and it emphasises the importance of ensuring we have assets available for unforeseeable requirements to support domestic security and emergency response tasks.

Our response meant that at one point we had about 6,500 people on operations. Of course, this does not include the substantial amount of defence people who worked in an enabling and support function here in Canberra and at other bases around the country and in the disaster areas, particularly at Amberley, Enoggera, Townsville and Cairns. I am extremely proud of how quickly we were able to respond and what our people, some of whom were themselves affected by these disasters, were able to achieve. Their actions, conduct and professionalism have rightly earned them much admiration from their fellow Australians, especially those who benefited from their immediate and compassionate support. As always, we stand ready to provide further assistance that may be required of us, just as we have in responding to the New Zealand earthquake yesterday.

I now turn to Afghanistan. In late January I attended the NATO Military Committee Chiefs of Defence meeting in Brussels. I would characterise the mood amongst military leaders as cautiously optimistic. Progress in counterinsurgency is always gradual, but 2010 was clearly a positive year for the coalition. As you are aware, ISAF has a fully integrated counterinsurgency strategy, which has now been in place for over one year. Progress made in 2010 has shown our strategy is sound. ISAF's long-term commitment is solid, and with our Afghan partners we will succeed. Over the past year we have seen promising military gains, with ISAF's focus on conducting shape, clear, hold and build operations in Helmand and Kandahar provinces paying dividends. The challenge now is to consolidate the gains that have been made, maintain our momentum and make these gains irreversible. A major operation will begin this year, named Operation Omid 1390, to build on these successes. Australia will

contribute to this operation through our ongoing involvement in Oruzgan province and also in northern Kandahar.

In terms of ADF progress since I last briefed the committee, our Mentoring Task Force has expanded their partnered mentoring program and continues to live and work closely with the Afghan National Army 4th Brigade in its forward operating bases. We have seen solid progress in the 4th Brigade's capabilities. In November last year, the MTF conducted several mentored patrols with its Afghan partners aimed at disrupting insurgent activities, locating and destroying weapons and IED caches, and providing a more secure Oruzgan region. In January we conducted a series of Afghan-led operations in the Mirabad Valley, which culminated in the establishment of a new fortified local compound in Sorkh Lez to extend Afghan government influence. Sorkh Lez, by the way, is on the map and it is 15 kilometres due east of Tarin Kowt. Additionally, our special forces continue to make a highly valued contribution to the broader ISAF campaign across the south, targeting and disrupting key insurgent networks in Oruzgan and neighbouring provinces in support of ISAF operations. A recent significant disruption operation was undertaken in northern Oruzgan in December and January where Afghan National Police officers, supported by Australian Special Forces detained an individual believed to be a leading bomb maker and a close associate of the top insurgent commander in Oruzgan.

More broadly, the international community is now focusing its efforts on achieving the key task of transitioning security responsibility for parts of Afghanistan to the Afghans themselves. At the Lisbon summit in November last year, ISAF partners endorsed President Karzai's goal of an irreversible transition to full Afghan security responsibility and leadership in all provinces by the end of 2014. This will commence in some parts of Afghanistan in 2011, with the goal that Afghan forces lead and conduct security operations in all provinces by the end of 2014. But as leaders made clear in Lisbon, transition does not equate to a withdrawal of forces. Australia is committed to supporting this process.

In summary, 2011 will be pivotal in Afghanistan. The momentum is shifting our way, but we need to remain mindful that though progress has been made it remains fragile and reversible. The insurgency will seek to regain the lost initiative and we can expect violence to continue. A lot now depends on our Afghan partners, but we have seen them step up to the challenge. Afghan National Security Forces are continuing to show both quantitative and qualitative improvements throughout Afghanistan, including Oruzgan, and we are seeing an increase in their confidence and professionalism.

Sadly, I end my remarks on Afghanistan by offering my condolences to the families of Corporal Richard Atkinson and Sapper Jamie Larcombe. Corporal Richard Atkinson from the 1st Combat Engineer Regiment was killed in Oruzgan on 2 February by an improvised explosive device as he led his combat engineer section as a search commander. To his fiancee, Dannielle, and his parents Ross and Kate, I offer my deepest sympathy on their loss.

Sapper Jamie Larcombe, also from the 1st Combat Engineer Regiment, was killed just this week during an engagement with insurgents. I offer his partner, Rhiannon, and his parents Steven and Tricia, my sincere condolences.

I thought it necessary this morning to update the committee on progress with the decision of the Director of Military Prosecution to prosecute three members of the ADF in relation to a civilian casualty incident on 12 February 2009. Previously, I indicated that two members had been served with their charges on 27 September 2010. I can confirm today that the third member was served with his charges on 26 November 2010. Since then, the DMP has referred the charges against the three members to the Registrar of Military Justice—two members on 14 January and the third member on 16 February—and requested a trial by a service tribunal in the form of a court martial. The Registrar of Military Justice is currently working through the case management process, independent of the Australian Defence Force chain of command. The central outcome of this process will be the issuing of a convening order which will formalise the court martial proceedings, including the appointment of the judge advocate, the president and members of the court martial panel and the date and location of the trials. Regardless of the outcome of the pending trial proceedings, I remain concerned about the welfare of all ADF members who are associated with this matter. I am determined to ensure that every step is taken to provide them with a fair trial and to look after their welfare.

In terms of the HMAS *Success* commission of inquiry, yesterday in parliament the minister tabled a copy of the first part of the report, entitled *The Asian deployment and immediate aftermath*. Immediately following this tabling, the Chief of Navy and I conducted a media conference, and earlier yesterday we briefed some members of this committee on the report and our intended response. Senators, as we expressed yesterday, the Chief of Navy and I are bitterly disappointed with the behaviour of a number of individuals as well as the serious problems that have been raised regarding leadership, culture, alcohol misuse and behaviour ashore. I have fully accepted the findings, recommendations and conclusions of part 1 of the report.

I have established a specialist HMAS *Success* Implementation Team headed by Rear Admiral Allan du Toit, and I have directed him to report regularly to me on progress. I will accept nothing less than a fully resourced, fully supported and energised approach to implementing the recommendations of this report. You will note that a key element of the solution is the cultural renewal program being implemented by the Chief of Navy—New Generation Navy. The Chief of Navy would be delighted to outline this program further for the members of the committee, should you wish, during questioning. Another key aspect of our response will be the ADF alcohol management strategy. In partnership with the Australian Drug Foundation, we are aiming to define and understand current alcohol related issues and then create sustainable change in alcohol attitudes, behaviours and cultures across the ADF. This will be a long-term cultural change strategy to prevent the misuse of alcohol. Commander Joint Health is available today should you wish to discuss this strategy in more detail.

The behaviour detailed in this report is not the conduct we expect of the men and women in the Royal Australian Navy. But nor should it tarnish the reputation of the Navy more broadly or the entire ship's company of HMAS *Success*. The vast majority of our naval officers and sailors are dedicated and professional and serve our nation with distinction, as evidenced by the response of HMAS *Pirie* to the tragic arrival of SIEV221 at Christmas Island in

December. They follow the example set by the Chief of Navy in this regard, who has my total support.

Another issue in which I fully supported the approach of the Chief of the Navy was his decision late last year to place both the Australian ships *Kanimbla* and *Manoora* in operational pause. He did so on the advice of the Seaworthiness Board, which is an independent capability and quality assurance audit initiative commissioned by the Chief of Navy on 17 June last year. That board provided the Chief of Navy with an objective and independent health check on the material condition of the vessels. They have been in service with the RAN since the late 1990s, after originally being commissioned in the US Navy in 1971, and have been working extremely hard. I fully support the decisive intervention of the Chief of Navy, who demonstrated courage and sound judgment in putting the safety of his people and the seaworthiness of his amphibious ships ahead of other imperatives.

Subsequent examination found that the cost of repairs to HMAS *Manoora* and the time that that would take, balanced against the remainder of her service life, meant that the most appropriate course of action was to decommission the ship this year. The known repairs that were required to *Kanimbla* were not as extensive, plus there was further opportunity for a return on investment out to 2014. So it was decided to keep her in operational pause and progress with repairs.

It is currently anticipated that remediation will be completed no earlier than the end of this year, and the ship will be available for operation in mid-2012. Unfortunately, this means that Navy's amphibious capabilities are now limited, with the first of our two amphibious assault ships not due to come on line until 2014. To mitigate this, HMAS *Tobruk*, our heavy landing ship, is being carefully managed to ensure heavy sealift preparedness requirements can be met. Additionally, there are several alternatives for maintaining our amphibious capability that are currently under consideration. Obviously, this situation is not ideal and the secretary and I provided advice to the minister on 9 February outlining the many causes of this situation and we, and the Chief of Navy, share his disappointment at the unavailability of *Kanimbla* and *Manoora*. We look forward to supporting the independent team of experts led by Paul Rizzo, appointed by the minister, to develop a plan to address the causes of the problems facing the availability of the amphibious and support ships.

I want to now address the state of the fleet more broadly, and begin by highlighting that Navy has met all operational obligations during the past 12 months. To do so, I stress that the Navy does not need to keep all of its fleet at a maximum state of readiness all of the time. In very broad terms, about one-third of the fleet is kept on a high level of readiness. Another one-third is kept on a lower level of readiness for training and exercise and the other one-third is undergoing scheduled and unscheduled maintenance and upgrades. This is a deliberate planning approach and the only way in which we can sustainably generate the capability we require to meet our operational and contingency commitments within allocated funding. As has been made clear to all governments, higher levels of preparedness require higher levels of sustainment funding. Navy maintains a high level of activity. For example, last week Navy had 27 ships or about 50 percent of the fleet at sea at some point during that seven-day period, conducting operations, preparing for operations or undertaking training. This included seven

frigates, one submarine, 11 Armidale patrol boats, three mine hunters, one oiler and four hydrographic ships.

In terms of personnel, we have been open in reporting that Navy has some skilled workforce pressures as a result of a period of low recruitment and high separation. In recent times, this trend has reversed and the Chief of Navy has focused on the training of his workforce and has succeeded in growing it by around 500 people over the past 12 months. In addition, Navy has qualified the largest number of submariners in the past 12 months than in any previous year. As you will recall, little more than two years ago that workforce was at its lowest point. Having made it one of the highest priorities, the Chief of Navy has personally driven the recovery of Australia's submarine workforce in that short period of time.

Finally, I would like to commend to you the leadership of Vice Admiral Crane in a very challenging time for our Navy. In my view, he has initiated much-needed cultural change and capability management reform in Navy which will endure for many years to come. Indeed, his enlightened approach will not only remedy present problems but also will ensure a safe and effective transition to the Navy of the future.

Senators, thank you for your patience this morning in affording me the opportunity to make this detailed and comprehensive opening statement.

CHAIR—Thank you. Senator Feeney, does the government wish to add anything at this stage?

Senator Feeney—No, thank you, Chair.

CHAIR—In that case we will turn to questions.

Senator JOHNSTON—CDF, can I go to the speech that the minister delivered to the Australian defence magazine, *Congress*, on 15 February when he expressed disappointment amongst other things with respect to the loss of our amphibious support capability in Navy? He said in his speech that, ‘An examination of the 40-year-old ship’—and I think he was talking about *Manoora*—‘revealed significant hull corrosion and the need for replacement of both gear boxes.’ When did it become known to Navy that there was significant hull corrosion and the need to replace both gearboxes on *Manoora*?

Air Chief Marshal Houston—I will invite the Chief of Navy to come forward to answer that question.

Vice Adm. Crane—After the decision to put the ships into operational pause, we went through what was called an LPA remediation program. It was in, from memory, the middle of December that we understood that we had significant corrosion problems, particularly problems with the main reduction gearboxes.

Senator JOHNSTON—And you received a report from the Seaworthiness Board to that effect?

Vice Adm. Crane—No, Senator. This was a report from the SPO as a result of the remediation program.

Senator JOHNSTON—What is the date of that report?

Vice Adm. Crane—I do not have the actual report date with me, but it was in mid-December.

Senator JOHNSTON—I would like the date because it is six weeks later that the minister is informed, I think, that *Manoora* is to be decommissioned and that *Kanimbla* requires approximately 18 months worth of work. Is that correct?

Vice Adm. Crane—Senator, I will get those dates for you.

Dr Gumley—I may be able to help with some dates. The OEM, the American company responsible for the gearboxes, came across and between 8 and 10 December 2010. They had a look at the gearboxes. They did a scoping study –

Senator JOHNSTON—Can you just pause there. When was the OEM required to come across? When did you send a message to the OEM asking them to come across?

Dr Gumley—We did an earlier study with a local company in August 2010. They inspected *Kanimbla*'s gearboxes, and their report recommended a number of remedial actions. As our engineers looked at that, they said 'Look, we need more help', so they went back to the American source of the gearboxes to get more expert advice. I am not sure of the exact date that the Americans were asked to come over, but they got here between 8 and 10 December.

Senator JOHNSTON—So in August we knew that we needed some attention on the gearboxes.

Dr Gumley—Yes. The report recommended a number of remedial actions—

Senator JOHNSTON—What was the date of that report?

Dr Gumley—I have here in my folder that it was 30 August 2010.

Senator JOHNSTON—So on 30 August we were aware of a number of problems with *Manoora*?

Dr Gumley—Yes, and then that was leading on to the Seaworthiness Board who reported in early September 2010.

Senator JOHNSTON—Early September. Was the minister informed of either of those reports—the August report or the early September report?

Air Chief Marshal Houston—The minister was informed on 26 September, through a ministerial submission, that there would be an operational pause for *Kanimbla* and *Manoora* and that was signed by me.

Senator JOHNSTON—And what were the reasons for that?

Air Chief Marshal Houston—That was as a consequence of the Seaworthiness Board reporting to the Chief of Navy that there were some issues with the two ships. The Chief of Navy then came to me and said that he had lost confidence in the seaworthiness of the two vessels—

Senator JOHNSTON—When was that?

Air Chief Marshal Houston—and he wanted to institute an operational pause. He briefed me on 26 September, and advice was provided to the government on 26 September that there

was a need for an operational pause for the two ships. At that stage it was just that there were some issues and there was a need for an operational pause to get to the bottom of what those issues might hold and what the implications of those issues would be. So it was just, ‘We have a concern and we’re holding these ships to have a good look at them before we do anything operational with them’.

Senator JOHNSTON—So the minister was not informed of the fact that there were significant problems with 40-year-old gearboxes, requiring the original equipment manufacturers attendance in Australia, and the minister was not informed that there were significant corrosion events within the hull and the interior superstructure of the vessels?

Air Chief Marshal Houston—I would not characterise it that way, Senator. Essentially, the ships were operating. The Chief of Navy came to me on 26 September and said that he had concerns. At that stage a decision was taken by the Chief of Navy that he would not put those ships to sea and we then advised the government accordingly. At that stage I think the extent of the problems that have since unfolded were not known. We knew that they were old ships, we knew that they were 40 years old, and we knew that they had some corrosion issues. But over the years those corrosion issues have been managed in the sustainment program.

Senator JOHNSTON—Well, CDF, they are not ‘corrosion issues’. These two ships are extensively corroded. People tell me that they could punch their fists through bulkheads.

Air Chief Marshal Houston—Well people have told you that, but they have not told me, Senator.

Senator JOHNSTON—That is what I want to get to the bottom of—why you did not know about it.

Air Chief Marshal Houston—What I am getting at here is that the ships were operating, indeed they had been at sea in the immediate period before 26 September—

Senator JOHNSTON—And I am very concerned about that.

Air Chief Marshal Houston—and then the Seaworthiness Board reported to the Chief of Navy. He determined that there was a need to institute an operational pause because he had concerns about the seaworthiness of those vessels. Now, I cannot ask for any more than that from the Chief of Navy.

Senator JOHNSTON—Why is it then that the minister is very disappointed in late January—I think it is on 28 January—when he is told that in the face of Cyclone Yasi we had no amphibious lift capability?

Air Chief Marshal Houston—I think his disappointment extended to the fact that we had no heavy amphibious ship available because an unscheduled problem arose with HMAS *Tobruk*. As a consequence of that we did not have a heavy ship available. You should be aware that, given the decision to decommission *Manoora* and given the fact that we are looking at transitioning into new capabilities—the first OHD, as you know, was launched the other day—there will be a period where we do have a very limited heavy amphibious capability through the next couple of years. Now, we have made that clear to successive governments that in terms of transitioning from 40-year-old ships, the LPAs, there would be a period where we would have limited amphibious lift capability through the transition. I might add that

Tobruk is no spring chicken; it is 30 years old. It has been in commission 30 years; it was launched in 1980. I might also add that that is a normal set of circumstances. Whenever we do a transition from an old set of platforms to a new set of platforms, the transition is always a period when we have to have very careful management to maintain capability. Usually we have some sort of dip through that period. Now, we always anticipated that. But what we did not anticipate was the unscheduled arising around HMAS *Tobruk*. These LPAs are 40 years old and the *Tobruk* is 30 years old, so you must expect unscheduled arisings from time to time. What happened was that we had an unscheduled arising with *Tobruk* which needed immediate rectification.

Senator JOHNSTON—Was the minister informed in September that there was a likelihood or possibility that both of the LPAs would be off-line—one permanently and one for approximately 18 months?

Air Chief Marshal Houston—The minister was advised that we would have an operational pause for the two ships on 26 September, and I will now pass to the Chief of the Navy to answer the second part of your question.

Vice Adm. Crane—The recommendation in relation to *Manoora* went forward on 31 December. This was in relation to a recommendation that *Manoora* be decommissioned because of the lack of opportunity for a return on investment. Given that, we were looking to, under our transition plan, decommission the first of the LPAs at the end of 2012.

Senator JOHNSTON—What does ‘went forward’ mean?

Vice Adm. Crane—I beg your pardon?

Senator JOHNSTON—Who was told on 31 December?

Vice Adm. Crane—A submission went forward to the minister.

Senator JOHNSTON—So the minister received that submission when—31 December? New Year’s Day? When did he receive it?

Air Chief Marshal Houston—We will take that on notice because at that time the minister was on leave.

Senator JOHNSTON—Do we know how long the minister was on leave for?

Dr WATT—I am sure we can find out, Senator.

Senator JOHNSTON—Where does the \$20 million figure come from for the remediation of *Manoora*?

Dr Gumley—That came out of the DMO. That came from an estimate of the cost of replacing the gearboxes and the remedial work.

Senator JOHNSTON—Remedial work on the corrosion?

Dr Gumley—I am advised that the Rear Admiral Marshall will answer that question.

Rear Adm. Marshall—The \$20 million is a figure that has come out as an estimate for the remedial work to repair the gearboxes and to repair the corrosion in the hull. It includes routine maintenance that we would ordinarily conduct on the ship to repair it to a reasonable

state of material condition. It excludes contingency. Normally we would add an element in contingency because there would be growth on some of those estimates.

Senator JOHNSTON—Can you tell me where the corrosion was in this vessel?

Rear Adm. Marshall—Senator, ships are made of steel; steel corrodes. We paint the ships to try to prevent that corrosion. On large ships there is a very significant body of work required to continually manage the integrity of that hull coating and that paint coating—both on the external hull, the internal bulkheads and also on non-structural bulkheads through the whole ship. In relatively simple and perhaps benign areas—such as non-structural bulkheads in galleys, in mess decks where sailors sleep, in heads and showers and bathrooms—you naturally get corrosion build up, so there is corrosion in those areas of both ships. Some of those areas are extremely difficult to access because of the internal fit-out of the ship itself. That is normal corrosion that we get on all ships in the Navy and that would also exist in the commercial fleet. That is routine maintenance work. Similarly, we also have corrosion in the hull—the external skin—in areas of the hull structure and in the decks and bulkheads. That is a natural part of being a ship.

Senator JOHNSTON—Sure. Which part of the decks?

Rear Adm. Marshall—I am aware that there is certainly corrosion in part of the tank deck of *Manoora*. Senator, we have surveyed the whole of both ships compartment by compartment –

Senator JOHNSTON—When did you do that?

Rear Adm. Marshall—After the Seaworthiness Board sat and made its recommendation we then commissioned a team of hull surveyors, which included class surveyors from Det Norske Veritas, an international ship classification society. We commissioned Det Norske Veritas to undertake surveys of the ship and we used a team of naval hull surveyors that work for me to progress a survey through the entire ship.

Senator JOHNSTON—Both of them?

Rear Adm. Marshall—Both of them, sorry. We also commissioned teams of the fleet engineering staff to move on board those ships and survey them from stem to stern to make sure that we had a good picture of the material condition of both platforms.

Senator JOHNSTON—When was that report finalised?

Rear Adm. Marshall—I have not seen the report. I have seen the hull survey report. The written up version of that report I received within the last couple of weeks. That is because it takes up a lot of time to write up the report. Clearly there were updates to various elements of that as we progressed through time.

Senator JOHNSTON—When did we first become aware inside Navy, to the best of your knowledge, that *Manoora* would never go to sea again because of corrosion and the gearboxes problem and that *Kanimbla* required 18 months worth of work?

Vice Adm. Crane—Senator, if I could try to answer that for you. In relation to *Manoora* it was in the second half of December—I do not have a specific date for you—that we realised that the figure for bringing *Manoora* back into service was just not going to give us the return

on investment that would be appropriate. In relation to *Kanimbla* it is a little different. At that stage we were working with *Kanimbla* to bring *Kanimbla* back to a 48 hours notice for sea so that we could put *Tobruk* into a scheduled maintenance activity. It was not until 31 January that we discovered additional corrosion in HMAS *Kanimbla* that indicated to us that it was going to take a lot longer to get *Kanimbla* to a 48 hours notice.

Senator JOHNSTON—31 January?

Vice Adm. Crane—Correct.

Senator JOHNSTON—Well, I note that the minister said on 28 January:

... I was advised that with the decommissioning of HMAS *Manoora*, and the extended unavailability of HMAS *Kanimbla*...

That was before 31 January, so we have a problem here, haven't we, with dates?

Vice Adm. Crane—We clearly have, and I will go away and check that date.

Senator JOHNSTON—Let us come back to the point. You have told the minister on 31 December, on New Year's Eve, of the problems with these two vessels in a report to the minister. Is that correct?

Vice Adm. Crane—In relation to the decommissioning of HMAS *Manoora*, yes.

Senator JOHNSTON—The minister says that when he received that advice he asked the secretary and the CDF for advice outlining the reasons for the decommissioning of *Manoora* and the unavailability of *Kanimbla*. In his speech he is clearly surprised by the loss of that capability even for the 18 months on *Kanimbla*. That is obviously what he is saying in this speech. So he has been taken by surprise; he has been ambushed. That is the clear inference from what the minister has said with respect to LPA capability in the Royal Australian Navy.

Air Chief Marshal Houston—Essentially, with our plan, as the Chief of Navy has indicated, we were working on the basis that *Kanimbla* would be available through the early part of the year. In fact we had extensive discussion about ensuring that we had at least one heavy amphibious ship available right through the next 12 months and beyond. Then I was advised by the Chief of Navy on 28 January that there was a problem with *Kanimbla*. Essentially, shortly thereafter we informed the minister of that.

Senator JOHNSTON—On what basis did you and the Chief of Navy maintain a view that *Kanimbla* would be available for the first part of 2011? Who told you that was likely to be the case?

Vice Adm. Crane—Until late January—and I will check the date—that was the advice that I was getting from the remediation program that was in place for both ships: that *Kanimbla* would be able to get back to a position of 48 hours notice for sea by the end of January.

Senator JOHNSTON—Who was giving you that advice?

Vice Adm. Crane—That came from the SPO.

Senator JOHNSTON—This is the SPO that was removed in 2007 because of 'systemic and cultural problems' in providing an accurate assessment with respect to those two vessels and that was reinstated in 2008? This is the same SPO—is that correct?

Vice Adm. Crane—There was no SPO removed.

Senator JOHNSTON—All right, we will come to that.

Vice Adm. Crane—The SPO has been in place for a long time.

Senator JOHNSTON—So the SPO told you that *Kanimbla* was okay?

Vice Adm. Crane—Certainly not. There were some pressures in *Kanimbla* and she needed serious work but we could get her back to a position where the risks to operating *Kanimbla* would be tolerable with continuous review, such that we could get *Tobruk* into a maintenance activity, get *Tobruk* back online, and then put *Kanimbla* into an extended maintenance activity. It was certainly not that everything was okay with—

Senator JOHNSTON—We will come to *Tobruk* in a minute. The minister says that the report from the secretary and CDF identifies ‘systemic and cultural problems in the maintenance of our amphibious ship fleet’.

Air Chief Marshal Houston—That was not the advice that was provided on 28 January.

Senator JOHNSTON—So the minister has got that wrong?

Air Chief Marshal Houston—No. I think if you check the minister’s—

Senator Feeney—I think we might be well served, Senator, if you quote the minister directly rather than characterise his remarks.

Senator JOHNSTON—I would be delighted to do that, Senator. If I can quote—

Air Chief Marshal Houston—Can I just finish? I think you are quoting from a two-page letter that was signed by the secretary and me about these.

Senator JOHNSTON—I have that.

Air Chief Marshal Houston—That was provided to the minister at a much later stage than the—

Senator JOHNSTON—9 February.

Air Chief Marshal Houston—Yes, precisely. You have jumped from 28 January to 9 February; I just wanted to make that clear.

Senator JOHNSTON—I am reading from a speech dated 15 February.

Air Chief Marshal Houston—Sure, but we were talking about the end of January and the issues surrounding *Kanimbla*, and then we suddenly had a 10-day jump.

Dr Watt—Senator, before you go on, there is another point of clarification that I think is important. Quoting from the minister’s speech of 15 February, which I have open in front of me, you said that you believe—your interpretation—that the minister was surprised. I cannot find that in the minister’s speech at all. The word ‘surprised’ is not there. That is your interpretation.

Senator JOHNSTON—He says that he is extremely disappointed, doesn’t he?

Dr Watt—‘Disappointment’ does not equal ‘surprise’, Senator.

Senator JOHNSTON—Okay. On receiving the advice, he has asked the secretary and the CDF to ‘provide advice outlining the reasons’, but he goes on to say:

Their advice, which I am releasing today, was a frank appraisal and identifies systemic and cultural problems in the maintenance of our amphibious ship fleet for over a decade or more.

Air Chief Marshal Houston—Correct.

Senator JOHNSTON—What are the systemic and cultural problems that he is referring to, please.

Air Chief Marshal Houston—I think you have referred to these ships as having some corrosion. But if we go back to the acquisition of the ships in the 1990s, these were second-hand ships. They were purchased—

Senator JOHNSTON—In 1994.

Air Chief Marshal Houston—without the normal logistics support package, without the normal support that is purchased with a brand-new platform. As a consequence of that, I think some of the support that has been provided to the ship has not always been optimal. I think we have a ‘can-do, make-do’ descriptor to the way that the two ships have been maintained through time. When you check their availability through time, they have been reasonably available along the way. But we have not had a maintenance baseline to maintain the ships against and there have been other deficiencies in terms of the support package that was purchased in the first instance as the ships have become older. Old ships are incredibly difficult to maintain and essentially some of those shortcomings that came with the lack of an integrated support package have really come to bite us as the ships have got old.

Senator JOHNSTON—But those words ‘systemic and cultural problems in maintenance’ do not refer to the failure to have initial capability upon acquisition, because he goes on to say:

It outlines the adverse side effects of a ‘can do’ and ‘make do’ ... and a lack of sufficient adherence to verification, certification and assurance processes.

That is not to do with what was on the vessel or encompassed within the vessel when it was purchased; that is to do with its day-to-day management in terms of maintenance. How can we not have proper cultural and systemic practices with respect to certification? How does that happen? How many people are on this ship, by the way? Can I ask you how many personnel we have at risk, and apparently have had at risk for some long time in this—200?

Vice Adm. Crane—Perhaps I can try to help here. The issue of systemic and cultural issues really goes, as the minister mentioned, to the ‘make-do, can-do’ attitude that was existing as people tried to keep these ships available, and they pushed hard to meet the operational requirements that these ships had set on them. With respect to what happened when the Seaworthiness Board came in to have an independent look at these arrangements, their advice to me was that the approach was very much being taken in silos in a risk sense. In many cases you can apply quite reasonable waivers in one part of a maintenance activity in a ship. But when they put it all together and took an aggregated risk approach, there was sufficient concern for them to recommend to me that we pause and take a very good look at

what was happening. So what was happening was a culture of trying very hard to meet the requirements, and an aggregated risk approach would suggest that we needed to take a pause.

Senator JOHNSTON—He also goes on to say—and I will quote for the benefit of the minister:

It outlines insufficient resources being applied to address shortcomings.

Does that mean lack of money?

Dr Gumley—No, it does not mean lack of money; the budget was adequate—

Senator JOHNSTON—I am hoping that it does not, because you gave back \$600 million last year.

Dr Gumley—There is not a lack of money to look after the amphibious ships. In most of the years, our expenditure did not meet the budget and we actually had a lot of trouble getting all the work done.

Senator JOHNSTON—What does he mean by ‘lack of resources’?

Dr Gumley—I think it is more about skilled staff. There have been difficulties over many years in getting skilled professional staff in that part of Sydney willing and able to work on those ships.

Senator JOHNSTON—In the nature of what sorts of skills? I am sure that industry is very interested to hear what you are going to identify as the shortage. Tell me which particular skills are short in terms of corrosion and gear box.

Rear Adm. Marshall—The amphibious and afloat support SPO has been staffed with great people over the last 10 years who have worked, in my view, inordinately hard to support the ships that they see themselves personally responsible for. They are very dedicated and have worked extremely hard. In some areas, their competence to manage the complexity of an obsolescence program and the complexity of a maintenance program without the logistics products that would normally be provided has certainly been lacking. For us to expend money to execute maintenance, we need teams of people who can assess materiel condition in conjunction with ship staff who can then compile the work packages, prepare the work specifications for repair and then contract that into industry.

In the amphibious and afloat support SPO, we have lacked that competence and the capacity to do that for a good number of years, despite the best intentions of the many people who have been working there, who have sought very hard to meet a rapidly changing operational environment and have sought to manage the risk to keep the ships operational where they have been required to do so. The skills that we lack are the detailed engineering skills and the logistics competencies, probably more so than engineering, because we have engineers there—not enough—but we certainly do not have the deep, specialist logistics skills to manage that program.

Senator JOHNSTON—Is this across the board or just with respect to the amphibious SPO?

Rear Adm. Marshall—We have other SPOs in Sydney who do have difficulty recruiting in some specific skill areas. Just as an example, at the moment, as part of the remediation of

the amphibious and afloat support SPO, I have approved them to recruit, since August, 28 people. They have had five recruitment actions where they have had no applicants at all, and they are in the engineering and logistics areas. Conversely, for an APS 5 level public servant position or of a finance and administrative skill set, they have had 57 applicants. So you can see that, in the engineering and logistics field, it is extremely tough for us to recruit people in Sydney.

Senator JOHNSTON—Let us come back to when the minister asked for his advice. The minister was told on 28 January that he had no amphibious lift. When did he ask for his advice?

Vice Adm. Crane—When did he ask for which advice? I am not clear.

Senator JOHNSTON—He said that he asked for advice from the secretary and the CDF as to why *Manoora* was to be decommissioned and why *Kanimbla* would not be online for 18 months. When did he ask you for that?

Air Chief Marshal Houston—Could you just give us the reference that you are referring to?

Senator JOHNSTON—Sure. In the speech, he says—

Senator FEENEY—Are you quoting from that same speech, Senator?

Senator JOHNSTON—Yes. He says:

On receiving that advice—

that is, that *Manoora* and *Kanimbla* would be offline—

I asked the Secretary ... and the Chief ... for advice outlining the reasons for the early decommissioning ...

When did he specifically ask you for that?

Air Chief Marshal Houston—We can take that on notice, if you would like, because I think there is just a little issue with the date.

Senator JOHNSTON—Okay. How many sailors are on board *Kanimbla* at any given time, approximately?

Vice Adm. Crane—The crew is in the order of 230.

Senator JOHNSTON—This vessel came within 20 metres of North Head, did it not, and called the tugs out to save it from foundering?

Vice Adm. Crane—There was an issue last year, yes, where they had a power failure on departure from Sydney and they were without power for in the order of 30 minutes.

Senator JOHNSTON—It was an emergency.

Vice Adm. Crane—Yes, they had lost power.

Senator JOHNSTON—And they were headed for a grounding on North Head in Sydney Harbour.

Vice Adm. Crane—They had called for tugs and tugs were on the way, but they recovered power and were able to get underway.

Senator JOHNSTON—What was on board the vessel? There was a Tiger helicopter, wasn't there?

Vice Adm. Crane—I would have to check. I will take it on notice.

Senator JOHNSTON—I am pretty sure there was—valued at about \$90 million. What other munitions and other contaminants for the Sydney Harbour environment were on board this vessel?

Vice Adm. Crane—You would have the normal fuel.

Senator JOHNSTON—How much fuel was on board?

Vice Adm. Crane—I will take that on notice.

Senator JOHNSTON—A \$90 million helicopter and some fuel. I would like to know about munitions. I would like to know about any other contaminants that would have impacted upon the Sydney Harbour environment if this ship had sunk. We have a system of maintenance and it is called AMPS, is it not?

Vice Adm. Crane—That is correct.

Senator JOHNSTON—How do we monitor and run our AMPS system? Don't we have a maintenance schedule system where we set out all of the problems with these vessels on a monthly or weekly basis?

Rear Adm. Marshall—Not quite. Since about 2000, Navy rolled out a product called AMPS, the asset management planning system. It is a commercial product and we manage our maintenance and other activities in that system. It does include the scheduling of maintenance weekly, monthly through to typically about five years, which is the longest maintenance cycle on the ship. Perhaps I can comment on where I suspect you may be heading. In the amphibious and afloat support, and with respect to ships, because of their age, because we do not have all of the logistics products, the data for those ships in some areas has not always existed and therefore has not been able to be loaded into that maintenance planning system. There have also been areas where some of that data which did exist, I understand, has been loaded into the system but has not been triggered for action.

Senator JOHNSTON—Explain to me what on earth that could possibly mean. So there is a problem with remedial problems in the system but then not actioning them?

Rear Adm. Marshall—There is a difference. If you talk about remedial problems, that is corrective maintenance—fixing a defect—as opposed to planned maintenance, which is an ongoing cycle. I am talking about the planned maintenance activities, some of which were loaded into your computer, like you would load a diary entry into Outlook, Lotus notes or whatever you use. But in AMPS you sometimes have to set a start date to trigger that activity so that the diary will tell you that there is an entry required.

In the amphibious and afloat support ships, some of those tasks were not triggered; they were loaded but not triggered. To be honest, I would suspect that some were not loaded and then there were tasks which we did not actually own and we could not get access to.

Senator JOHNSTON—Admiral, you have come from the patrol boats SPO, which is a new platform, and you now have this job. When did you take over your current job? I just

want to clear up that it is not your fault; that, I think, is the way we will deal with that. When did you take over?

Rear Adm. Marshall—Thank you for that, Senator. I took over this job, I think, around 27 January last year—2010.

Senator JOHNSTON—For how long have we had actions going into AMPS and not being actioned, on these amphibious vessels?

Rear Adm. Marshall—In the amphibious vessels, I think AMPS was first loaded to those ships in about 2001-02, and parts of that have been used and parts of that have not been effectively used since then.

Senator JOHNSTON—Let us go on to the minister's speech where he says that he was told:

... Navy was maintaining HMAS *Tobruk* at 48 hours notice for sea to ensure an amphibious lift capability was available.

Minister, I have quoted that directly from his speech. Who told the minister that *Tobruk* was available on 48 hours notice on 28 January?

Air Chief Marshal Houston—Could you give us a couple of seconds to check? I believe that it was probably my submission that went across on 28 January.

Senator JOHNSTON—Where did you get that information from, please?

Air Chief Marshal Houston—From the Chief of Navy, but I was very much aware that, without *Kanimbla*, that left *Tobruk*. Essentially, we had talked about it, but the Chief of Navy confirmed that, with *Kanimbla* going out, *Tobruk* would be the sole heavy-lift ship available.

Senator JOHNSTON—Are you aware that there were significant mechanical and structural repairs to be carried out on *Tobruk* dating back to August of last year that were not done? Did anyone ever tell you that?

Air Chief Marshal Houston—One of the things that we were trying to do was to manage the amphibious fleet so that we had a ship available. You are characterising it in a particular way.

Senator JOHNSTON—When the minister was told that the ship was available on 48 hours notice, that was not true—and everybody in the DMO and anybody who had anything to do with the maintenance of that vessel knew that it was not true. It had a great big patch put on the side because the rust had come through the hull and the propeller shaft bearings were completely shot and had been so since August; and the DMO were mucking around, trying to decide where they would spend the money.

Air Chief Marshal Houston—That is your characterisation—

Senator JOHNSTON—Well, you tell me that is not true.

Air Chief Marshal Houston—I might ask the Chief of Navy to address that, because he was keeping me informed about amphibious ship matters.

Vice Adm. Crane—Yes, we were aware that there were some issues that we were carrying in HMAS *Tobruk* at the time.

Senator JOHNSTON—Some issues?

Vice Adm. Crane—Yes. As you have suggested, one of those was that, in early December, we carried out an emergency repair or a temporary repair to some hull plating underneath the engine room—what was done was that it was filled with concrete to reinforce it—on the basis that the ship was going to go into a maintenance activity in February. That was sufficient to keep the ship available. The way we managed this was that we characterised the risk, and the risk assessment against everything that we knew about the ship at the time told us that the risk was acceptable with continuous review. So we were continuing to monitor those known deficiencies that we had in the ship, but that did not affect the availability of the ship at that time.

Senator JOHNSTON—You told the minister that the ship was on 48 hours notice and, by 2 February, he has been advised that *Tobruk*:

... was to commence maintenance work in order to be fully prepared to provide any assistance in the days following Cyclone Yasi ...

Clearly, it was not on 48 hours notice and, within two or three days of having said that to him, that had to be changed. So, clearly, it was a false statement given to the minister.

Vice Adm. Crane—That is not quite correct. At the time, the ship was at 48 hours notice for sea on the basis of the risk assessment that had been done. What changed was that when *Kanimbla* was no longer able to be held or brought to 48 hours notice for sea, we needed to maintain *Tobruk* for a longer period of time. We could not get *Tobruk* into that planned maintenance activity in February. As a result of that, the centre for marine engineering, which is charged with the risk assessment, reassessed on 1 February its risk assessment on that patch, and that risk assessment moved from being tolerable to intolerable. So we needed to conduct a very quick repair—

Senator JOHNSTON—Intolerable to get to Queensland.

Vice Adm. Crane—It was intolerable for longer term maintenance of 48 hours notice for sea for the ship.

Senator JOHNSTON—On 4 February, the minister says he was told that *Tobruk* ‘had left its dock and was being prepared to return to 48 hours notice’. Who told him that?

Vice Adm. Crane—I did.

Senator JOHNSTON—It is still not ready, is it, and it has never been ready since 28 January? Is that not true?

Vice Adm. Crane—On 4 February, I advised the minister that it had left the dock and it was being readied to come back to 48 hours notice. On 5 February, I advised the minister that we had some significant difficulty with some of the critical systems on board the ship—

Senator JOHNSTON—That you had found out about on 5 February.

Vice Adm. Crane—that would require additional work before we could achieve 48 hours notice for sea.

Senator JOHNSTON—What were those problems?

Vice Adm. Crane—They related to critical systems, many of which had been deferred from a previous maintenance package.

Senator JOHNSTON—Propeller shaft bearings?

Vice Adm. Crane—No. The propeller shaft bearing was not a major issue. In fact, after the docking that was conducted, we learnt that we had more on the bearing than we thought we had. We were able to, in the dock, have a closer look at the actual wear on the bearing, and the advice that I received was that we now had more than we had originally thought. So that is not a major problem, although it does need to be fixed in the not-too-distant future.

Senator JOHNSTON—Certainly to go to Queensland.

Vice Adm. Crane—That was not a major issue for us in the short term. More important, however, were some of the critical systems like fuel hoses, hoses which are under high pressure—

Senator JOHNSTON—And we have had plenty of experience with those, haven't we? Four people died on *Westralia* as a result of fuel hose negligence.

Vice Adm. Crane—It is a slightly different issue. The issue here in *Tobruk* was that I was looking to be convinced that we had what we call the 'objective quality evidence' that the hoses were in date and tested appropriately, and that took some time to complete.

Senator JOHNSTON—Did you not know about any of these things or find out about them when you told the minister that this vessel was available on 48 hours notice, in the face of a very severe cyclone in North Queensland?

Vice Adm. Crane—I was not aware of the magnitude of the flexible hose issue at that time, no.

Senator JOHNSTON—Why not?

Vice Adm. Crane—That information was just not available to me until we brought the ship out of dock.

Senator JOHNSTON—So you are giving the minister the comfort and reliability of having a capability at his fingertips when it is just not true that it is there. That is the bottom line, isn't it?

Vice Adm. Crane—What I was advising the minister was that we were bringing the ship back to 48 hours notice. When it became evident that we had some difficulty, I advised him on the 5th that we had some further work to do.

Senator JOHNSTON—The vessel is still not ready or seaworthy.

Vice Adm. Crane—The vessel is not at 48 hours notice for sea, no.

Senator JOHNSTON—When will it be? Just in case we have another cyclone, where do we stand, so that the minister can learn from this whole proceeding as to what he is facing?

Vice Adm. Crane—I am hopeful that, in the very near future, we will be able to achieve that 48 hours notice.

Senator JOHNSTON—Could you possibly define 'very near future' for me?

Vice Adm. Crane—I am hoping that it is days.

CHAIR—On that basis, we might take a break.

Dr Watt—Mr Chairman, on a point of clarification?

CHAIR—Yes, Dr Watt.

Dr Watt—Again, while we are quoting from the minister's speech and the nature of the advice given on 4 February, I think the minister himself makes clear that it was 'further' maintenance issues and problems that were identified—with emphasis on the word 'further'.

Senator JOHNSTON—Sure.

CHAIR—Thank you, Dr Watt.

Proceedings suspended from 10.30 am to 10.47 am

CHAIR—The committee will come to order.

Dr Watt—We were talking about chronology in the previous session. It might be useful if we just confirm a little bit of the January chronology that Senator Johnston has been working his way through. The first issue is: when did the department advise the minister of the proposal about *Manoora*? The chronology is affected by the Christmas-New Year period. As I understand it, the CDF signed the submission on 31 December. It arrived in the minister's office, which was closed for Christmas, on 6 January. The minister returned from leave. He was on leave from 23 December to 9 January inclusive. He returned from leave on 10 January. The submission in relation to *Kanimbla* that Senator Johnston was discussing or raising with us was signed off on 28 January and, on 1 February, the defence minister and the Minister for Defence Materiel made public the issues in respect to *Kanimbla* and *Manoora*.

Air Chief Marshal Houston—I mentioned the submission on 28 January. I said that the information was signed off by me. In actual fact, the information on 28 January was signed off by the Acting CDF, General Hurley.

CHAIR—Thank you.

Senator JOHNSTON—The Seaworthiness Board that you commissioned in 2009 has done three things, to my knowledge. Am I correct here? Firstly, it reviewed submarines; secondly, it reviewed Navy diving; and, thirdly, in September, it reviewed amphibious ships. Who chose those priorities?

Vice Adm. Crane—Ultimately I approve the program that they execute. They put forward recommendations. In relation to the submarines and the diving community, that was more a pilot program to, if you like, bed down the processes. But essentially the LPAs were a significant priority for me and, on recommendation also from my fleet commander, they were the targeted one for the third consideration.

Senator JOHNSTON—But this was all after this event off North Head brought it to your attention, was it not? A bit of urgency: 'We've almost lost the vessel in Sydney Harbour.'

Vice Adm. Crane—I would need to check the dates. Certainly, in my mind, it was not necessarily tied to the issue with HMAS *Kanimbla*. I would have to check the actual dates when I approved that program, to be careful that I do not give you the wrong information.

Rear Adm. Marshall—Perhaps I can assist. My understanding and recollection is that the issue with *Kanimbla* off Sydney Heads occurred the day before the Seaworthiness Board was due to sit, which was totally coincidental. The Seaworthiness Board is scheduled several months in advance.

Senator JOHNSTON—So the Seaworthiness Board had on its agenda the LPAs?

Rear Adm. Marshall—That is correct.

Senator JOHNSTON—So we were, long before the event in Sydney Harbour, looking at the seaworthiness of these vessels?

Vice Adm. Crane—That is correct. It had been programmed for the Seaworthiness Board to look at these vessels.

Senator JOHNSTON—Why was it programmed for the board? What were we concerned about, the capability of these two vessels particularly, and was *Tobruk* part of the assessment?

Rear Adm. Marshall—No, *Tobruk* was not part of this particular assessment.

Senator JOHNSTON—Just *Manoora* and *Kanimbla*?

Rear Adm. Marshall—*Manoora* and *Kanimbla*.

Vice Adm. Crane—It was because we recognised that these vessels were getting older. There was a concern to make sure that they could continue to operate safely and they were an appropriate opportunity for us to use the Seaworthiness Board.

Senator JOHNSTON—When, before 28 January, was the minister ever informed that there was a possibility that *Manoora* and *Kanimbla* would be offline for not less than 18 months?

Air Chief Marshal Houston—I do not believe that the minister was informed about that before that date, because that was not anticipated. We anticipated having *Kanimbla* available. Then, when *Kanimbla* went out, we informed the minister, and that was the first that he would have known about the fact that we had the two LPAs out of action.

Senator JOHNSTON—What are we doing with *Kanimbla* precisely? How much are we spending and who is doing the work?

Vice Adm. Crane—I might ask Admiral Marshall to address the detail. But the work package is, as I understand it, still being developed. We still have some more work to do in terms of the detail for the contracting. But, as I understand it, the critical path, the main reduction gear box issue, is well understood at this stage.

Senator JOHNSTON—We are obviously going to take the parts off *Manoora* because the OEM cannot probably help us and we are going to put them on *Kanimbla*, are we not?

Rear Adm. Marshall—We are looking at several streams of work to identify the parts that we require for both main reduction gear boxes. The gear boxes in *Kanimbla* are not in as bad a state as those in *Manoora*. We are seeking to identify whether we can access the repair parts directly from the United States Navy, which may have some older LSTs, the original ships, still in their inventory. Personally, I am concerned about that as an option because they will be 40 years old and potentially will have been sitting idle for some years. They may not be as

worn, however, as ours. We are also seeking the drawings of those gear boxes so that we can manufacture parts ourselves here in Australia, if we need to, and we are also talking to the OEM, the original equipment manufacturer. He has, I understand, been bought out at least once, but we have tracked that chain. So we have several streams of work progressing to allow us to get the parts to rebuild those gear boxes.

Senator JOHNSTON—That is good, thank you. The minister said that he had been advised that \$20 million on *Manoora* was not cost efficient. What is the estimate for *Kanimbla*?

Rear Adm. Marshall—The estimate for *Kanimbla* is currently between \$22 million and \$28 million. The reason for that delta is a value of contingency that we attribute to that work. So we expect it to come in somewhere in that bracket. The real issue with *Manoora* for the \$20 million is that, in Navy's amphibious capability transition plan—Defence's amphibious capability transition plan—one of the ships had to be decommissioned in 2012 and we chose that to be *Manoora*. And for \$20 million to allow us to phase and execute the production work, the estimate was that we would get nine months operational availability from that ship and that was not worth the expenditure of \$20 million plus contingency.

Senator JOHNSTON—I think that is a very reasonable assessment, if I may say so. I turn to the document of 9 February, which the minister has asked for, and take up the matters raised in paragraph 8. Of course, that document is the one that is signed by CDF and the secretary. If I can quote, minister:

In the DMO, competence in the systems program office had fallen well beyond an acceptable level. In December 2006, the naval technical regulating authority removed the authorised engineering certification from the SPO on the basis that adequate processes to ensure conformance with regulatory requirements were not in place.

Please tell us what happened there and why that happened. In 2006, we have sacked the SPO from certifying the seaworthiness of this vessel? Is that not right?

Rear Adm. Marshall—Defence has a policy for the regulation of technical materiel that is established to provide assurance that Defence materiel is safe, fit for service and environmentally compliant. In 2006—late December is my understanding—the Chief Naval Engineer at the time had concerns that the SPO were not following the processes that the Chief Naval Engineer had approved and, therefore, he withdrew their authorisation.

Senator JOHNSTON—This is with respect to LPAs?

Rear Adm. Marshall—This is for the SPO. The SPO at the time had multiple platforms, not just the LPAs. And it still does have multiple platforms.

Senator JOHNSTON—What other platforms did the SPO that has been removed have? What else was he looking after?

Rear Adm. Marshall—The SPO has not been removed. Their authorisation has been removed as an engineering organisation.

Senator JOHNSTON—I stand corrected.

Rear Adm. Marshall—The platforms that they had were the two LPAs, HMAS *Tobruk*, the landing craft heavies—the six LCHs.

Senator JOHNSTON—They are in Darwin, aren't they?

Rear Adm. Marshall—Four in Cairns and two in Darwin. They were the Army marine platforms, the LCM8s, and other materiel, HMAS *Sirius* and *Success*, the two fleet tankers, and the sail training ship *Young Endeavour*.

Senator JOHNSTON—So that certification capacity was removed because of competence issues?

Rear Adm. Marshall—Because the Chief Naval Engineer was concerned that he did not have the assurance of technical integrity.

Senator JOHNSTON—In common parlance, he did not trust what he was being told by the SPO.

Rear Adm. Marshall—He was concerned that the SPO was not following the processes that he had authorised in making engineering decisions, which is somewhat different from competence issues.

Senator JOHNSTON—Between December 2006 and May 2008, who did the certification of that fleet of vessels that we have just discussed, all those amphibious vessels?

Rear Adm. Marshall—I do not have the exact answer to your question, because I do not know who did the work back then.

Senator JOHNSTON—I am hoping that after lunch you can take a minute or two to tell me who did it—and, if nobody did it—

Rear Adm. Marshall—No, it would have been done.

Senator JOHNSTON—I would like to know by whom, because, in May 2008, we gave it back to the SPO. Why would we give it back to him if we have removed him for competence issues?

Rear Adm. Marshall—To reinstate the authorisation, the Chief Naval Engineer at the time did a review of the processes in the SPO and of the engineering delegations within the SPO and assessed the people to be competent, the delegations to be appropriate, the engineering management plan to follow due engineering process and that they had quality management systems in place.

Senator JOHNSTON—And now we have taken it off him again.

Rear Adm. Marshall—Correct.

Senator JOHNSTON—And obviously it is because of these last three months events.

Rear Adm. Marshall—When the Chief Naval Engineer in May 2008 completed his audit of the SPO and reauthorised the SPO, he nominated that the SPO was to be audited again in May 2011, this year. The now head naval engineer conducted an audit in December and, following that audit and some supporting documentation, he has again withdrawn that authorisation.

Senator JOHNSTON—Thank you for that, Admiral. CDF, you have said in paragraph 10 of your document—the operational pause was invoked:

Had this not occurred, it would not be unreasonable to predict an increased risk of a repeat of a Sea King sort of accident—

as we had in 2005, I take it is what you meant—

which killed nine of our ADF people.

What did you envisage was going to be the sort of event in *Manoora* and *Kanimbla* that would rival the loss of nine personnel as a result of all this? They are your words. What were you thinking when you said that?

Air Chief Marshal Houston—Precisely what I said in my opening statement. Essentially we need to put the safety of our people and the seaworthiness of ships before any other imperatives, and it is just unacceptable to me that we would operate a ship that was not seaworthy. In my view, the decision to invoke the operational pause was absolutely essential. I know that you have already mentioned the loss of power in Sydney Harbour, but the consequences of having a major breakdown at a critical time could result in our people being imperilled. That was what I was getting at and that was what that last paragraph is all about.

Senator JOHNSTON—So this whole scenario over the last three months with these two LPAs is of such significance that you actually were fearful of loss of life?

Air Chief Marshal Houston—Let me put it this way. The Chief of Navy conducted a seaworthiness board. The Seaworthiness Board is very much like the airworthiness boards that are conducted as part of the airworthiness management system. This was an initiative taken by this Chief of Navy. The seaworthiness management system is, as I said in my opening remarks, is really an independent quality assurance for the Chief of Navy on all inputs to capability. In other words, is everything in order so that we can prevent something catastrophic happening? Are we operating with acceptable risk? Do we have a robust capability? Following the recommendations from the Seaworthiness Board, he came to me and expressed deep concern about the seaworthiness of those two platforms, which were approaching 40 years of age. He spoke to me about the fact that we did not have a good baseline for understanding the maintenance of the ship, particularly at this stage. We had deficiencies in our systems, as Admiral Marshall has very eloquently told you earlier today, and what I was concerned about after this was: could we operate these ships safely and ensure that their seaworthiness was maintained through to the time when we transitioned to the new capability?

I guess we always knew that the last couple of years of operating these ships were going to be challenging. After all, they are very old. A lot of parts are not available; so there are obsolescence issues and there are all sorts of other issues that we discussed earlier today. So I totally support the decision that was made for the operational pause and I totally support the decision to decommission *Manoora*. I also think it is important that we do the work package on *Kanimbla* because we do need that ship back, seaworthy, providing a capability for us in the period before we transition to the LHDs, the landing ship helicopter dock.

Senator JOHNSTON—Which are four years away.

Air Chief Marshal Houston—The first one, 2014, is actually about three years away. We obviously are looking at how we maintain the capability through time. We are doing that in a

very consultative way with the government, and the government is very responsive to the needs to maintain the capability.

Senator JOHNSTON—The decision prior to September of last year to try to get the two vessels across to 2014 is clearly now, with the benefit of hindsight, a flawed decision.

Air Chief Marshal Houston—I think you need to have a much closer look at it. I had a look at the availability figures for these ships over time. We have actually worked them pretty hard and—

Senator JOHNSTON—That is why I think there is a problem.

Air Chief Marshal Houston—We have worked them hard, but their availability has actually been reasonable when you look at the history of the platform.

Senator JOHNSTON—But that is the problem.

Air Chief Marshal Houston—That is not the only problem. These are complex weapons systems. You can look at it simplistically, but I think there are a wide number of factors that need to be considered in terms of the seaworthiness of these platforms. We have spoken very frankly about them over recent weeks, but it was always going to be very challenging to keep them going through to the time that the LHDs arrived.

Senator JOHNSTON—There are two things that I want to talk about just in closing off this topic. Firstly, the minister has said:

The current state of our amphibious lift capability is a sobering reminder of the challenges we face and the risks that we run if Defence and Defence Industry don't get it right.

Have Defence Industry had anything to do with these two ships being in the current position that they are now in, Dr Gumley?

Dr Gumley—Yes. Clearly Industry has been maintaining these ships under contracts to DMO. In addition, to supplement the staff resources inside the SPO, we contracted Rolls Royce and they have worked with us since 2007 first with, I think, about 19 people and, in the last 12 to 18 months, with 35 people. So what we have had to do is work with industry to get the skills and resources that we needed into the SPO.

Senator JOHNSTON—But the industry only does what you tell it to do.

Dr Gumley—Yes, they do. But with the Rolls people, they are actually acting more like DMO staff, because we have not been able to get our own staff. I do not want any criticism to rest with them. They have worked their very hardest and their very best over the last couple of years.

Dr Watt—Mr Chairman, I wonder whether I could make two points about Senator Johnston's previous line of questioning because I think they are important. I crave indulgence.

CHAIR—Yes.

Dr Watt—The first is that Senator Johnston said that the decision to rely on *Manoora* and *Kanimbla*, the two ships, out to 2014 was clearly not a lie. I am not sure of the exact words.

Senator JOHNSTON—A flawed decision.

Dr Watt—That decision actually goes back much longer than that. When a previous government agreed to the purchase of the two LHDs, Navy was included—

Senator JOHNSTON—The previous government actually did not purchase the two LHDs. It was a 1994 purchase for \$50 million, and we had to spend \$280 million bringing them up to speed.

Dr Watt—Sorry, Senator. Landing helicopter docks are being constructed in Spain now, one of which will be out here at the end of 2014. When that was agreed by Defence, there was provided a full transition plan, which was exactly the same as the transition plan late last year. So nothing has changed. That transition plan has been in place for a very long period of time. That is a very important point to make. It is not new.

Senator JOHNSTON—Clearly it is flawed.

Dr Watt—If it is flawed, it always has been flawed.

Senator JOHNSTON—That is true. Do you think the minister actually drew it up? Do you think the government drew it up? Who would draw up a transition plan from LPAs to LHDs? The department?

Dr Watt—The Department of Defence drew the transition plan up, but the Department of Defence quite properly, as part of that LHD decision, took that to the government of the day and it was considered by the National Security Committee. And that is a fact.

Senator JOHNSTON—So they bear the responsibility, I suppose you are going to tell me, for the misdrawing of the specifications on the watercraft too?

Dr Watt—That is not what I am telling you, and you know that.

Senator JOHNSTON—They take advice, just as the current minister takes advice.

Dr Watt—What I am saying to you is that the Department of Defence, as part of a major capital acquisition program, quite properly put its transition plan to government, full stop.

Senator JOHNSTON—And the government relied upon the certification expertise of a SPO that clearly has significant cultural and systemic problems.

Dr Watt—And the government of the day was also aware that these were fragile platforms. After all, they are 40 years old.

Senator JOHNSTON—The government listens to what you, Secretary, tell it. And let me tell you: the decision to link these vessels across to 2014 is utterly flawed.

Dr Watt—That is wrong in two respects. The government gets advice from all sorts of quarters, as you and I both know; and, secondly, the government certainly gets advice from me but not in this particular case, because I was not here.

Senator JOHNSTON—No.

Dr Watt—Another point which I think is important goes back to the Sea King point. That is, if you go back to paragraph 10 and you look at the wording there, it is important to realise that what that sentence says is that ‘it would not have been unreasonable to predict an increased risk of a Sea King style accident’. It does not predict a Sea King style accident. It

actually indicates that there was a higher risk. It was the increase in risk that we were dealing with, not the prediction of an accident.

Senator JOHNSTON—I think that is semantics, if I may say so.

Dr Watt—I do not at all. I think it is quite important.

Senator JOHNSTON—Can I move on to these watercraft? The minister has said—

CHAIR—Before you do that—

Senator JOHNSTON—It is the same thing.

CHAIR—Is it the same topic?

Senator JOHNSTON—It is on the *Manoora* and *Kanimbla*.

CHAIR—All right.

Senator JOHNSTON—The minister has said that the dimensions and weight of the watercraft meant that they were unsuitable to be launched from *Manoora* and *Kanimbla*. That is a press release of 1 February 2011. Who advised the minister of that?

Air Chief Marshal Houston—We would need to take that on notice. I imagine it would be the secretary and the CDF, but we need to check.

Senator JOHNSTON—Let us push on. The minister has issued a press release. He specifies that the dimensions and weight of those craft are unsuitable and he promptly cancels the \$40 million project. I want to know who drew the dimensions and what weight issues there are, because the minister has stated that they are the wrong size. How could that possibly be the case?

Dr Gumley—Mr Warren King has been handling that matter within DMO and he might be able to help you with this.

Mr King—I am responsible for projects of concern. This project is a project of concern.

Senator JOHNSTON—It is not anymore because he has cancelled it.

Mr King—That is true and, of course, that is one of the outcomes of projects of concern—where we have a failure to get into service those things that we have aspired to do.

Senator JOHNSTON—I know that the Collins class submarine is on that list also.

Mr King—Yes, it is. I should point out, of course, that in a number of cases our work on projects of concern is successful in remediating these troubled projects. Coming back to the LCM 2000, the project was approved in 1997, shortly around the time that the LPAs were acquired and being converted. The aspiration of the project was to get a capability that was more competent in sea lift than existed anywhere in the world at that time. A tender was placed around the early 2000s and, because a new design that had not been tested or proven offered potentially more capability than existed in existing designs, the decision at the time was made to go with this new design.

CHAIR—It was developmental, was it?

Mr King—It was definitely developmental. In fact, it was a paper design. I am doing a lot of this just by looking back through history, obviously. There are lessons learned in this, of

course. If you look at the fundamentals, it had never been built. When you try to develop a watercraft, you are basically trying to push a shoebox through water carrying a lot of weight, in addition to which you want to marry it to a major ship to do the unloading; and then, secondly, you want to put it ashore in a surf condition and unload those stores safely. I suppose at that time, if you look at the tender evaluation, the new design potentially offered these capabilities. But to achieve those the design was based on an aluminium hull. It was beamier and it offered higher speed. So, theoretically, it offered the capability that the ADF sought. The problem was that the tender was actually based on a very early concept design to be produced by a company that had never built a landing craft using aluminium, which had never been used in such a manner.

Senator JOHNSTON—All right. But we have told the minister that the reason this project is not going forward is because of dimensions and weight. Who drew the dimensions?

Mr King—The dimensions were drawn inside the department very early on. It was based on the footprint of the LPA deck. The idea was that the two landing craft would be placed on the deck of the LPA.

Senator JOHNSTON—That is right. What do they weigh?

Mr King—I will have to get that.

Senator JOHNSTON—I think you will find that it is about 60 tonnes.

Mr King—Yes, it is in that order.

Senator JOHNSTON—So two of those on the LPA foc'sle, lifted on by the 90-tonne capacity crane, puts 120 tonnes on the foc'sle of that vessel.

Mr King—Yes.

Senator JOHNSTON—Those vessels are so rusted out that they have absolutely no capacity to deal with that weight. Is that correct?

Mr King—I do not think it is. From my advice, there was a strengthening for that deck. A modification was developed—the strengthening to deck to carry that weight.

Senator JOHNSTON—It was never put on.

Mr King—No, it was not put on, but there is a different reason for that.

Senator JOHNSTON—When the minister says he is cancelling the project because of dimensions and weight, he is cancelling it because Navy has failed to reinforce the foc'sle. The original design put 120 tonnes on that foc'sle. It was so rusted that unless that work to reinforce it was done the project could not go ahead. Correct?

Mr King—No. I do not believe the link with rusting was the issue. It is correct that the deck needed strengthening. The issue about space and weight was more complex than that. When the initial paperwork design was done an allocation of space on the deck was made. When the LCMs were fielded in an LPA for trials it was determined that the OH&S aspect of trying to work round these craft was space restricted. So it is not that you cannot put them onto the deck of the ship. You can, but that—

Senator JOHNSTON—If it had been reinforced?

Mr King—If it had been reinforced. What also happened during those trials was that the handling of the LCMs into the water was deemed to be very risky on an OH&S aspect. There were also other aspects with the assessment of the craft's capability—not just the fact that they are restricted in their space on the deck but also with respect to their capabilities as to performing their primary role, which is lifting goods and equipment from the LPA to the shore.

Senator JOHNSTON—Thank you, Mr King. The last issue I want to deal with, Chair, is that in the minister's speech he says:

In November last year, Minister Clare and I announced that the acquisition of the Joint Air-to-Surface stand-off Missile (JASSM) had been added to the Projects of Concern list.

This listing was not because of industry delays or cost increases. It was because of Defence's failure to keep Government properly and fully informed about the Project and its difficulties.

Can we please have an explanation as to how it is that we have not informed the minister of this project's problems, and as a result he has put it on the projects of concern list? What did we tell the minister that was inaccurate or what did we not tell the minister that we should have?

Dr Gumley—Minister, we had reasonably regular reporting through 2009 to the minister of the day about the JASSM project. We learnt, around about that time, that the Americans were not going to go ahead with the optional and extra capability, which—

Senator JOHNSTON—The extended range?

Dr Gumley—No, the inability to do a particular mission. It might be better to talk about that in another place. It was always optional whether the Americans were going to do that project. It required them getting funding from congress to do so. That did not happen. We proceeded then with what we said we would do with the initial approval, but we did not inform the government at that stage that this extra capability would not be achieved.

Senator JOHNSTON—Why not?

Dr Gumley—It became an issue within the department about who would do the informing.

Senator JOHNSTON—Please explain that to me.

Dr Gumley—Because it was such an interesting or important issue we took it back to the Defence Capability and Investment Committee and a discussion needed to occur. A discussion was held then. In the intervening weeks we did not get the advice over to the government and then the election was called. A caretaker period was called and the new minister did not get his advice until many months after the DCIC meeting.

Senator JOHNSTON—This is?

Dr Gumley—2010.

Senator JOHNSTON—What is the minister so concerned about? He has placed this project and has signalled, in line with what Mr King has just told me, that it is potentially for cancellation?

Dr Gumley—I think he is justifiably concerned that he should have been informed much earlier.

Senator JOHNSTON—Why was he not informed? That is a terrible silence. I share his concern. This is a very important capability for all of our surface combatants, air combatants. How much have we contributed to this project?

Dr Gumley—I would have to get those figures. I do not have them in this pack.

Senator JOHNSTON—It is several tens of millions so far, isn't it? It is probably more than a hundred million dollars.

Mr King—I will get the numbers for you. It is yet to be subject to an internal full-gate review of all of those facts.

Senator JOHNSTON—Have we not contributed to the development of the capability onshore in America?

Mr King—We have contributed to that to a more minor degree. The missile is being developed for the United States Air Force. We use the United States Navy F18. So the important part of the project, if you like, from our point of view is paying for the integration onto our F18 aircraft.

Senator JOHNSTON—And the Super Hornet?

Mr King—No, it is not going on the Super Hornet. It is for the classics. The unique Australian aspect of this project is the integration of this missile, which is not used by the US Navy, onto our F18s for our Air Force. That work has proceeded relatively well, and a trial late last year was very encouraging on that. The issue we have when we buy into FMS programs, particularly if they are developmental programs, is that the US only funds a program on a year-by-year basis—

Senator JOHNSTON—Yes.

Mr King—and, when we contract via the FMS system, which is an excellent system for interoperability, for making sure we have the latest available through the US, which is highly supportive of us, we and the US Department of Defense are still very dependent on their annual funding programs, in the manner in which the US funds defence.

Senator JOHNSTON—Absolutely.

Mr King—What that means is that, unlike Australia, where we get approval for a program and we execute it, in the US they are vulnerable to shifts in priorities and spending on each program.

Senator JOHNSTON—Sure.

Mr King—In the development of the JASSM, which was intended to be a relatively low cost missile, it offered two types of capability. The core capability that we were after is being delivered by the missile. The secondary capability, which is also incredibly important to us but which does not have the same priority in the US, at this stage does not look like it will come to fruition. Because you have these annual funding programs, you do not get a hard point in time usually where you can say a capability is going to develop or is not going to develop. It is really about interpretation of the funding.

Senator JOHNSTON—All right. Let us cut to the chase: what is the damage? How much is at risk in the failure of our anticipated acquisition of this particular system?

Mr King—Are you talking about monetary or capability matters?

Senator JOHNSTON—What have we got on the table?

Mr King—From a monetary point of view, there is nothing at risk. We have only paid for what we are getting. There is a capability issue, clearly, which it is not my place to talk about. I have to stress that the normal methodology for a project, once it comes onto the projects of concern list, is for us in Defence to conduct a detailed gate review to analyse all the issues. But, looking at the material that I have, there is no money at risk, as you would say, in terms of what we have invested. We will get what we have paid for and invested in. The issue is that there is a capability gap between what we initially anticipated and what we now expect.

Senator JOHNSTON—What is it in the DCP as? How much is it? What is its band?

Mr King—I can get you the actual project figures, Senator, and I will come back with those.

Senator JOHNSTON—I am still waiting on an answer to the question: why did we not tell the minister?

Dr Watt—I think we have got that answer for you, Senator.

Senator JOHNSTON—Great.

Air Chief Marshal Houston—This was an issue that was discussed, as was indicated earlier on, in the DCIC. I think that was early 2010—

Dr Watt—No, I think it was May.

Air Chief Marshal Houston—May 2010. The decision was made that we needed to inform government, and then the election was called. So it was delayed until such time as the new government came to power. Then, eventually, the minute was put forward to the minister. Had there been no election, I am confident that that advice would have been provided to the minister—

Senator JOHNSTON—When was the minister informed?

Air Chief Marshal Houston—I will take that on notice.

Dr Watt—We will check the exact dates for you, Senator. We do not have that with us. We will check the exact date.

Senator JOHNSTON—Can we know today?

Dr Watt—Yes, sure. We will know today.

Senator JOHNSTON—Thanks, Chair.

CHAIR—Mr King, I have a question arising out of the discussion you were having with Senator Johnston. You referred to two aspects of the JASSM system that we wanted and said we were unable to achieve the second part because what we attached was specific to Australia in terms of capability. Was that a developmental ask that we had attached to our requirements?

Mr King—It was not our requirement. It was an anticipated requirement of the US that fitted very well with the capabilities that we sought. The US anticipated at the start of the development program that it would have a core capability and that it might have this

additional capability. The additional capability was always considered high risk, in that it was likely to cost a lot of money and might not proceed. That was always well understood and well articulated.

CHAIR—That was always, from the outset, an American funded initiative option?

Mr King—To which we made some contribution. I am just trying to get the numbers here. We made some contribution to that aspect, but that was more as an investment into the feasibility of whether that capability could be delivered or not.

CHAIR—So we were always aware that it was a high-risk developmental option?

Mr King—Yes, we were.

CHAIR—Thank you, Mr King. I am just going to switch the call to Senator Fielding, who had some questions going back to the supply ships.

Senator FIELDING—Yes, I have some follow-up questions from before. I would like to go back to the engineering survey that was conducted on the *Manoora*, if I can. When was that survey completed? You said you were doing an engineering survey of that ship.

Vice Adm. Crane—Senator, are you talking about the remediation program or the follow-on work? I was not sure.

Senator FIELDING—Through the discussions I was led to believe that what you were trying to do was get a handle on what was wrong with the ship. There would have been a survey done. It is an engineering term and it is a survey done. When was that completed?

Vice Adm. Crane—I do not have the exact date, although Admiral Marshall may. I understand it was in about the middle of December.

Rear Adm. Marshall—Senator, I do not have the exact date, but my understanding is the same as the Chief of Navy's. It was in mid-December that most of the survey work was completed.

Senator FIELDING—There would have been a report from that, wouldn't there? This is a proper survey. This is not just someone kicking the tyres of the vessel, if you know what I mean! There would have been a proper report, correct?

Rear Adm. Marshall—I have not seen a formal survey report of the work undertaken by fleet staff. I have seen a formal survey report for the work undertaken by my hull survey group.

Senator FIELDING—I want to know whether there was a specific report written about the state of the vessel, from the survey. There must have been.

Rear Adm. Marshall—I would certainly assume so, Senator, yes.

Senator FIELDING—Is there any chance of the committee getting a copy of that report, taking out the sensitive parts?

Rear Adm. Marshall—That would be up to the chief.

Vice Adm. Crane—We can have a look at that. I see no reason why we could not carve out some of the sensitive issues. I will certainly take that on notice.

Senator FIELDING—It is a taxpayers' vessel. If you take out the sensitive parts of it, I would be very interested to see that report. Has there been any view—and, if there has not been, I would like there to be a view—taken from that survey report of how long the *Manoora* vessel would be unseaworthy for? Was it a day? Going from when that report was done—and you can ascertain that from any engineering survey report—how long was that vessel unseaworthy for? I would really like to know your view on that. Has there been some estimation put on it? Was it for a year that it was unseaworthy, or a month? How long was it in operation while it was actually putting the lives of up to 200 Defence Force personnel at risk? I would like to know how long. Do you have a view on how long it was unseaworthy for?

Vice Adm. Crane—No, I do not have a view, in those hard terms, on how long it was unseaworthy. What I would say is that the results of the Seaworthiness Board review made the point that, based on what they had seen and on the aggregated risks that were presented to them, they came to the conclusion at that stage that the vessel was unseaworthy. Certainly, prior to that, there was no indication that it was unseaworthy in a specific circumstance.

Senator FIELDING—I fully understand that up until that stage you may not have known, but I am very interested to know that from the report. Obviously, it was unseaworthy for some time, and I think it is important that the public and taxpayers know how long it was unseaworthy, what risk there was and how significant this was and for how long. I think that is important to know.

Vice Adm. Crane—Senator, I understand the question. Not being a naval engineer myself, I am not sure whether that is possible, but it is something we could look at.

Senator FIELDING—It is definitely possible from looking at the report, because some of the stuff would have been a problem for some time and you could have ascertained how long it would have been in that state for. So my proposition is that you can definitely know from the report—you can get a good estimation of how long that vessel was unseaworthy for, based on that report. I would appreciate your taking that on notice and the report itself being tabled. Perhaps you can also take it on notice to give us an indication of how long it was unseaworthy, based on that report. Thank you.

CHAIR—Thank you, Senator Fielding. I think Senator Trood has some questions on this point.

Senator TROOD—I do. Thank you, Chair. They are just on this point of the survey in relation to these ships which, Admiral Crane, you said was completed around about the middle of December. Is that right?

Vice Adm. Crane—That is my understanding, yes.

Senator TROOD—I thought you said earlier in the morning that these surveys were completed. You then discovered, after further investigation, that there were further serious problems; is that correct? And I thought you said that occurred at the end of January or early February, before you advised the minister.

Vice Adm. Crane—That is correct. The issue was one of difficulty in conducting surveys and accessing confined spaces in ships. This is the issue that Admiral Marshall was

mentioning earlier, about contingency and growth in work packages when you start to conduct maintenance in ships. The surveys that were done in December gave us a baseline. Work commenced in *Kanimbla*, as I mentioned, to bring it back to 48 hours notice for sea by the end of January. In the process of conducting that work, as they opened up more compartments to correct some of the corrosion, they found additional corrosion, which we commonly call growth. It was that which occurred in *Kanimbla* which caused the decision that we could not get her back to 48 hours notice by the end of January.

Senator TROOD—You discovered that, I thought you said, towards the end of January or thereabouts.

Vice Adm. Crane—That is correct.

Senator TROOD—Is that correct?

Vice Adm. Crane—Yes.

Senator TROOD—Was that discovered by the people who were doing the original survey or by those who were asked to do the maintenance or the correction work? Do you know?

Vice Adm. Crane—I cannot be sure on that.

Rear Adm. Marshall—Senator, perhaps I can assist. The new information that came forward at the end of January, to my knowledge, was associated more with an estimate of the cost of repairing the work that came out of the survey. So we do the surveys. Even while the surveys were ongoing, between late September and early October through to mid-December, we already had teams, particularly ship staff, repairing a number of those defects. It was a rolling program of survey leading repair work. When the report was finalised in mid-December it then had to get passed over to teams who were working out the cost and how we would quote for that work to get it repaired, estimating the cost so that we could go to industry. It was in late January that those costs really started to come in, which then drove the submission ultimately to the minister about the future of those, particularly *Manoora*, and the value for money in repairing the ship.

Senator TROOD—Thank you for that, Admiral Marshall. What I am concerned about is probably obvious. I think your words were that there was a ‘stem-to-stern survey’.

Rear Adm. Marshall—Yes.

Senator TROOD—I took you to mean that was a stem-to-stern survey with was completed somewhere in the vicinity of the middle of December, which sounds to me like a comprehensive survey—

Rear Adm. Marshall—Yes.

Senator TROOD—which we commissioned and for which we paid. On the basis of that stem-to-stern survey, the Australian Navy had an understanding of the challenges it faced in trying to bring that ship back into seaworthy condition. However, subsequently we discovered that in fact that survey was not complete, it was not comprehensive and there was a great deal more work that needed to be undertaken as a consequence of the need for seaworthiness. Is that a fair observation?

Rear Adm. Marshall—As the Chief of Navy said, when you start opening up a ship, there are areas that are not accessible, just in the ordinary course of events. So when we did the stem-to-stern survey—

Senator TROOD—So it did not include a comprehensive investigation of the whole ship?

Rear Adm. Marshall—I am not sure whether they went into absolutely every compartment. Some of those compartments are sealed compartments, well below the waterline, that have to be gas-free before you can enter.

Senator TROOD—I guess this is a question, Admiral Marshall, about what the specification was for the original survey. Was there a specification which required this to be a comprehensive, stem-to-stern investigation of the ships or was it something less which might have allowed the contractor to avoid responsibility for having failed to provide essential information in relation to the survey?

Rear Adm. Marshall—Senator, the survey work was done by some of my staff, it was done by some of the Chief of Navy's fleet staff and we also had Det Norske Veritas and some contracted staff. But I would suggest the majority of work was done by departmental staff, fleet staff or my own—

Senator TROOD—We paid somebody to do some of the work; is that right?

Rear Adm. Marshall—Yes.

Senator TROOD—And we presumably paid them on a particular specification for a range of work which we anticipated would provide us with a complete understanding of the nature of the challenge we faced in trying to rectify the problems with these ships.

Rear Adm. Marshall—I think, Senator, we need to come back to you with the scope of that work and how comprehensive it was.

Senator TROOD—Perhaps you would do that, Admiral Marshall, because I am not clear whether or not we got what we paid for. I suppose that is the bottom line here. If we asked to have something done and we expected, on the basis of the information with which we were provided, that we would understand the nature of the challenge, then it seems to me we ought to get what we paid for. As Admiral Crane has said, further information became evident afterwards which was clearly of such seriousness that it made these ships unseaworthy for a period of time. I have finished with that, Chair.

CHAIR—Thank you, Senator Trood. We will now turn to Senator Ludlam for questions on AUSMIN arising out of opening statements.

Senator LUDLAM—Thank you, Chair. I am sorry, CDF, that I missed your opening address, but I gather this is an issue that you spoke on—the AUSMIN talks and subsequent developments. I would like to start with a question about the bilateral Force Posture Review Working Group. What can you tell us about the membership of that working group and where and when it has met?

Dr Watt—Actually, Senator, that was me. I might see if I can get an expert to the table.

Senator LUDLAM—Thank you.

Dr Watt—This is something that has moved on a little bit. Could you repeat the question for Mr Nikolic, Senator? He was in transit.

Senator LUDLAM—Mr Nikolic, I would like you to give us a brief overview of the bilateral Force Posture Review Working Group. Can you tell us when and where that working group has met what the membership of it is?

Mr Nikolic—I think it is fair to say that it is early days in relation to the US force posture review. It seeks to ensure that the US global posture, I guess, has the flexibility and versatility to address a broad spectrum of military requirements. We fully expect the force posture review to reinforce existing US relationships and identify opportunities to enhance regional cooperation, including cooperation with Australia.

Senator LUDLAM—Do you need me to ask the question again? Who is on the working group, where has it met and when did it meet?

Mr Nikolic—Minister Smith and Secretary Gates established the working group. The first meeting of that was mid-December—13, 14 December.

Senator LUDLAM—Thank you.

Mr Nikolic—It has a mixture of folk, including at the two-star equivalent level on the US side and the one and two-star equivalent level on the Australian side. I guess they are in the process of looking at opportunities for enhanced cooperation between the Australian and US militaries. Those discussions are at an early stage. In very general terms, we are looking at possible enhanced US access to Australian facilities, training ranges and perhaps increased joint activities between our two defence forces in the region.

Senator LUDLAM—Would you be able to table for us the actual membership of the group, please?

Mr Nikolic—Certainly.

Senator LUDLAM—Does it have a secretary or a secretariat or some kind of formal structure?

Mr Nikolic—The secretariat, I guess, works out of the international policy division area. There is a branch head in our major powers branch that leads on the work of the officials' level—that is within my division—and equivalent representation on the US side.

Senator LUDLAM—Thank you. How often is it expected that that working group will meet?

Mr Nikolic—As I said, the first meeting of that working group was only relatively recently—13 to 14 December. The outcomes of the post-AUSMIN visits and the initial meeting of that working group are now being considered. We will come together when, I guess, consideration on both sides has been given to where that enhanced cooperation I talked about might lead us.

Dr Watt—Senator, a point worth making is that the US is conducting a global force posture review, as I think you are aware. Our region is only a small, but nevertheless important, part of that global force posture group, but it is only a part. Therefore, what work is done on force posture in our region is really a subset of the global force posture review and

feeds into that and is, in turn, influenced by it. It is the American timetable that has probably more influence on how often that working group meets rather than our own.

Senator LUDLAM—Was that meeting conducted here in Canberra?

Mr Nikolic—Yes, it was.

Senator LUDLAM—Are there minutes or is there a report from the working group? How does the public find out what was discussed, apart from me asking you here?

Dr Watt—At this stage there has been no public comment from the working group. We would not expect anything to be made public for some time to come. However, as is clear from the statement made by the AUSMIN materials—I am sure you are aware of the communique—it is quite clear the work is going on and it will come back to AUSMIN in due course.

Senator LUDLAM—The former US defense secretary was referring for a while to the concept of ‘lily pads’, which were not bases, as such—I do not know if that is still the lingo—but increased storage of equipment and material, maybe some increased stationing of personnel in Australia and in areas around the world, the ability to surge people and equipment in and out of areas very rapidly. Is that still the consideration rather than what we would consider to be US bases on Australian soil?

Mr Nikolic—I think any speculation on large American bases in Australia is simply unfounded. The working group is looking at possible enhanced US access to our facilities and training ranges, increasing the sorts of joint activities that we might do in the region, both bilaterally and multilaterally. That could include expanding the military exercises and training that we do with each other by the US, or increased access to some of our larger training areas.

Senator LUDLAM—I gather that was mostly what was reported on. But the purpose of enhancing the presence here is not just about training, is it? It is about the United States being able to project force more rapidly from staging points, if you will, on Australian soil.

Mr Nikolic—As I said, I would characterise the discussions at this stage as very early discussions, conceptual, looking at where there might be opportunities for enhanced cooperation with each other. As to the operational sort of narrative you have just painted, I think it is too early to say that they would be launching operations or considering launching operations for Australia, if I understood your point correctly.

Senator LUDLAM—It is not necessarily launching operations. It is a distinction that has been made—and this discussion has been underway for well over 10 years, that I am aware of anyway—that, rather than having formal bases with United States flags flying over them, through a process of increased interoperability with ADF equipment, personnel and systems the United States would be able to move personnel and equipment very rapidly into and out of these so-called lily pads on Australian soil. Is that what is under discussion—which is not the same as a base?

Air Chief Marshal Houston—I have not heard the term ‘lily pad’ mentioned in the context of these discussions. As indicated by my colleague, these are very early discussions. Your characterisation of these issues has been discussed for 10 years. The context for this is

the US global posture review. Clearly, our part of the world is part of their consideration. They are a very close ally of ours and we will work with them through that process.

Senator LUDLAM—Do US military forces store materials at Australian bases or Australian sites currently? Do they stockpile material or anything of that sort?

Air Chief Marshal Houston—To my knowledge, there is no major stockpiling of American equipment anywhere in the defence base structure. Having said that, they do have ship visits from time to time. They obviously have to be supported. They also have aircraft transiting Australia. They used to have a small element at Richmond that provided the facilitation for their aircraft to transit through Australia to places like the Indian Ocean or the Middle East. But beyond that there is nothing that I am aware of.

Senator LUDLAM—Has the concept of sea swap been raised either with the department or with ADF in the context of these recent negotiations? I am presuming you gentlemen are familiar with what that is.

Air Chief Marshal Houston—If you explain what it is, I might—the term ‘sea swap’. I have not been privy to any discussions around something called ‘sea swap’.

Senator LUDLAM—A trial occurred in 2002 and 2003, I think, before the invasion of Iraq where a US warship would come into port—they did one in Fremantle—and the vessel would remain there. They would fly out one crew and equipment and they would fly in another crew from the United States. It would save them from returning that vessel to Guam or wherever it was going. That changed crew would then sail the vessel on to wherever it was going. I understand the trial was considered successful. They did one in Fremantle, one in Singapore and one somewhere else. Has that gone anywhere in the last eight or nine years?

Air Chief Marshal Houston—As we have all indicated to you, discussions are at a very early stage. I imagine concepts such as that will be discussed with partners around the world. This is a global posture review, but there is nothing formal, nothing agreed. It is all discussion at this stage.

Senator LUDLAM—Will the Australian public find out about any proposed changes to the US force posture review as they relate to Australia after decisions have been made or will there be a process of consultation engaged in?

Dr Watt—That is a matter you really should be taking up with the minister. What the Australian and US government have advised and asked the Australian and US defence departments to do is to work on a force posture review insofar as it relates to this part of the world. We have been in turn tasked with reporting back to government. Given that we have not yet reported back to government, it is a bit too early to speculate on how, as we get on with the process, consultation might or might not be managed. I think, really, we are not able to say anymore than that.

Senator LUDLAM—I suppose what we are used to—I know I am running the clock down a little—is decisions being made and then being announced. So you will tell us at successive estimates hearings that it is at a very early stage and no decisions have been made, then we will get an announcement from the minister that decisions have been made, and the public will have been left on the sidelines.

Senator Feeney—Senator, this is not a consultation forum. This is estimates.

Senator LUDLAM—I am sorry, I could not hear you, Senator.

Senator Feeney—This is not a forum for the consultation of government policy. This is a forum of estimates. I think the secretary's remark earlier was that if you want to ask the minister about what consultative mechanisms he is going to put in place then obviously you can do that.

Senator LUDLAM—Can I put that question through you, Senator Feeney? I do not think it is out of order. There are discussions underway with the United States government that could have quite far-reaching consequences for the way that we collaborate with the United States military. I am hoping that we do not come to a process where people read about it in the newspapers and that we miss these opportunities to find out what was actually occurring.

Dr Watt—I think it is a bit too early to speculate on what the consequences might be of those discussions. Just a chronology might be helpful.

Senator LUDLAM—Thanks.

Dr Watt—AUSMIN was on 8 November. The working committee has met once since then. We then had the intervening period and the distractions associated with Christmas and the New Year and everything else Defence has done through January. I think they are still at an early stage and we have a long way to go before another AUSMIN, whenever that might be. I think it is quite reasonable to characterise them as being at an early stage.

Senator LUDLAM—Does the force posture review have a deadline for when it is supposed to be wrapped up in the US?

Mr Nikolic—No. As has been indicated, we are talking about the Australian component, but within the global force posture review that the US is undertaking I imagine that deadline will depend on where their other force posture considerations in other global spots around the world are concluded.

Senator LUDLAM—Were you made aware of whether or not a proposed increase in the US military presence in Australia was taking place as a result of the US drawing down its presence in Okinawa?

Mr Nikolic—No. I think what this reflects is a greater desire by the US to enhance its regional presence. I think you saw the US sign up to the ASEAN Treaty of Amity and Cooperation last year. I think you have seen since that time a greater desire by the US to engage more within our region. I think as far as their global force posture review relates to the Australian dimension it reflects that broader Asia-Pacific desire to engage in our region.

Senator LUDLAM—Okay. Sometimes in Defence processes—and this certainly operated with regard to the white paper process—there is a parallel process of broader community consultation that occurs, and people are invited to forums and invited to submit their views. I am wondering if it is possible or if it is likely that such a process would be undertaken in parallel with these AUSMIN discussions that we have been speaking of.

Dr Watt—That has not been canvassed with the minister by Defence.

Senator LUDLAM—Can I canvass it now?

Dr Watt—You can canvass it now.

Senator LUDLAM—Senator Feeney, can I ask you to put that as a proposition to the Minister for Defence?

Senator Feeney—You can ask me to raise the matter with the minister.

Senator LUDLAM—That is what I mean.

Senator Feeney—I would not deem myself to be an advocate for the proposal; but, by all means, certainly.

Senator LUDLAM—Thank you very much.

CHAIR—Senator Humphries wants to return to ships.

Senator HUMPHRIES—I want to ask about the ship management review that Mr Rizzo, Air Vice Marshal Smith and Rear Admiral Adams are involved with. The announcement that the minister made in his speech on 15 February referred to the need for an independent team of experts to implement essential change in the management and repair of ships. What precisely is the brief for this independent team? And what exactly makes them independent, given that at least two of them come out of the Defence Force in the first place?

Air Chief Marshal Houston—If I just respond on the three individuals, and I think the secretary is probably better positioned to brief you on exactly what they will be doing. Paul Rizzo is a very distinguished businessman. He works on our Defence Audit Committee. He is very incisive, very sharp and provides very good advice to the secretary and me about matters in Defence. The other two are retired officers. Air Vice Marshal Neil Smith retired from the Air Force in around 2002 or 2003. He was the architect of the Airworthiness Management System in the Air Force. If you remember, back in the 1990s the Air Force and, indeed, the aviation community had a very bad run of aircraft accidents which needed a different approach. One of the things that Neil Smith was asked to do was have a look at these accidents, at the cause of each accident and its component parts, and then come up with a way of providing better risk management, better protection and better quality assurance. He came up with the Airworthiness Management System, which has—

Senator HUMPHRIES—If I could interrupt you there, CDF, I appreciate that both Air Vice Marshal Smith and Rear Admiral Adams have very good records within the Defence Force, but they are not independent of the ADF. Are you suggesting their independence comes because they have not been involved personally in the management of ships in the past?

Air Chief Marshal Houston—No, they are retired from the ADF. As I indicated to you, Air Vice Marshal Smith left the Air Force about eight or nine years ago, and Admiral Adams left the Navy around 2005. Admiral Adams is an individual who has extensive background in amphibious capability. He was in fact one of the first commanding officers of HMAS *Tobruk* in the 1980s.

Senator HUMPHRIES—It is just that the minister, in that same speech, referred to the challenge of ‘cultural reform’ and I would have thought if you wanted to challenge cultural reform you would bring in people who were never part of that culture. That is a debating point; I will not press that issue. What exactly is their brief, their terms of reference?

Dr Watt—Senator, do you have a copy of the terms of reference?

Senator HUMPHRIES—No, I do not.

Dr Watt—I am sorry. We can provide you with a copy of the terms of reference. It was put out at the time the minister gave his speech; I think it was attached. We will see if we can provide you with a copy. I would draw your attention to page 7 of the minister's speech, where it succinctly summarises the terms of reference. There are three or four key paragraphs. First of all, the Rizzo team will develop a plan to address the causes of the problems and oversee the early stages of implementation. So it is very much about developing a plan and overseeing the initial stages of implementation. Secondly, it will focus on the causal factors that have been raised here today that the CDF and I have identified and other factors it considers played an influence. Thirdly, the review will take place in the context of the reforms already underway.

What the minister was conscious of was that many of the causal factors identified have been or are already being addressed by reform initiatives underway. This includes the Seaworthiness Board, which the Chief of Navy set up; the review of naval engineering, which was mentioned in his speech; and, more generally, the Strategic Reform Program, which is designed to deal with cultural change, just as the Chief of Navy's New Generation Navy is designed to deal with cultural change. So there are cultural change programs already in place. They are new and they are only starting to have an effect—we hope—now, but they are there.

There were a couple of other things, including considering the maintenance concept for the new AWDs and LHDs—not the maintenance of, but the maintenance concept—to make sure that we have an appropriate maintenance concept proposed for those two new platforms. But let me get you a copy of the terms of reference—and as that copy is mine you will forgive me if I now do not know what is in the terms of reference.

Senator HUMPHRIES—What resources will the team be provided with? Will there be, for example, a secretariat? Will it have an office somewhere? What is its budget?

Dr Watt—A secretariat will be set up in the office of the secretary and the CDF in the Department of Defence. It will have a number of officers seconded to it. Already we have three or four officers nominated for that. I do not know the budget, but it is not likely to cost jillions; I only have to ask and they will get.

Senator HUMPHRIES—It is meant to work over three months?

Dr Watt—That is correct.

Senator HUMPHRIES—Is it anticipated the review might need to be extended on the basis of issues it gives rise to?

Dr Watt—The terms of reference—again you are at a disadvantage—makes clear that the first report is due in three months. It also makes clear that the Rizzo team has the ability to recommend further reports, should the team consider it necessary. The first three months is the first reporting date, but with scope for further work should the team consider it necessary and should the minister consider it appropriate.

Senator HUMPHRIES—I referred to the minister’s speech. He spoke of the enormous challenge of cultural reform in this area and of a number of initiatives to address the current landing platform amphibious situation. What initiatives was he referring to there?

Dr Watt—I might get the Chief of Navy back, if you want specific initiatives. I think the minister had in mind, at least in part, the reforms already underway in the Strategic Reform Program and in New Generation Navy, which is a major cultural change program in Navy.

Air Chief Marshal Houston—There is also the Seaworthiness Management System. The Navy now has a new approach to engineering.

Vice Adm. Crane—I think the initiatives have already been covered. They go to New Generation Navy in the broad, but specifically in relation to the seaworthiness boards, and our approach to the application of our naval technical regulatory system. They are probably the key ones, as well as the strategic review into naval engineering—a number of initiatives under that need to be taken. This is all about building our system for the future. We in Navy face a significant renewal of our fleet over the next five years. These initiatives are all lined up to make sure that we are well prepared to take on that new fleet. They are the sorts of initiatives that I believe the minister was referring to.

Senator HUMPHRIES—What cultural reform is necessary as part of that process? What is the culture that is being attacked, in other words?

Vice Adm. Crane—The culture that is being attacked, as the minister has mentioned, is the ‘can-do and make-do’ type of culture. It needs to be attacked; it needs to be dealt with. We want to achieve a culture which understands that the naval technical regulatory system is paramount. That is not being risk averse; it is saying that we have a naval technical regulatory system which we must adhere to. Our policies are there for good reason and the culture we want is that people understand and use that the way it is supposed to be used.

Senator TROOD—Would the review include an assessment of the wisdom of the way in which these boats were bought in the first place—that is, without adequate investigation as to their seaworthiness et cetera?

Dr Watt—It is very difficult for me to say what Mr Rizzo and his team would do. Clearly they are going to construct their own work program and are independent. No-one in the Defence organisation is going to tell them where they should go; you need to be clear on that. They may choose to look at that matter. Again, it is important to note that the government and the minister want them to focus on the problem, on the issues, in the light of what has already been done. The 1993-94 purchase of the LPAs was done in a world before we had had the Kinnaird review on capability development acquisition, before we had had the Mortimer review on capability development acquisition, and before we had put those lessons in place and substantially revised our acquisition practices. The problem with revising your acquisition practices is the long tail you leave behind. The minister noted that long tail in the last page of his speech. Three paragraphs there deal with some of the problems Defence faces in managing these ships, and one is long-tail decisions. Even though we have Mortimer and Kinnaird in place and now have a better decision-making process, nevertheless there are plenty of pre-projects. If we had had the Mortimer and Kinnaird processes in place when we were making the 1993 decision, we would have done it very differently. It is up to Mr Rizzo where he goes.

As a man who has to allocate his resources to the most important factors that are not being addressed, I am sure he will take into account changes that have already been made or are in the process of being made, just as he would take into account, for example, changes that the Chief of Navy is making in relation to his New Generation Navy.

Dr Gumley—We have learnt from the LPA experience. We have known for some time that it has been a very difficult project for us to maintain the LPAs because of a lack of intellectual property and know-how which we did not acquire back in the nineties. As an example of how we learned from some of these things, we made sure—and it took a lot of negotiation—that with both the air warfare destroyer and the LHD contracts we got all the intellectual property and know-how we needed. So it is owned by the Commonwealth before we even start the sustainment phase in those two sets of vessels. Similarly, the issues of whether the vessels are in class or not in class and how you set up a maintenance regime from scratch are very important pieces of work for both the AWD and LHD programs now.

Senator TROOD—That is encouraging, Dr Gumley, and one hopes that it will lead to better acquisition processes into the future.

Dr Watt—As you are aware from the minister's comments, the government is considering the possibility of purchase or lease of a UK Bay class amphibious vessel. The government has this issue before it, and the UK has made it very clear that one of its vessels is either going to be sold or stood down. The people who are working on the potential for acquisition or lease are doing it very clearly informed by the LPA decision.

Senator TROOD—That is also reassuring.

CHAIR—Is that a lease or purchase option, or both?

Dr Watt—The government is working on both. The UK has made it clear that both possibilities are on the table.

CHAIR—Right.

Dr Watt—At least so far.

Senator TROOD—What is the lead time for that decision?

Dr Watt—There has been a bidders conference, which Mr King attended a little while ago. If memory serves me correctly, the countries interested have been asked to submit their expressions of interest, or whatever the appropriate term is, in mid-March. The decision will be made and announced by mid-April. I think that is right.

Mr King—Yes, that is correct—by 17 March we have to have a proposal submitted to be considered. They have indicated about a month, but of course it is very much at the discretion of the UK government how long that decision-making process takes.

Senator TROOD—If acquisition is the chosen course, at which point do we get the opportunity to do that which we did not do in relation to the LPA—which is to make sure the boat actually floats and is seaworthy?

Mr King—I have Mr Brown working for me. We have engaged TK, a world-renowned body in shipping. I visited the ship and then we had a detailed survey done by this company,

TK. The ship is operated by the RFA. We also have all their maintenance records and, as I say, the survey by the world-renowned, independent body of the material state of the ship.

Senator TROOD—So we know a lot more about this ship than we knew about the LPAs when we bought them?

Mr King—I do not know exactly what we knew about the LPA, but I can say with some confidence that we know the state of this ship.

CHAIR—Can I go back to the review that the three men have been tasked with, in the context of the history of the relevant SPO that was outlined by Senator Johnston—in existence, stood down, reformed back in 2008—in terms of responsibility for maintenance of the LPAs. I have heard Admiral Crane talk repeatedly of the need for the relevant personnel to adhere to regulations, guidelines, in carrying out their work, and that appears to have been a fault and they have not done so over the last few years, hence some of the emergent problems now. Does it not strike you as passing strange that the relevant maintenance people over a long period of time have chosen not to adhere to the appropriate regulations and guidelines that govern their work and that has not been rectified prior to it coming to a head recently? How do people have a choice as to how they carry out their work, and not adhere to manuals, guidelines, policies, regulations? Not to put you on the spot, Rear Admiral, but generally when I tell people to do things—and I presume it is the same with you—they do them.

Rear Adm. Marshall—Can you repeat the question to make sure I have it right?

CHAIR—I have listened to the discussion led by Senator Johnston as to the history of the particular SPO—established, found to be deficient, discharged, brought back into life in 2008, and had a life since then. I have listened to the discussion led by Admiral Crane as to some or all of the faults with the particular LPAs. We now have this three-man review to make sure it does not occur in the future. I have heard Admiral Crane say on a number of occasions that there had not been adherence by the relevant personnel to regulations, guidelines and, by implication, manuals and processes for the maintenance work. It struck me as passing strange that a range of both junior and senior maintenance people have not been carrying out their work consistent with regulations, guidelines, manuals and processes. I am asking why that situation has occurred and why it was not attended to some years ago. The range of committee reviews we have done more recently suggest that there are extensive guidelines and regulations and processes for proper work in a whole range of endeavours, they are not adhered to and then major problems emerge. I am asking why in this case we now have one—and possibly two—defunct LPAs apparently because extant regulations et cetera have not been adhered to and why such a situation has been tolerated in the last four years.

Rear Adm. Marshall—I am somewhat at risk of creating a cyclic discussion. You can only follow the processes and procedures, the documented policies, if you have the tools to do that. Particularly in a maintenance sense, the tools to do that align with the fundamental data and the planned maintenance documentation which, as we have already discussed, we did not buy in the first place—or we certainly did not buy as much as we would like or as we would deem we need. My observation is that over the past 10 years the various people in that SPO, certainly the leadership of the SPO, have tried on a number of occasions to generate that data

from scratch again. The CEO of the DMO, Dr Gumley, said earlier that on a number of occasions the SPO had not expended their full budget allocation. My belief is that one of the reasons for that is that at the start of the year when they prepared their budgets they went in with the view, ‘We’re going to rebuild some of this and we’re going to get that up and running and underway,’ and as the year has marched forward they have been distracted by higher priority, more immediate actions in trying to keep the ships at sea so that they have never quite got around to doing the necessary contracting work and to set the structures up to build that data.

What I can say—I approved this in May last year and I do not take the credit: it is the SPO director and the team in the SPO—is that the SPO and the Navy Group, the department, together have done a lot of work to start scoping how they would do that. They came forward with a three-phase program to remediate what we call the configuration data which underpins a lot of that planned maintenance documentation and the logistic systems. That team came forward and developed the plan early last year, and I approved it in May last year. They have made progress; there is no question about that. They have not made as much progress as they would like and, I am sure, you and I would like, but they have certainly made progress in getting elements of the configuration data work in place.

CHAIR—Basically you are telling me that for a long, long time they were wandering around in the dark. They had become aware over time of the seriousness of the problem and had attempted to attend to it from time to time. Other priorities had taken over and it was only as we came to the end of the lifecycle of the ships that work was commissioned by you to try and get on top of the deficiencies in data.

Rear Adm. Marshall—I did not commission the work; I approved it. As I said, I do not take credit. But, yes, they have tried a number of times, a bow wave keeps building, and last year the team really knuckled down and gave it a good shot.

CHAIR—I understand that response. I take it that that response is one of the issues that this three-man committee is going to examine in terms of other naval platforms going forward.

Rear Adm. Marshall—Yes.

CHAIR—Thank you, Rear Admiral.

Senator HUMPHRIES—Where does the proposed sharing of the HMNZS *Canterbury* stand at this point?

Air Chief Marshal Houston—We have always worked very closely with the New Zealand Defence Force. Over the years, when there has been a natural disaster in the South Pacific, it has not been unusual for a combined force to work that disaster. A case in point was the tsunami in Samoa and Tonga. That disaster saw us providing all the airlifts, because at that time the New Zealanders had a problem with their aircraft. I think they were in the middle of their upgrade program for their C130s and the other C130s were deployed elsewhere. They provided *Canterbury*. Of course, *Canterbury* was much closer, starting from a base in New Zealand, to go out to Samoa and then down to Tonga. So it is not unusual for us to work together. Right from the outset, when it was clear that we were going to have a transition process which was agreed by government—and, as the secretary made clear, a process that

was agreed by governments of both political persuasions—we decided to work the New Zealand option to ensure that we had a coordinated approach to the provision of capability for any natural disaster that arose in the South Pacific. That is what we have in place now. We have a capability that the New Zealanders will make available when a disaster strikes and when our interests and their interests are engaged.

Senator HUMPHRIES—So this is an on-call arrangement to deal exclusively with natural disasters, or is it intended that other operational requirements of Navy might call for the use of this vessel?

Air Chief Marshal Houston—It goes further than that. If you look at all of the recent operations in our near region, such as Timor-Leste, we have always worked closely with the New Zealanders. We have always provided a combined force. In the Solomon Islands, with the RAMSI arrangements, we work very closely with New Zealand. Again, everything is done together. We are also in the process of establishing an ANZAC headquarters and an ANZAC ready reaction force in the South Pacific as part of our arrangements with the Kiwis. We will have New Zealand officers embedded at the divisional headquarters in Brisbane, which are also the Deployable Joint Force Headquarters. For all intents and purposes, it will be a joint headquarters for operations in and around the near neighbourhood in the South Pacific.

So we have very robust arrangements with New Zealand and, as I said in my opening speech this morning, those arrangements came into play yesterday. Within minutes of the earthquake, the two operational-level headquarters were on the phone to each other talking about what assistance we could provide, how we could help and so on. As you know, we are now in the process of providing urban rescue support which is being facilitated by RAAF aircraft, C130s and a C17.

Senator HUMPHRIES—Thank you. I will put my question another way: when did our minister approach the New Zealand government about the sharing arrangements, specifically about the *Canterbury*?

Air Chief Marshal Houston—At the recent ministerial talks in Wellington, New Zealand, which were conducted earlier this month.

Dr Watt—Senator, it is also important to note that there had been discussions for some time in relation to *Canterbury*.

Senator HUMPHRIES—Is there an express quid pro quo for our use of the *Canterbury*?

Air Chief Marshal Houston—No, not at all. The New Zealanders are very good friends. We work closely together on everything that arises in the South Pacific and the near neighbourhood. I also had discussions about *Canterbury* with the New Zealand Vice Chief of Defence Force at the CHODs conference in Brussels, and again the undertaking was given that, if there were any requirement, *Canterbury* would be available. And it was agreed that we would coordinate our amphibious ship management so that there was always a platform available through the next couple of years, because they only have one ship and we are entering an era now where we have one ship. The idea was that we would coordinate our maintenance to ensure that there was always an ANZAC amphibious ship available through the next couple of years.

Dr Watt—Senator Humphries might be pleased to know that a joint statement was put out by the two ANZAC ministers on 10 February 2011 which covered their discussions on all aspects and went to the sharing of key capabilities, including *Canterbury*. It is worth going back 12 or 18 months to the previous meeting of the two ministers, where, following on from a meeting of the two prime ministers, the idea of making greater use of joint capabilities was on the table. One thing that has come out of it is that there will shortly be New Zealand officers working in the joint deployable headquarters in Brisbane. So sharing of capabilities has been around for a while.

CHAIR—Thank you, Dr Watt. The committee will suspend for lunch.

Proceedings suspended from 12.31 pm to 1.31 pm

CHAIR—Dr Watt, you had some things.

Dr Watt—I have responses that senators have been promised early answers to and I might try to read them into the record. A question that I got was one asked by Senator Ludlam, who asked for the membership of the Force Posture Review Working Group. On the Australian side the senior Australian involved is Mr Peter Jennings, who is Deputy Secretary Strategy in the Department of Defence, and it also consists of senior officials from the International Policy Division of Defence, and from the Americas and Africa Division of the Department of Foreign Affairs and Trade. On the American side, we have senior officials from the Office of the Secretary of Defense, Pacific Command, and the State Department.

CHAIR—Is that all, Dr Watt?

Dr Watt—That is enough, but the CDF has got one.

Air Chief Marshal Houston—I have an answer to a question from Senator Johnston about who advised the minister on 1 February of the unsuitability of the watercraft. The CDF and the Secretary advised the Minister for Defence of the unsuitability of the LPA watercraft in a ministerial submission signed by the Secretary on 3 December and by the CDF on 6 December.

Senator HUMPHRIES—I wanted to come back to a question about ship acquisition and maintenance. I posed the question about the ‘backcasting’ of the way in which we acquired the *Kanimbla* and *Manoora*. These ships were purchased in 1994, I understand, and they were built in 1970, so they were 24 years old when they were purchased. I understand there was a debate at the time about whether we ought to have purchased second-hand ships or built new ones appropriate to Australian conditions. Given that these ships have been—to put it very mildly—extremely problematic, would it not be appropriate even now to undertake a study to determine how that particular decision might have played out if we had, in terms of cost to the taxpayer, purchased new ships at that time and made projections on the kinds of costs that might have been incurred for new ships and compared them with the very substantial costs that we are now incurring for the repair of these already quite old ships that have been limping along in the last few years?

Dr Watt—You could certainly look to undertake such an analysis as, I think, either CDF or the Chief of Navy said in the testimony they gave this morning. At the time that we started investigating the purchase of *Manoora* and *Kanimbla*, which was in 1993, the government of

the day was unwilling to pursue the issue of a new amphibious vessel to replace the *Jervis Bay*, I think it was. There was an alternative available but the two LPAs were preferred. It should be possible to make an assessment of the cost of the LPAs. The cost of the alternative platform, of course, would be entirely hypothetical and not very solid, but you could look at it.

Senator HUMPHRIES—It is hypothetical but in a sense only one-half of this equation is hypothetical. We actually know what the costs to us were substantially with respect to the purchase of second-hand ships. You talked before about the need for improved processes at work here—a better understanding but moving away from this ‘make do, can do’ sort of culture. It gives us a better basis on which to make major decisions of this kind in the future if we ‘backcast’ to see how well our decisions in the past actually worked.

Air Chief Marshal Houston—As I recall it there was an ANAO audit done back in, I think, 1999 or thereabouts that looked at all of these matters. So I think the issue has been looked at quite closely in the past.

Senator HUMPHRIES—I will fish that out. We have had a decade’s worth of problems with the ships since then, of course, and they are coming now to the end of their life, which would be a good time to look back at what the total cost has been, wouldn’t it?

Air Chief Marshal Houston—If you like, I will take it on notice to get the information on the work that was done back in the late nineties.

Senator HUMPHRIES—I would really like someone at the table not just to take an answer to that question on notice but to actually consider whether a study of that kind should in fact be commissioned.

Dr Watt—We are happy to consider that. We have to look at least two things—many things perhaps. Firstly, how good was our documentation at the time of purchase? That was 18 years ago. Secondly, how robust were our estimates for the cost of an alternative platform that would have done a similar job—because remember that we got two LPAs; we have one platform as an alternative—and the ongoing cost of that? We would need to do a bit of scoping before we could say if it was worth doing. We might find that we just do not have the information base, but we will be quite willing to look at that and if necessary come back to the committee, if that is what you choose. I make one further point, though, and it is an important point: we are talking about ‘can do, make do’ culture. The minister was very clear. The problem is not a ‘can do, make do’ culture. In fact, in many ways in Australia and the ADF one of the things we value is a ‘can do, make do’ culture. I think that is an epitome of Australians. What the minister was highlighting in this case was an adverse side effect of a ‘can do, make do’ culture that was the problem. Those are the words that he used in his speech.

Senator JOHNSTON—Can I intervene with respect to the purchase of these two LPAs. The initial purchase price was \$60 million in 1994 dollar terms. When we got them here we realised that there was an enormous amount of remediation—\$340 million worth—to be done. So the starting point on any analysis on net present value calculations of a new vessel, or even two new vessels, sustained for 16 years or through to 2014 as was intended, has a

starting point of \$400 million. When you factor that in, we would have been much better off with a new vessel.

Dr Watt—You are right, Senator, that there was a remediation cost up front, and I am happy with your comment about the amount—I do not remember it. The only thing that you would have to try to sort through in that was that I think both that there was a remediation cost and that we changed the nature of the platform to suit our needs. So some of it was straight remediation and some of it was getting a different ship—but, yes, you are right.

Senator JOHNSTON—It is probably one of the most scandalous events in the history of acquisition in the Australian Defence Force, in fact.

Dr Watt—I do not think I can comment.

Senator Feeney—You can put that down as rhetoric that does not require a response.

Senator JOHNSTON—No, it does. The ANAO highlighted it as being a ship that was heavily corroded. It is an amphibious ship, and we have persevered with it for far and away longer than anyone would have, fighting rust and corrosion all the way. Here we are surprised, or ambushed as the minister might be, by an event that I think was utterly predictable five years ago.

CHAIR—That is a statement, not a question.

Senator JOHNSTON—Do you want to haggle with me on that?

Dr Watt—I think we might wish to disagree on ‘ambush’.

Air Chief Marshal Houston—Just for the record, in answer to Senator Humphries’s original question, a Defence audit was conducted by the inspector general in 1998 and an external audit by the ANAO in 2000-01.

Senator TROOD—With regard to your observations about ADF personnel and the work they did in the Queensland floods, let me say on behalf of Queenslanders how much we appreciate the work that was done by the ADF. I went to many of these areas, particularly around Grantham and Murphy’s Creek in the Lockyer Valley, where I saw ADF personnel working, and I spoke to many of the local people about the work they were doing. There was not only a great deal of gratitude but a great deal of pride in the fact that they had been there so quickly and they had done so much for the community, who were so appreciative. I think I would be neglecting my responsibility as a Queensland senator if I did not acknowledge the good work that you have done there and I am sure it is true right throughout the state. So thank you to the ADF and to your people.

Air Chief Marshal Houston—Thank you.

Senator TROOD—I do not want to ask a lot of questions about the *Success* matter, but I want to clarify, given what has been found in relation to the culture on *Success*, if you have undertaken to determine whether or not any of the problems that existed on *Success* actually exist on any other ships of the Royal Australian Navy.

Air Chief Marshal Houston—I will pass that to the CN, but my view is that what was going on on *Success* was something quite unique. The culture that was on *Success* was

something that I do not believe exists anywhere else in the Navy, but the Chief of Navy is beside me and I will invite him to elaborate on this matter.

Vice Adm. Crane—Clearly that issue is one that has been exercising my mind since I had the opportunity to read the report. I have asked myself that question over and over again. My view is that the extreme behaviour that we have observed now through Mr Gyles's report is not one that is duplicated anywhere else in the Navy. That is not to suggest that we do not have elements of unacceptable behaviour that are still potentially occurring in our Navy. I think it would be naive of me to suggest to you that that does not happen. But I am very confident that the extremes of behaviour that have been reported in *Success* are not repeated elsewhere in our Navy.

Why do I say that? I say that because for the last two years we have been pushing hard with our New Generation Navy program, a program that is aimed at three fundamental pillars: firstly, structural, to get the Navy focused on the future; secondly, in the leadership space; and thirdly, in the cultural space. In particular, in the leadership and cultural space, we have had workshops going on at sea and ashore facilitated with trained people to educate our people on the sorts of signature behaviours that we are seeking in our Navy to live our values. That has been the subject of four different sessions. I have attended a number of those personally at sea with my people and I can tell you very confidently that what I observed was very pleasing. It includes an enormous amount of buy-in and shows an enormous amount of enthusiasm for that particular activity.

In the leadership space, we have made significant amendments to our leadership training over the last two years as part of the New Generation Navy program. That gives me confidence in all that I see that says that the extremes of behaviour that have reported in *Success* back in early 2009 are currently not repeated in our fleet. Having said that, I am going to do a survey across Navy this year. That survey was originally intended to try to measure the degree of cultural shift that we have had across our Navy since I launched New Generation Navy, and I will be looking to that to also reassure me that we are making progress. The answer is that I have a great deal of confidence that you will not see these extremes in the Navy today.

Senator Feeney—I might add something there. When you look at the report, you will see that the report also makes important note of the fact that this was a specialist vessel. That meant that it had a crewing profile and a rotation profile that did enable that vessel to accumulate a culture that was at variance with Navy values. I think that is an important finding in the report. I think that helps shed light on how it is that this culture could become unique to a platform.

Senator TROOD—I have the read the report, or at least parts of it; I have not quite finished it, but I noted that point, and I think it is a pertinent and very relevant point. I also am persuaded that I hope these are unique events, and I hope it is also true that they represent what you call extremities of behaviour. It would distress all of us on the committee, I think, and no doubt senior officers in the armed forces, if you thought this was a widespread practice. What I would like is to be confident that you have tested that there are no other examples of this anywhere on any ship in the Navy. Apart from the work that has been done in relation to moving forward your program of cultural change—which, of course, I applaud—

have you sought any specific knowledge from commanders, for example, a fleet commander? Have you made any particular inquiries to determine that you are confident in your position?

Vice Adm. Crane—Last year I did ask the question of the fleet commander to look at the statistics in relation to disciplinary offences to try to come up with a gauge on whether we had pockets of bad behaviour across the Navy. That did not highlight any particular concerns to me. There was nothing in it that would suggest that I had pockets of extreme behaviour. To that extent, I have tested it, but what I really want to do this year, as part of the pulse survey, is to get something from my people. It is they who tell me whether or not we are making progress. I think I need to be able to talk to them directly. It is the people of the Navy who will tell me whether we are making a difference and improving the culture. I feel confident that we are, but I am going to test that.

Senator TROOD—I think you should do that, and I think we would all strongly support that activity. I suppose the observation that can only be made is that the ADF has been through this process, and we all hoped for cultural change as a result of the inquiries that were undertaken by this particular committee. I think it is right to say that we all thought progress was being made, yet this *Success* matter arose in the middle of it. All our expectations have been disappointed in light of the *Success* activity. I would not like to think that we are just assuming that *Success* is unique; it is extreme, and there are no other instances of it. I want to be confident that we have made every appropriate inquiry to ensure that that is not the case.

Vice Adm. Crane—As you might imagine, I am extremely disappointed and upset by the behaviour that I have read in Mr Gyles's report. Clearly it is something that we do not condone. It is atrocious. We will be doing everything we can to do exactly that, to make sure that we have done everything that we can to ensure that it is not happening in other parts of the Navy. I give you my assurance that my confidence is high that the level of extreme that we have seen here is not repeated elsewhere. But I am not just assuming that; we will check it.

CHAIR—On this particular issue, Mr Metcalfe did a review into cultural attitudes and the like in about 2003 or 2004, and arising out of that review a set of recommendations were made to government, and almost 100 per cent of his recommendations were accepted for implementation over a period of years. My memory is that IGADF was tasked with doing unit reviews of every unit across the three services over a period of years, and I recall some two or three years ago IGADF briefed this committee and either the Defence subcommittee or the Joint Public Accounts Committee on the progress of his work. My memory is also that IGADF did two unit reviews of HMAS *Success* in the pertinent period. Why did IGADF's reviews of *Success*, if I am correct and they were done, not pick up at least the bones of this behaviour in either or both of the reviews that were done prior to the XO porting it up through the system in April or May of last year? Secondly, are you satisfied that the quality of his unit reviews in terms of this type of behaviour is able to give prewarning of this type of behaviour, if it should be occurring in other units?

Air Chief Marshal Houston—The IGADF, Mr Geoff Earley, does audits of a large number of units right across the ADF. I think the first thing I should highlight is that his audit is not an all-encompassing audit; his audit is focused very much on the military justice side of the unit. What he is looking at is the way military justice is administered in each of the units that he visits. He does not go to the business of behaviour the way you have just described it. I

think if he were to pick up some sort of suggestion that there was a problem with behaviour, he would probably come and have a chat to me about it, but in terms of HMAS *Success*, it is true that he did a military justice audit of HMAS *Success* sometime before this deployment to South-East Asia. As I recall it, he did not find anything out of the ordinary on *Success*. I just think it is important to realise that his audits are not all-encompassing audits.

CHAIR—You are 100 per cent correct to draw that caveat to our attention. I had forgotten it was in the context of military justice behaviour. Some of the poor military justice behaviour that occurred many years ago was in the context of coercion and allegations of bullying, unacceptable behaviour and those sorts of things. So there is a parallel.

Air Chief Marshal Houston—Just to respond to the issue of where we are going, in our response to this report, we have highlighted the misuse of alcohol. Former Justice Gyles highlights the fact that most of the behavioural incidents have their genesis in misuse of alcohol. All of the ADF senior leadership group—and by that I mean the chiefs, myself, the vice chief—are seized with the need to basically find out why it is that there is this misuse of alcohol.

As you know, the Chief of Army has been working in this space for a little while. He has been disappointed with some things that have happened in the Army. What we are doing is approaching this from an ADF perspective. We are working with the Australian Drug Foundation, and what we want to do in the first instance is define the problem: why is it that there is this extensive misuse of alcohol? I would suggest also that this is not something that is limited to the ADF. This particular generation seems to have a high proportion of binge drinkers, people who misuse alcohol.

We need to understand why that is so, and then come up with the strategies to counter that and modify culture and behaviours that lead to those circumstances. That is one area we are focused on. The other one is to ensure that our leadership of units is always properly prepared and provides strong values based leadership which is based on leadership by example and a very assertive form of leadership which is not afraid to use the tools that are available to the leader in terms of access to the DFDA or, indeed, access to administrative provisions to ensure that the discipline of a unit does not break down the way it appears to have broken down in the case of HMAS *Success*.

Senator KROGER—I must confess, having read the report, which is a real damning indictment on our systemic breakdown in the culture of HMAS *Success*, I am confused by what you are saying, because on the one hand you are saying that there is not a culture of alcohol abuse on the other vessels, and it is fairly clear from the report that the misuse of alcohol has underpinned a lot of the problems that you have had on HMAS *Success*. You just referred to the ADF alcohol management strategy that you are exploring, and I applaud that. I still do not understand why the misuse of alcohol has been endemic on one vessel and has not been seen across the board, if that be the case?

Air Chief Marshal Houston—I think what the report brings out is that on this ship there was a very strong tribal culture, a tribal culture that encouraged the misuse of alcohol and what I would call a form of leadership which was focused on the wrong sorts of behaviours instead of positive behaviours. There is evidence in the report that suggests that, on many

occasions, the intermediate leadership, the junior leadership, leadership at the NCO level, was actually encouraging some of the behaviours that took place amongst the more junior people.

That is just totally against what the ADF is all about. What we want are young leaders who are prepared to stand up to their principles and their values and take charge and ensure that young people do not get led astray, and that they lead by example and provide strong leadership that ensures that our people are not put into situations where they end up in circumstances like some of the junior members of this ship.

Senator KROGER—The other thing that does concern me, and I think we have heard it a little bit in the last couple of days, is the suggestion that what we are witnessing is a generational incidence of alcohol abuse and the way that young people across the board behave. We are all very quick to pick up and identify where it is, whether it is in football, the AFL or wherever, and say, ‘Aha! It is not just in the Navy; it is in these other domains that have these issues.’ But, as we all know, these are minority situations that receive a lot of profile. The salacious always gets a lot of media run, and that is what we hear about. I just hope that, in your strategy, there is not a presumption that this generation of young people is inclined to naturally binge drink. In my experience, it is not the case at all, and I would suggest that in a lot of people’s experiences, many believe that this generation is actually a lot more conservative in many ways than other generations, and even my generation. I just hope that there is not going to be a tendency to fall back on that, because I actually think it is an excuse. I think it is an excuse, an abrogation of our responsibility by our age group. It is evidence that we are not providing the boundaries that this generation need, and the support structures and the encouragement and nurturing that they should have. I hope it is not used as a fall-back scenario to excuse what is essentially inexcusable.

Air Chief Marshal Houston—No, not at all; in fact, that would be very wrong. This young generation that we have in the ADF at the moment, can I say, are the young people who are out in Afghanistan at the moment, and I could not be prouder of them. They do a magnificent job. They act with great generosity of spirit. They are totally professional. They are great Australians, and they do this country proud. We will not make any assumptions.

In working with the Australian Drug Foundation what we will do is try to define what the problem is, and by doing that we will not be jumping to assumptions or jumping to conclusions; we will be doing it in a very rigorous, analytical way to determine what the cause of alcohol misuse is in parts of the ADF. I think it is very important that we do that. Having defined the problem, we will then be in a position to do something about it. The other concern we have is that we lose far too many people in accidents here in peace time Australia. We have young people who drive motor cars when they have had too much to drink, and they come to grief. Our whole strategy is designed to come up with a methodology to provide better care for our people. The chiefs and I are responsible and accountable for looking after the people to the very best of our ability. That is why we are so focused on coming up with a good strategy to combat the misuse of alcohol.

Senator KROGER—Do you have a time frame for that?

Air Chief Marshal Houston—I can get General Alexander to come up and talk to you in some depth about the strategy.

Senator KROGER—I would be interested; yes, thank you.

Vice Adm. Crane—Whilst the general is coming up, I certainly understand your point completely, and I would just wish to reassure you that, in all the work that we are doing in relation to leadership and in culture moving into the future, we are not identifying a specific generation that we are targeting, as you would understand. We have many generations across our Navy. What we are doing is looking to be able to empower, if you like, generational guidance that goes to the point that you raise, where I expect there will be elements of our Navy, not simply because of their rank but because of their position in life, able to take on mentoring and encouragement and leadership type roles.

Senator KROGER—It is the old-fashioned concept of mentoring.

Vice Adm. Crane—Correct. That is really the target of the program: to encourage people to step up and take on that responsibility, not simply as a matter of rank but as a matter of character and as a matter of ethics. It is really that character and ethics in our leadership program that we are pushing very hard.

Lt Gen. Hurley—Joint Health Command is one of my responsibilities. Just to answer your question about the work we are doing with the Australian Drug Foundation, the project has been up and running since mid-November. We commenced the project on 15 November. The interim report from the project board management system will be on 1 June this year. The delivery of the ADF alcohol management strategy will be by 14 November. They are the contracted arrangements with ADF. The purpose of the terms of reference is to develop an ADF alcohol management strategy within the ADF's Alcohol, Tobacco and other Drugs program. Its terms of reference are to identify the primary alcohol related issues in the ADF, to identify the leading causes and contributing factors of these issues, to identify a strategy to address the issues, confirm evidence which supports the strategy, and to oversee the rollout of the alcohol management strategy to the ADF. A governance board was put in place which includes both Defence membership, the veterans and veterans' families from VVCS and so forth, so it is a fairly wide construct. It is aimed at the ADF community, as the CDF has said, not at an age group. We really want to identify what causes people to take this risky behaviour and how to stop it.

Senator KROGER—I am not trying to predict what the conclusions of the outcome would be, but do you believe that some of that strategy will be refined for the Navy, the Army or the Air Force? Will there be any difference in the way in which that is applied?

Lt Gen. Hurley—When we come to look at delivery, those sorts of issues will have to be taken into account. At the moment, we have a better rated approach to this, with the three services programs and an overarching Defence governance system over the top of it. There might be particularities about how you deliver it to different groups and different age groups. I think that is all conceivable in the outcome.

Senator KROGER—Thank you. That is all on the HMAS *Success*.

Senator HUMPHRIES—I wanted to ask about the Black review. I understand that the minister has now had that review for a month. When will it be publicly available?

Dr Watt—That is not actually correct. The review was formally presented to him by Professor Black last week. He has a copy of the review. It was presented to CDF and me a little earlier, late last month, and it is under very active consideration, I can assure you of that. The government will make the review public. There is no intention not to, but at the moment they are considering it, which is their right, before they also make their response public.

Senator HUMPHRIES—Did you, CDF, and Dr Watt receive the recommendations from Professor Black a month ago?

Dr Watt—I think the CDF and I received the formal recommendations around the end of January. I would have to check the date.

Senator HUMPHRIES—I am reading in the report in the *Australian* that you received it on 24 January.

Dr Watt—I must admit, seeing that I do not think that came from the defence department, I was not sure what the source was for the *Australian*, but I can check the date.

Senator HUMPHRIES—It is not wrong necessarily?

Dr Watt—I just do not happen to know sitting right here. But I will say late January, and that would cover the 24th.

Senator HUMPHRIES—Why was the appointment of Professor Black not announced, and why have the terms of reference not been tabled and presented, now that it is in the open?

Dr Watt—There is no magic. I do think as part of the Defence budget audit it was made clear that we would do a review of Defence accountabilities. This review was commissioned by the CDF and me. The terms of reference were as they were. There was no intention to hide anything. It was regarded as part of appropriate business for Defence. I can assure you that the commissioning letter, the terms of reference and everything else will be included when the review is published.

Senator HUMPHRIES—Given that there is no problem with that, and, as you say, it is aboveboard and straightforward, why not table the terms of reference today?

Dr Watt—I am happy to have a look at the terms of reference and clear it with the minister, because he has now taken an active interest. So I would need to ask him.

Senator HUMPHRIES—How many recommendations has Professor Black made?

Dr Watt—I think there are probably about 15 or 16.

Senator HUMPHRIES—Can you not tell us when we are likely to see this?

Dr Watt—I do think that the minister wants to discuss the review with his colleagues, as is appropriate. I do not know how long that discussion process will take. I can say one thing: no-one in the defence organisation is interested in sitting on the Black review for the sake of sitting on it, nor are we anything but very interested in implementing it. We have already done quite a bit of preparatory work. If you are concerned that this is Defence dry-gulching a review, the answer is it is not.

Senator HUMPHRIES—I am very pleased to hear that. What were the costs associated with the review?

Dr Watt—From memory, I think the cost was about \$80,000. That was Dr Black's time and effort; he put a great deal into it. In fact, Mr Sergeant can give us that information. Plus we helped him with a few people in the defence organisation.

Mr Sergeant—The total costs of Dr Black's review, which is his professional fees and travel expenses, was \$103,000. Last year, from 1 January to 30 June 2010, it totalled \$74,800, and this year it was \$28,200.

Dr Watt—I apologise; I stand corrected. My memory is clearly faulty.

Senator HUMPHRIES—That is all right. Were staff employed to provide a secretariat?

Mr Sergeant—He was provided with assistance from my area.

Senator HUMPHRIES—I am happy with that.

Senator JOHNSTON—I think the review was to do with accountability. What specific event or instance prompted the review?

Dr Watt—There was no specific event or instance. The idea that an accountability review should be done came out of the Defence budget audit. I will check with Mr Sergeant. CDF was around at the time. Therefore the CDF and I commissioned a review. It is more a concern that this committee, amongst others, has discussed. It has been canvassed for a long time: has Defence got its accountabilities right? That is what drove it. What do we need to do to help get them better? That was the driving force; no particular event or instance.

Senator JOHNSTON—Have we ever done a review before of Defence accountability?

Air Chief Marshal Houston—Accountability is something that we have done some work on in recent times. At a lower level, the COSC did a lot of work on base accountabilities. We were having issues with who was accountable on each of our bases for such things as expenditure of moneys and so on. There was a need for us to do some work in that area, so we did an extensive study and trial into base accountabilities. As a consequence of that, we have now got a much sharper focus or much sharper accountabilities on all of our bases out in the field.

Senator JOHNSTON—But in terms of accountability—and without seeing the terms of reference it is very difficult to understand what this report is about—we have spent over \$100,000 on it. Who chose Professor Black?

Dr Watt—Professor Black was proposed by the CDF and me in consultation with the head of the Department of the Prime Minister and Cabinet. You may or may not remember that Professor Black was previously a senior partner in McKinsey, and he had headed up the team that worked on the Defence budget audit under Mr George Pappas.

Senator JOHNSTON—So we had McKinsey in Europe giving a very adverse commentary on the Australian defence bureaucracy—

Dr Watt—A commentary that I think, as Dr Gumley will explain to you, was completely incorrect.

Senator JOHNSTON—That is right, and we have been down this path. But the McKinseys in Sydney responded that that was not their opinion. So we had the two organisations under the same label contradicting each other as to their opinion of the

efficiency and competence of Australian defence bureaucracy, DMO and the department. Correct me if I am wrong, but Professor Black is from the ones that said you were good.

Dr Watt—Professor Black was with the ones that said that they had run the ruler over us and, if we satisfied certain things, we would be very good at what we did. The important thing to remember is Professor Black is no longer, and was not when he was appointed to the review, a member of McKinsey.

Senator JOHNSTON—Was he a member of McKinsey when they said that you were good?

Dr Watt—He was a member of McKinsey when the Defence budget audit was completed.

Senator JOHNSTON—Yes. When they said you were good, and we do not agree with our senior partners in London—

Dr Watt—No. There is a sequencing issue. I might ask Dr Gumley to help me with this. The Defence budget audit was completed long before the McKinsey global study into defence efficiency. If I remember correctly, that global study was done—

Air Chief Marshal Houston—It was done post white paper.

Dr Watt—Exactly. I think it became public early in 2010.

Dr Gumley—The global study was published about February 2010. We went into some fairly vigorous debate with McKinsey London in March-April, and I think we reported at the May Senate estimates last year.

Dr Watt—Professor Black had left McKinsey prior to that. I think we had been in contact with him—again I would have to check the dates when the review was established—in late 2009 about doing the review. That was after he left McKinsey.

Senator JOHNSTON—When did you contact the good professor to do this review?

Dr Watt—I believe from recollection—and again I would have to check this—it was the end of 2009.

Senator JOHNSTON—The end of 2009?

Dr Watt—We started work in 2010.

Senator JOHNSTON—So he has been working on this review for more than 12 months?

Dr Watt—He has had this review underway a long time. Also, he has needed to talk to ministers. There has been an issue about the caretaker period and change of government.

Senator JOHNSTON—When the McKinsey benchmarked and looked at the SRP the first time around, Professor Black was—

Dr Watt—Let me put it to you differently. When McKinsey did the Defence budget audit, out of which the strategic reform project came, under George Pappas, Professor Black was head of the McKinsey team, and that was from late 2008 through to early 2009.

Senator JOHNSTON—Did you discuss the Defence audit findings with Professor Black at that time?

Dr Watt—I was in the Department of Finance and Deregulation. I took a great deal of interest in the Defence budget audit, and the findings of the audit.

Senator JOHNSTON—Did you have any dealings with Professor Black through the Department of Finance and Deregulation?

Dr Watt—Professor Black came along, along with Mr Pappas and the McKinsey team, and spoke to me as an agency head who had some interest in Defence matters. He also came and presented a number of times to a group of agency heads, including the secretary of Prime Minister and Cabinet, the secretary of Treasury and me.

Senator JOHNSTON—You were very happy with what McKinsey did moving towards the strategic reform program?

Dr Watt—We built the whole strategic reform program on the Defence budget audit. As we have said before, it might not be completely perfect in every respect, but we built the strategic reform program on it. We have to be happy with what they did.

Senator JOHNSTON—We would all be very obliged if we could have a look at the terms of reference today.

Dr Watt—We will see what we can do.

Senator JOHNSTON—I would be very obliged.

Dr Watt—But I do have to consult the minister about that, given his interest.

Senator JOHNSTON—Of course.

[2.21 pm]

CHAIR—We now turn to portfolio overview and budget summary.

Senator RONALDSON—I want to pursue a matter that I raised in the Finance and Public Administration estimates the other day with the Office of the Governor-General, certainly on the back of, at best I would describe it, an interesting press release that you put out in conjunction with your parliamentary colleague the Minister for Veterans Affairs I presume today—

Senator Feeney—If you are referring to Long Tan, that was a press release I put out with Minister Snowdon yesterday.

Senator RONALDSON—Yesterday; thank you. I want to read a paragraph from Mr Brady, from the Senate *Hansard* of F&PA, page 52:

Mr Brady—Can I say at the outset that the Governor-General has been very moved by the experiences of Delta Company and has great admiration for their courage and the loyalty displayed. She looked forward to presenting the individual awards and the unit citation for gallantry to members of the 6RAR. Following formal advice from the Department of Defence, the Governor-General extended all members from unit 6RAR to be presented with the unit citation for gallantry as well as the five recipients and the next of kin of a fourth to receive individual awards at an investiture at Government House on 17 August, the eve of the 44th anniversary of the Battle of Long Tan ...

Senator Ronaldson—This had been an invitation extended to the surviving members of the unit plus the three men receiving the gallantry awards?

Mr Brady—That is right.

Is that an accurate description of what happened?

Senator Feeney—I appreciate this opportunity to make clear some facts that have, I think, become blurred.

Senator RONALDSON—Perhaps, with the greatest respect, you could answer my question. Then if you want to something later on—

Senator Feeney—Mind you, having welcomed that opportunity, I might struggle if I am not afforded the opportunity to speak.

Senator RONALDSON—If you could just answer my question in relation to that part of the estimates, I would be very grateful, and then we can move on from there.

Senator Feeney—When we have a common factual basis, you will see that this matter is dealt with very readily.

Senator RONALDSON—I am trying to ascertain whether indeed those words from Mr Brady are correct or whether you take issue with them? Do you take issue with them?

Senator Feeney—I think—

Senator RONALDSON—Do you or not? Is he right or not?

CHAIR—Senator Ronaldson, you have asked a question; would you please allow the parliamentary secretary to answer.

Senator Feeney—Thank you, Chair.

Senator FAULKNER—Chair—

CHAIR—Senator Feeney, you have the floor.

Senator RONALDSON—Well, Chair, I do not know where Senator Faulkner has been, but he perhaps might want to have a look at a press release from Senator Feeney released in relation to this very thing yesterday. So, wakey, wakey!

CHAIR—Order!

Senator FAULKNER—Can I just make a point of order, Chair? Point of order.

CHAIR—Point of order; Senator Faulkner.

Senator FAULKNER—I was just making the point in what I thought was a rather generous aside—but I am sorry it has not been interpreted that way by Senator Ronaldson—that when you ask about eight different questions of the parliamentary secretary at the table then it is not unreasonable for him to be afforded an opportunity to answer one of them. There is quite a significant number of questions that have been asked now that I hope Senator Feeney has taken a note of and will be able to respond to accurately.

Senator RONALDSON—Well, one question, actually.

CHAIR—Thank you, Senator Faulkner.

Senator FAULKNER—It is a pleasure, as always, Chair.

CHAIR—Senator Feeney, you have been asked a question about a statement made by someone else. Do you wish to respond?

Senator Feeney—Yes, thank you, Chair.

CHAIR—Senator Feeney, you have the floor.

Senator Feeney—Thank you kindly. The facts are these: after a long investigation and two independent reviews, the government announced in August 2008 that four Long Tan veterans would be offered individual medals. As a second and distinct matter, it was also recommended that 6RAR would be awarded a unit citation for gallantry. I guess, Senator Ronaldson, we are then talking about two separate ceremonies. The first is the awarding by the Governor-General to those four persons of their medals, and the second is the unit citation.

Senator RONALDSON—Sorry, is—

CHAIR—Senator Feeney has the floor, Senator Ronaldson.

Senator Feeney—I think you will find you are able to weave your way through this issue if you do think of them separately. In August 2010, a ceremony was held in Canberra at which the Governor-General presented medals to the four individual veterans. The department offered to fly those veterans and one guest each to Canberra for this important ceremony. In the event, only Major Kendall chose to attend. The next of kin of the late Flight Lieutenant Dohle also attended. Lieutenant Colonel Smith and Second Lieutenant Sabben chose not to attend and, as a consequence of their decision to not attend, their medals were forwarded to them at their request.

Senator RONALDSON—Why did they not want to attend?

Senator Feeney—That is obviously a question for them. Before we turn to that—

Senator RONALDSON—I want you to answer—

Senator Feeney—let me deal with this question of the unit citation for gallantry.

CHAIR—Senator Feeney, will you discuss the matter of the unit citation? Finish your answer, please.

Senator Feeney—Thank you kindly. The unit citation for gallantry is, of course, a ceremony for 6RAR. It will be conducted by the Governor-General at their base at Enoggera Barracks in Brisbane on Long Tan day on 18 August this year. Surviving veterans of the Battle of Long Tan will be invited to this ceremony, and reasonable travel costs for these veterans and their guests will be met by the government. I will take this opportunity to note that that undertaking was given last year by the then Minister for Veterans' Affairs, Alan Griffin, and yesterday the government reaffirmed the fact that it will honour that undertaking. The facts are these: there was a ceremony where the medals were awarded by the Governor-General—

Senator RONALDSON—According to you.

Senator Feeney—Two recipients did not attend. Secondly, the unit citation will take place and veterans from Delta Company 6RAR will be invited to attend it, and reasonable costs will be met by government.

Senator RONALDSON—I hope that you and the government are proud of your performance in relation to this matter. For you to come here today and say there are two ceremonies, as you know, is simply untrue. I put it to you again that Mr Brady made that quite

clear in evidence. I want you to respond to Mr Brady's comment, please. Were all members of the 6RAR unit invited to a function at Government House on 17 August following formal advice from the Department of Defence along with those individuals who are going to receive their individual medals? Not two ceremonies; one ceremony at Government House on 17 August, on the formal advice of Defence, and no delineation about who was to be part of this award ceremony—yes or no? Who is telling the truth—you or Mr Brady?

Senator Feeney—It is impossible to give a yes or no answer to a question that does not comprehend the issue. The issue is this—

Senator RONALDSON—So I will go through it really, really slowly for you.

Senator Feeney—In August 2010—

Senator RONALDSON—I am going too fast, clearly.

Senator Feeney—In August 2010, the Governor-General awarded medals to the four recipients. Those four recipients were each asked to come to Canberra and were invited to bring themselves and a guest.

Senator RONALDSON—That is right.

Senator Feeney—Two of the four availed themselves of that opportunity and two did not.

Senator RONALDSON—That is right. Yes.

Senator Feeney—Those are matters of fact.

Senator RONALDSON—Yes. We all agree on that. But what you will not answer is: did Mr Brady mislead the Finance and Public Administration committee on Monday afternoon when he said:

Following advice from the Department of Defence, the Governor-General invited all members from unit 6RAR to be presented with a unit citation for gallantry, as well as the five recipients and next of kin of a fourth, to receive individual awards at an investiture at Government House on 17 August.

Senator Feeney—Yes, there do seem to be errors of fact in that evidence—

Senator RONALDSON—So he was misleading—

Senator Feeney—in that he is conflating two events. The unit citation will be awarded in August this year; it has not happened yet.

Senator RONALDSON—No. I will turn to that now, because are you telling me that Mr Brady has got his facts wrong? You don't want to double-check this, do you, Parliamentary Secretary, because this is a very, very serious issue? Do you want to double check it or are you happy to stand by what you have said?

Senator Feeney—Despite the generosity of the advocate, I am happy to continue.

Senator RONALDSON—Okay, good. I will refer you to some press reports in the *Daily Telegraph* on 6 August. It was written by Ian McPhedran, who is the defence writer, and I presume from the lack of foreword from—

Senator Feeney—The reportage of this event has often struggled to comprehend, as it appears you may have done, that we are in fact talking about two events here and not one.

Senator RONALDSON—No, Parliamentary Secretary, I am sorry; you can toss this stuff around, you can toss the balls around. Can we just grab hold of a couple and run with them so we know what we are talking about? Unless Mr Brady was misleading the Senate estimates on Monday—and if he was, you tell me—that indeed these invitations were not extended to everyone—are you telling me they were not extended to the unit? Are you or not—yes or no? It is quite simple.

Senator Feeney—The unit as a whole was not invited to the ceremony in August 2010. Veterans are being invited to the event in August 2011. As I have explained, the difference between those two events—

Senator RONALDSON—Are you absolutely sure about that?

Senator Feeney—That is my advice. The difference between those two events is that in August 2010, the Governor-General was awarding medals to four individual recipients, and in August 2011 the Governor-General will be giving 6RAR a unit citation. They are different events; they have different—

Senator RONALDSON—Parliamentary Secretary, you are absolutely right; they are two different events, but the second was driven by the behaviour of Defence and the government in relation to the first. I wanted to make absolutely sure about this, and I again asked Mr Brady:

This had been an invitation extended to the surviving members of the unit?

Mr Brady—Yes. The Governor-General extended an invitation to a function on 17 August. When Defence indicated it was not prepared to let it go ahead, the Governor-General was advised of this in writing.

Ms Prendergast—The Governor-General issued invitations to all members of the 6RAR.

Senator Feeney—Just to clarify it, are you saying that they issued invitations to veterans of Delta Company, 6RAR, from Long Tan, or to the entire unit as it presently exists?

Senator RONALDSON—Long Tan; we are talking about the survivors, aren't we? If we are not, and if that changes your answer—

Senator Feeney—No, I am trying to get your question as forensic as I can.

Senator RONALDSON—Okay. I assume we were talking about the survivors, obviously, because we were talking about the Battle of Long Tan. I do not think anyone who was not part of the unit at the time would be there for the citation. But so we are clear, we are talking about the survivors. So does that alter your answer?

Senator Feeney—As I understand it—

Senator RONALDSON—Does that alter your answer?

Senator Feeney—Let me make sure I understand what you are asking, because this is as clear as mud. As I understand it, you are suggesting that the event scheduled for Long Tan day 2011 was brought into being because of some fracas in 2010. If that is your suggestion, then all I can say is that is not my advice and I know nothing of it.

Senator RONALDSON—I will ask you again, just so we are absolutely clear: were the survivors of the unit, plus those who received individual awards, invited to attend a ceremony at Government House—

Senator Feeney—No, my answer has not changed. As I comprehend it, only the four recipients were invited to attend and they were each entitled to bring one guest, and the Governor-General—now, that is my advice, and that is my answer.

Senator RONALDSON—Does it seem remarkable to you that two officers from the Governor-General's office would give evidence to a committee indicating that this was a wider invitation?

Senator Feeney—I am advised that, for the awarding of individual medals, it was as I have stated. That is, the government extended an invitation to the four recipients and each of them was entitled to bring a guest. I am advised now, however, that there was—I do not know quite how to characterise it—an assertion, a request, that a larger body of veterans also be invited to attend that event, and funding was not available to actualise that request.

Senator RONALDSON—Funding was refused to pay for the flights of those survivors from the unit to come to that investiture, is that right?

Senator Feeney—Eighty persons, that is correct.

Senator RONALDSON—So, indeed, the invitation had been extended to the surviving unit, and the department decided that it would not pay for the airfares for those survivors, but it would pay for the airfares of those receiving individual awards; that is right, isn't it?

Senator Feeney—Yes, but context is everything here. All of those persons are invited, will be invited, to the unit citation ceremony—

Senator RONALDSON—I know that.

Senator Feeney—at Enoggera in Brisbane on Long Tan day 2011.

Senator RONALDSON—I know that, Parliamentary Secretary. But with the greatest of respect to you, and I am not suggesting you did it deliberately, but we have now got to the truth of this matter. As I referred to some 15 minutes ago now, the evidence given by Mr Brady was right, that these invitations were extended, but the department refused to pay for the unit members to attend, and would only pay for those receiving individual awards.

Senator Feeney—Recipients and their guests.

Senator RONALDSON—That is right. That is an entirely different matter, with the greatest of respect, to what you were alleging, and telling me that I had my facts wrong. So at least we have that right. In light of what you have just said, I do not know whether these media stories actually take on a different light than the one you were referring to before. When this came out, the facts that you have just now conceded occurred, on 6 August the *Adelaide Advertiser* had a heading 'Brave soldiers deserve better'. We had Ian McPhedran's article on 6 August referring to this. You may or may not be aware that the reason that two of these men refused to come to Government House on 17 August last year was given in a letter written by Mr Smith to Ms Bryce:

I cannot stand in front of Your Excellency and accept my medal which was earned by my gallant men without them being there and also receiving the UCG gallantry awards ... We trained as a team, fought as a team, and should be decorated as a team. Defence now denies us that right.

Remarkably, the *Daily Telegraph* carried the headline on 7 August ‘Long Tan backdown’. The article states:

The Government will override army chiefs and transport all survivors from the battle of Long Tan and next-of-kin to Brisbane for a special award ceremony.

The move comes a day after it was revealed that the army brass had embarrassed Governor-General Quentin Bryce by rejecting her invitation to veterans to attend a ceremony at Government House on August 17 to receive the Unit Citation for Gallantry ...

...

Veterans Affairs Minister Alan Griffin said the Government became aware of the issue this week.

This event in Brisbane—

Senator Feeney—The unit citation?

Senator RONALDSON—Sorry, the second event in Brisbane was put together by your government at short notice because of the embarrassment over this. Indeed, if it had not been done then, it may have been done just prior to it, after it became quite obvious to the Governor-General and Defence that this had caused enormous embarrassment. I put it to you, Parliamentary Secretary, that this cynical exercise was purely about cost, and I put it to you that there are probably more survivors of that unit of Delta company—of those who went to hell and back, as you well know—living in Brisbane and Queensland and the cost will be less having the second investiture in Brisbane. If indeed Defence is now saying that they will fly people to Brisbane for the event, why did they not agree to fly them to Canberra for the original event?

Lt Gen. Gillespie—There are two separate issues at stake here. One is the investiture of medals to individuals, and the other is the investment of the unit citation which is placed on the colours of the battalion that is receiving the award. At the time that the investitures happened last year the battalion that is going to receive the streamer was at war. It was losing young soldiers in a battlefield equally as much as their ancestors had lost soldiers in the battlefield. The first available opportunity for us to do that parade formally with the investiture was after the battalion returned home, and the most appropriate time is on the anniversary of the Battle of Long Tan this year, the first time since the investiture of the individuals that we have been able to do that.

Senator RONALDSON—That is very interesting. That is why this invitation was extended to the unit survivors and those individual gentlemen on, as Mr Brady said, the eve of the 44th anniversary. Indeed, it was to celebrate an anniversary of this battle. I am afraid, with the greatest respect, that given the prevarication in relation to this matter, given the failure to acknowledge this invitation had been extended, I am far more prepared to accept the views of those who refused to come—those men who were to get an individual award—I am more prepared to accept their take on this and I am more prepared to accept the take of the journalists involved in this than I am from anything I have heard today.

Lt Gen. Gillespie—That is for you to—

Senator RONALDSON—I thank you for the prevarication.

Lt Gen. Gillespie—Thank you. That is your choice to make that.

Senator RONALDSON—Yes, it is a point of distinction.

Lt Gen. Gillespie—I have been involved in this all along and I was actually one of the influences to say that the investiture of the individuals had to happen last year, because originally we were going to do it this year when the battalion was home. The reason that we wanted to do it last year was the frailty of the veterans themselves and so we pushed it for the earliest opportunity. I do not accept your assertion. I think that we made a combination of correct decisions and I stand by them.

Lt Gen. Gillespie—I think I will back Mr Brady and the others. Thank you very much.

Senator BARNETT—My two areas of questioning relate to the posthumous awarding of the Victoria Cross and, secondly, obesity in the Australian Defence Force, and I think I saw Major General Alexander somewhere in the room. In the October estimates I recounted the fact that at that time Australia had 97 VCs, 93 from the Army, four from the Air Force and of course none from the Navy. It is noted that 2011 of course is the centenary of the Australian Navy. Since that time, on 1 December we have had a ceremony with the family of Teddy Sheean and the general community in Latrobe, Tasmania, which is the anniversary of the sinking of the *Armidale* and his heroic and courageous act. Of course, there has been evidence put into the public arena on Captain Hec Waller, of course, by Mike Carlton, distinguished author, and indeed I am aware of Paul Cleary's views with respect to his support for Teddy Sheean.

I draw attention to Air Chief Marshal Houston's comments given in his evidence in answer to me and to others on 19 October on page 108 with respect to where this is going. He states:

That is exactly where we are going to go. We have an independent Honours and Awards Tribunal and we will refer this particular case, this representation that the Senate has made on behalf of Naval personnel, to that committee.

Then it goes on and you indicate, sir:

We will let the Honours and Awards Tribunal have a look at it and obviously we will go forward from there. We will come back to you and let you know how the process goes.

I am asking for an update with respect to that matter.

Senator Feeney—I might assist here. You will recall from that estimates session you were quoting from that the CDF not only referred the matter to Awards and Honours but indeed to me. As Parliamentary Secretary of Defence, Awards and Honours falls within my set of responsibilities. I wrote to you on 2 November 2010 to advise you that, because this matter fell within my portfolio responsibilities and indeed because of in part your questioning of CDF during estimates, this matter was going to be taken up by me. I have indeed referred it to Awards and Honours, and I might use that as a segue to invite some further detail.

Senator BARNETT—Can I respond very quickly there to your response. Let me just clear it up for the record. My letter was to Stephen Smith dated 28 October. You have indicated—

Senator Feeney—I responded on his behalf.

Senator BARNETT—you responded dated on 9 November. We never received that letter. My officers received an email copy version, which I have here, some weeks ago. I cannot recall the exact date of conversations with your office when we actually followed up to try to find out where the response was to our letter. We got this email, which is unsigned. I take your evidence and I appreciate your feedback but that, as far as I am concerned, up until your comments now was an informal draft letter that has never been received by my office. Putting that to one side, let us move forward.

Mr Lewis—I think the parliamentary secretary has pretty much answered the question really. The fact of the matter is it has been referred to the independent tribunal. The ball is in their court and they will now proceed with their review of this case—

Senator BARNETT—When was it referred?

Mr Lewis—Just in the last few days.

Senator BARNETT—When was it referred?

Mr Lewis—I cannot give you a precise date—

Senator BARNETT—Do you want to take that on notice?

Mr Lewis—It will be very recently.

Senator BARNETT—Would you take on notice who referred it—

Mr Lewis—The parliamentary secretary.

Senator BARNETT—What is the process from here? Can you outline the process, please?

Senator Feeney—I might be able to assist here, because I am looking at the relevant submission. I think—

Mr Lewis—We will take it on notice and give you the precise date.

Senator BARNETT—I am interested in when it was referred, but with the greatest respect we have the head of the Australian Defence Force, Air Chief Marshal Houston, and I have quoted him saying on 19 October, ‘We will let the Honours and Awards Tribunal have a look at it and we will get back to you.’ You are telling me that in response to that in mid-October the government has decided through the parliamentary secretary in the last few days to forward it to the tribunal for consideration. That of course is many months later. Do you have, with respect, an apology for that or any other response to the delay?

Senator Feeney—On 21 February I signed a min sub that I guess asked the tribunal to investigate the case for awards of the VC for distinguished war veterans, including Navy, Army and Air Force if applicable. As you well understand, that will trigger a series of investigations and research by the tribunal that I would anticipate will take quite some time indeed.

Senator BARNETT—Are we talking months, years or weeks?

Senator Feeney—I would be speculating, but I would think the tribunal is likely to take many months to reach a view on this. I guess perhaps to give that some context—and I think these are issues you are in the main familiar with—a retrospective award of the VC is something that is very difficult.

Senator BARNETT—Yes, I am fully aware of the criteria and I appreciate your putting it in context. Can you please release the letter. Could you make that available.

Senator Feeney—I see no reason why I cannot give you a copy of this, and of course I will make sure you get a copy of my correspondence to you of 2 November.

Senator BARNETT—A signed version?

Senator Feeney—Indeed.

Senator BARNETT—I have a draft, but I would like a signed version, of course. Are you only focusing on posthumous VCs for Navy personnel or—

Senator Feeney—No, all services.

Senator BARNETT—Is there a particular attention to Navy personnel? I am quite happy to refer to Vice Admiral Crane's response at estimates where he indicated:

Firstly, let me go back to the lack of any VCs in the RAN. I think that is an issue that we do need to look at.

He is obviously most keen for this matter to receive serious consideration, and I fully support that view.

Senator Feeney—That is quite right. I guess what we say, or what I say, is that the Defence Honours and Awards Appeals Tribunal has been invited to investigate representations made on behalf of both former naval and military personnel. You have talked about some of those naval cases. There has been a particular focus on the cases of Captain Waller and Ordinary Seaman Sheean, but there are some others that fall within the remit of this too. In particular, Private Simpson and Gunner Cleary are two that have been identified. I guess you would be right to say that there is a particular issue of interest here to Navy, but it is all services.

Senator BARNETT—Are you happy to take a commitment to undertake to keep the Senate and this committee and the community informed of the progress of the tribunal so that we do not have to come back saying, 'How is it going?' When the tribunal deliberates—I do not know how it works—do they have monthly meetings? Can you please advise—

Senator Feeney—I might ask Mr Cunliffe to perhaps assist us in describing the work of the tribunal.

Air Chief Marshal Houston—Just before we go there, could I just add a couple of words. When you made your request and I responded, that triggered a lot of discussion and debate within the department. There was a need to address some fundamental questions and issues. As you know, there are a lot of constraints and limitations on the award of Victoria Crosses, and we needed to better understand just what was involved with those issues. It may appear that we have been slow in responding to your query raised at a previous estimates, but the department has been looking at this and the processes that will ensue from now on with the referring of the issue to the tribunal will also take time, because the issues are quite complex. Mr Cunliffe will tell you why.

Senator BARNETT—I appreciate that. I do draw your attention to the answer to my question, which was a four-line answer. It said:

Defence is currently considering the most appropriate method to review the awarding of posthumous VCs.

Frankly, that is—I will not say ‘offensive’—very light on, big time. You gave an expansive review in estimates. You said it would be going to the tribunal and then I get that as an answer to a question. It is not good enough. Thank you.

Mr Cunliffe—One of the functions that have been added is for administrative purposes. Of course, the tribunal itself is statutorily separate, as you know. The chair is a statutory appointee, Professor Dennis Pearce. But the administrative operations sit under my division. The advice to me from the tribunal is that the general methodology and the methodology they would expect to adopt in this instance will, first of all, involve the terms of the reference being formally set in conjunction with the government through the parliamentary secretary. The panel of tribunal members conducting the inquiry—because the tribunal does it in a series of panels—will be confirmed and announced by the chair. The tribunal will call with a nationwide call for submissions, consider those submissions and then hold a series of public meetings where those who the tribunal invites may speak to it. Then, obviously having completed that process of hearings and deliberation, the tribunal will formally consider its judgement, come up with its report and make recommendations. Then, on the assumption that the referral is a referral under the provisions of section 111W, it will then make its report to government—

Senator Barnett—Section 111W of—

Mr Cunliffe—Section 111W of the Defence Act. The tribunal and its processes are to some degree identified in that act. I am counselled to be cautious in terms of raising expectations about timing. It is pointed out to me as well as being a lengthy process trying to look a long way into the past it is also a process which has a decision ultimately resting with the Queen. There are a number of features which, if I can put it like that, are difficult to predict.

Senator Barnett—That information is most appreciated and really helps to answer the question. When will the terms of reference be finalised and released by the tribunal, the parliamentary secretary or someone else?

Mr Cunliffe—I cannot answer that here. I would be happy to take that question on notice and to give it consideration. I know the tribunal is very keen to take on the task, so I do not think that they will be letting the grass grow if there is any part of the process that they can move forward.

Senator Barnett—That is greatly appreciated. Thank you for that information. If you could take on notice providing further and better particulars regarding timing and the detail of what you have just provided, that would be great and I would appreciate it.

Senator Feeney—Certainly.

Senator Barnett—We have made progress. Could I move to obesity in the Defence Force and follow-up questions made and put at the last estimates—in fact, over the last two years. I note that based on my research the US defence force is the fattest defence force in the world, with 15 per cent of its personnel categorised as obese. Australia is obviously not far behind at 14 per cent based on the latest figures, which are from 2009. An answer to a

question on notice that I put in October, which was received in the last week or so—in fact very recently—stated that 8.3 per cent of the ADF personnel were not deployable on medical grounds, and that figure is now updated to 31 January to 9.7 per cent, which is one in 10. That is a very significant increase over that period. I would be very keen to know the reasons why that has increased so significantly over that period. Secondly, if you have the updated figures for obesity and overweight in the Australian Defence Force, that would be appreciated. If you do not have them now, I would appreciate that being taken on notice. In October you indicated the latest figures for 2009, but Major General Alexander indicated that the Defence Force did annual wellness checks that we still conduct on every individual within Defence and that looks at weight, height and BMI. I would like to know the most recent figures for those. Could that be provided either now or on notice and broken up into the Army, Navy and Air Force and male and female categories, as you have done in a previous answer to me.

Senator Feeney—The Vice Chief of the Defence Force will handle these matters.

Lt Gen. Hurley—Joint Health Command is one of my responsibilities. Regrettably General Alexander is not available today, but I will take you through the statistics—your second question first. I will just read them through if you are happy for me to do that.

Senator BARNETT—If you have a table maybe you can table them.

Lt Gen. Hurley—I will table it as well. These figures for both regulars and reserves are for the period 1 January to 31 December 2010, so up to the end of December 2010—

Senator BARNETT—Is this for regulars or reserves?

Lt Gen. Hurley—I will give you both regulars and reserves. I will concentrate on overweight and obese. I will leave the other ones behind.

Senator BARNETT—Yes, that is fine.

Lt Gen. Hurley—For Army: overweight males, 49.3 per cent—these are all percentages—females, 30.49; obese males, 13.8; females, 7.01. For Air Force: overweight males, 52.93; females 37.07; obese males, 17.29; females, 7.89—

Senator BARNETT—Sorry, 17.29?

Lt Gen. Hurley—Correct.

Senator BARNETT—That is high.

Lt Gen. Hurley—Yes, and females, 7.89. For Navy: overweight males, 56.8; females, 28.47; obese males, 14.8; females, 11.11. That is regulars. Reservists, for the same period, overweight—

Senator BARNETT—Are the reserve figures the same as what you provided in an answer a couple of days ago? Answer to question 12, obesity in the Defence Force?

Lt Gen. Hurley—Yes. That is an overall figure, not by service.

Senator BARNETT—Thank you. Fire away.

Lt Gen. Hurley—Overweight Army male, 51.48; female, 27.87; obese males, 16.34; females, 10.92; Air Force males, 56.74; females, 35.97; obese males, 21.12; females, 5.76; Navy males overweight, 60.24; females, 18.18; obese males, 13.25; and females, 13.64. I

would remind you again though that obviously the BMI is a screening tool. It is a first indicator for clinicians when they look at people as to there being any further issues. It should not be confused with deployability. So to go back to your first question, I do not have a detailed analysis for that. I will take that on notice as to what element obesity might play in those statistics, but we will get that work done for you.

Also suffice to say, as I was saying, BMI does not indicate deployability. For example, I am 180 centimetres, 95 kilograms. I am 29.7 on the BMI scale, which makes me extremely overweight, close to obese, but I am extremely deployable. If the CDF were to take that opportunity, I would follow it up.

Senator BARNETT—Well noted. Of course, this issue was raised two years ago and Air Chief Marshal indicated that it was an issue that needed to be addressed at the time. It would appear, based on the figures that you have provided, that there has been no improvement. In fact, it appears to be getting worse, not better. Are there any initiatives that you can point to that you have undertaken that you think are making a difference in this arena? In particular, I do draw your attention to that huge increase in nondeployability. That is a serious issue which you obviously need to have a look at.

Lt Gen. Hurley—As I said, we will do the statistics on that but that could relate to a number of things. We have got a lot of people coming back from operations who may have moved from a fit state while they were away to an unfit state just going back through a cycle, so these could be quite unique factors at play or it could be a cyclical issue. I will come back with that analysis for you. But I would not link that increase directly to obesity without any evidence to support it.

In terms of programs, as we have said before, we do have a very careful program in terms of the dietary provisions we have in our messes and so forth as to what our contractors are required to perform. We still have our annual fitness tests across the services, one or two, depending which service you are in, plus fitness tests for those in combat units, annual medical check-ups or a periodic check-up depending on your age. So we have many screening processes in place to keep an eye on people's weight and health. As I say again, the BMI is just an indicator—

Senator BARNETT—I thank you for that. I am not learning anything new in terms of that response. I appreciate your feedback. Clearly whatever you are doing or attempting to do is not working, it would appear, based on the figures when I first raised this two years ago. I am just asking you to seriously consider getting professional, top-class advice. You have got people in Australia like Professor Jennie Brand-Miller, Professor Paul Zimmet, Stephen Leeder, Ruth Colagiuri and Stephen Colagiuri. You have got first-class people who could help the ADF get its systems right. You have a systemic problem that needs to be addressed, it would appear, based on the figures.

Lt Gen. Hurley—I hear what you say but we are heavily engaged with the Royal Australian College of General Practitioners, the General Practice Network and the Centre for Military and Veterans Health. We tap into a wide range of expertise in these areas.

Senator BARNETT—I am not going to pursue it any more in light of the time commitments. But it is just something that Air Chief Marshal Houston has indicated is an

issue. It needs to be addressed and there does not appear to be any progress. It is a concern. I think you acknowledge it is a concern?

Lt Gen. Hurley—We do not want to have obese people or people who suffer illnesses in relation to obesity in the Defence Force and we have programs in place. If we can do better, we will try.

Lt Gen. Gillespie—I might be able to help you understand a little bit about deployability as opposed to obesity. For example, as of 1 February, this month, Army is administering 1,852 active rehabilitation cases. So if you take my deployable force being about 18,000, about 10 per cent of them are in rehabilitation at the present time. The sorts of things that that rehabilitation covers are injuries due to ADF recognised sport, injuries due to military training, injuries due to operational deployments—we have got quite a number of wounded who are on long-term rehabilitation—injuries due to transport accidents, workplace accidents, 21 others and several others. They can be to do with pregnancies, to do with people not being deployable because of compassionate circumstances. The figure that you have got for how many people we can deploy at the present time is not all about obesity; it is about a broad range of issues—

Senator BARNETT—But it confirms you have got over 5,000 people who are non-deployable in the Australian Defence Force—one in 10.

Lt Gen. Gillespie—The point that you were just making was that we ought to go and get some help. I actually think that we have got some pretty good help and if you had been watching us develop over the last few years our rehabilitation processes et cetera you would see that in the past we would have gotten rid of many of these people. Right now we are rehabilitating them and keeping them on in the workforce and saving ourselves a fortune in the process. It is not all about the BMI; it is about a whole range of issues that affect deployability, and this is just an example.

Lt Gen. Hurley—For example, we did change our medical classification process and increased the number of levels in it so we could retain people for longer when they came back from operations to give them a better chance to rehabilitate. So if the numbers have gone up there are factors like that even where we have changed our approach to rehabilitation to keep people in longer.

Senator BARNETT—I think you had specific initiatives regarding alcohol last time and congratulations on your efforts to make progress in that area, which is obviously an area of need. This is another one. It is a chronic disease that needs action. I leave it with you. It is a concern. I do not have anything further to add. I know other senators have questions.

CHAIR—We are dealing with Portfolio Overview and Budget Summary. I turn now to Senator Faulkner.

Senator FAULKNER—This relates to an issue that I suspect that Major General Alexander would be most expert in responding to. This relates to the issue of post traumatic stress disorder and treatment options. Given some representations that were made recently to me in relation to what appears to be a, if not new, then certainly different method of diagnosing and treating PTSD which I think we all accept is obviously a significant issue for Defence. I wanted to ask a couple of questions of the appropriate person.

I have corresponded with Minister Snowden about this but, as I indicated, I am not sure if you were in the hearing room when I mentioned it. I have been approached by a number of concerned citizens on what is described to me as a new or different method of investigating or diagnosing and treating PTSD—I can only say this as a layman, as I would hope you would appreciate—which I understand goes to detection or diagnosis of PTSD by a simple visual test which I am informed can be performed by virtually anyone, anywhere. The arguments are that it basically costs nothing; it is non-invasive and it is very quick. It is a related method of treatment which it is argued by those that have spoken to me about it has a high level of success.

Without going into this either in detail or at length, does Defence have an awareness of this matter? Is Defence giving this proposed method of diagnosis and treatment appropriate consideration?

Cdre Walker—I am aware of the tools that you are describing both in terms of diagnosis and treatment. What Defence does do is we follow the Australian guidelines on the diagnosis and treatment of acute stress disorder and post traumatic stress disorder that are published by the Australia Centre for Post Traumatic Mental Health. What we do is follow Australian best practice, best evidence guidelines, and whilst there are always new tools and new treatments provided, we would always want to make sure that we have got evidence to support using them unless we were doing that treatment as part of a recognised trial to evaluate the outcome. At this point we keep abreast of the literature, we keep abreast of the new treatments, but at the current stage we are using and following the Australian best practice guidelines for treatment.

Senator FAULKNER—As you would appreciate, I am in no position to make a judgment, professional or otherwise, as to the effectiveness of any such diagnosis tools or treatment methodologies. I do not want to pretend to you otherwise. But I can say to you of course that there is a range of interested members of the community who are strong advocates for this. The issue for me is just to establish whether this is a matter that is effectively under consideration by Defence given the impact, as we know, that post traumatic stress disorder has on currently serving and former members of the ADF.

Cdre Walker—We are constantly reviewing our guidelines and our practices to make sure that we keep abreast.

Senator FAULKNER—You may not know, and I appreciate you may not be able to inform the committee at this stage, but are you able to say whether there has been an opportunity for the advocates for this type of diagnosis and treatment to present their case to those who have responsibility for these matters within Defence?

Cdre Walker—I am not aware that any approach has been made to discuss that with us in a formal sense. We are clearly always happy to discuss treatment options. I am aware that the Australian guidelines for treatment of post traumatic stress disorder are again being reviewed. Even though they were only published some three years ago, they are now in the process of a full review. Accordingly, any new procedures or treatments or diagnostic tools will be evaluated as part of the evidence based approach to providing best practice. We will talk to

them but we would also encourage them to be part of that process where it is formally evaluated in terms of best practice.

Senator FAULKNER—I appreciate that. Thank you for your answer. It might assist to know that I contacted the Minister for Veterans' Affairs and Minister for Defence Science and Personnel on 7 December last year just forwarding the material that has been provided to me—and I stress again I have no particular expertise here, I cannot make a judgment about these matters. That would be a relief to many to know that I am making no such judgment. But nevertheless I am quite confident that what has been said to me has been said in good faith from both PTSD sufferers and psychiatrists, genuinely concerned citizens who believe they have some information here that warrants serious consideration by the relevant authorities. That has certainly been forwarded by me to Minister Snowden, so you might be able to respond in the future having had an opportunity to examine that. I will not stress again the qualifications I have put on these questions but, without delaying the committee unduly, it might be useful to go to the primary documents that I provided to the minister.

Cdre Walker—Certainly.

Senator KROGER—My questions are quite brief, too. I firstly wanted to turn to CDF and your remarks about the Defence Force's deployment for disaster purposes, the floods and Cyclone Yasi and the fires in WA, and would like to add my comments to Senator Trood's because I think we were incredibly proud of the way the Defence Force so quickly came to the support, and in many instances rescue, of so many individuals. It was fantastic. Are there any Defence Force personnel deployed in Victoria at the moment?

Air Chief Marshal Houston—Thank you very much for those kind words. In Victoria we have really wrapped up our support, I guess. You would probably be aware that at one stage there we had 165 people deployed in Victoria. They comprised a large number of reserves. On the Army side we had 120 reserves and 15 regulars, totalling 135 personnel. We also had two naval helicopters, Navy Seahawks, and that detachment was 30 people. At the height of the floods we had 165 people. We did a variety of tasks, but essentially after starting in Victoria on 18 January we came out on 10 February and wrapped it up.

Senator KROGER—I would also like to note that something like 100,000 sandbags were—

Air Chief Marshal Houston—It was 200,000, which were flown in by a C17.

Senator KROGER—It was a huge number, which secured a lot of places and ensured they were not flooded.

Air Chief Marshal Houston—And a C17, which was great to see.

Senator KROGER—The reason I am raising this is that at the moment there is a huge body of stagnant water essentially between Kerang and Swan Hill. When it first started moving it was some 90 by 40 kilometres, but it is still there. I was wondering if you had been asked for any input into that particular ongoing disaster, because 95 per cent of the farmland is covered and homes still have floodwater up to their roofs after two weeks. Has the Defence Force been asked for any input into how this is to be dealt with?

Air Chief Marshal Houston—We of course, like you, are deeply concerned for the welfare of those people, but, in terms of support from the Defence Force, we have not been requested to do anything. I am not sure there is a lot we could do given those circumstances. I think you are aware that we are optimised for rescue and emergency response rather than longer term recovery operations such as this one. I guess if we had niche capabilities that would be useful in these circumstances we might be asked to do that, but at this point we have not been asked and I cannot think of anything additional we could do to help the circumstances. I must say I saw it on, I think, on ABC News 24 the other evening and I do feel for those people.

Senator KROGER—It is more, as you said, whether you had a niche capability. You mention in your report also that, I think, 6,500 personnel were deployed over the January period. Can you briefly explain how that affects our deployment capabilities overall overseas, whether it is in Afghanistan or peacekeeping forces? How is that affecting us and going to affect us overall?

Air Chief Marshal Houston—I think our Defence Force did a magnificent job through January and February. All three services were intimately involved. If I take the Army first, a lot of the young people who helped in Brisbane and did such a wonderful job there had only recently returned from Afghanistan. They would be in what we call the reconstitution period after their deployment. There were others—

Senator KROGER—Would that normally be a six-month time back here or—

Air Chief Marshal Houston—In that case they were deployed for eight months and they returned in October or November. Many of them would have been on their first long leave for a while when the floods came along. Many of them volunteered to go out there and do the great job that they did, so we are all very proud of those young people and what they did in Queensland's time of need.

In terms of preparedness and deployment implications, what I would say is what you have probably heard me say before—that it is important in terms of our deployment in Afghanistan that we do not overcook it. Suggestions have been made on occasion that we should deploy, say, up to 6,000 people. But one of the reasons we do not is that, from time to time, a disaster or indeed a law and order situation in our near region will occur which requires a large response from the Defence Force

It is important to keep a capability in the cupboard so that when that unforeseen circumstance comes up we can respond effectively and in a very helpful way, as we did on this occasion. The point I would make is that it is important that we always have a capability at home to respond to circumstances such as what happened all over Australia this time around, particularly in Queensland. That could have easily happened somewhere else in the region. Of course, the other thing that happens in our region from time to time is that there are breakdowns in governance and law and order. We have seen it in our region on a fairly regular basis over the years and we need to retain the ability to respond to those circumstances as well. I think it was a good effort.

In terms of the platforms, one thing you should be aware of is the Army's helicopters and Navy's helicopters flew an incredible number of hours. If you are flying those hours in

support of operations in Australia it means that will have an effect further downstream on other things that you can do. We have to manage our rate of effort very carefully.

In terms of the airlift, I suppose it is a similar story. At one stage there with the flood we had a large number of C130 and C17s supporting one activity or another and, again, if they are doing that they are not available for other things. So we are able to do it. The reason that we are able to do it is that we keep enough back here in Australia against the sorts of contingencies that can occur in Australia or in our region.

Senator KROGER—Would it be reasonable to suggest that you might have been a bit stretched?

Air Chief Marshal Houston—No, I would not say we are stretched, because, fortunately, the circumstances of the cyclone and also the floods in the various parts of Australia tended to be short in duration and the emergency response period in each set of circumstances was such that we really needed to just get in there quickly. We are very effective at doing that. After a period of two or three weeks in most cases—certainly in the case of our engineers in the Lockyer Valley it was a longer period of about six weeks—we are then able to pull them back. It was a short duration and highly responsive and because of that we were able to do it and do it effectively.

The point I would make, though, is that if we had to sustain that capability over time, given all of the other operational responsibilities we have, that would be extremely demanding on the Defence Force. With 6,500 people deployed that would probably be very difficult to sustain over time.

Senator IAN MACDONALD—Could I repeat the comments on what a fabulous job the troops at Lavarack and at the RAAF base Townsville and HMAS Cairns did in the cyclone recently. As I said to Brigadier Smith, the sight of the Army convoy going through Ingham heading for Cardwell, Tully and Mission Beach was just fantastic and a huge psychological boost to communities that had been completely flattened. So congratulations; the guys did a fabulous job. Do you get additional funding for that or does that come out of your general budget?

Air Chief Marshal Houston—It depends how much it all costs. In general, no, we do not but if it were to be a substantial amount of money the answer is that the government would probably have a look at that and may decide we should be given some relief.

Senator IAN MACDONALD—How do you go about that? I do not know but I would imagine you have got to pay the soldiers their salary in any case. What about things like additional fuel? Some of the heavy machinery you had operating is very expensive to maintain. As you say, you are doing this for flood areas in Victoria, South-East Queensland, in the north and elsewhere and trying to run a Defence Force as well. I know a lot of the Lavarack guys were just about to go on training for Afghanistan.

Air Chief Marshal Houston—That is right.

Senator IAN MACDONALD—The cost to you must be enormous. Do your bean counters actually count up the cost? Can you tell the committee when that is done just what the additional cost to defence would have been for all of those very worthwhile deployments?

I acknowledge that where lives are concerned money is not a consideration. But do get that to us if you can. You said the government might support you; what is the process? Do you have to apply to them or what is the process?

Air Chief Marshal Houston—First of all, I think in a response to a question from Senator Kroger I said it was short in duration. We did not have to sustain it for a long time. So the costs tend to be reasonably easy to absorb. By that I mean the helicopter flying hours, the fuel associated with that and so on, the C17, C130 flying hours and so on we normally absorb out of our annual allocations for the various things that we do. Of course, if we use them on flood relief it means we do not have them available for something else. But, broadly speaking, the experience gained on something like flood relief is extremely valuable for all of our people. We like to be able to do that sort of work and we like to be able to do it well. It is good experience for our people and, broadly speaking, if it is short and sharp in duration, we can absorb it.

The cut-off is usually \$10 million. That is when, depending on how much above \$10 million it might cost, we might go and have a chat to the Department of Finance and Deregulation—

Senator IAN MACDONALD—I think it would have cost you that alone in ferrying politicians around! That is only a joke.

Air Chief Marshal Houston—No, I think the use of helicopters and aircraft comes out of the annual flying hours allocation. It then comes down to what the additional costs are associated with the activity. Generally speaking, we can keep them down to a reasonable figure and it can be absorbed within the Defence budget. But I would invite my colleague, the secretary, who holds us all to account on money, to basically add to my remarks.

Senator IAN MACDONALD—I would appreciate that but coming back to my question: do you count it and can you tell—

Air Chief Marshal Houston—We account for it.

Dr Watt—The answer is yes. Both this government and previous governments have had pretty clear rules about additional funding for all sorts of Defence operations be they war, like Afghanistan, assistance in the regional area or disaster assistance in Australia. As part of that, Defence does keep a record of the additional costs associated with the operations. But, as the CDF says, people's salaries are not additional. Flying hours are not necessarily additional. Some other things are not additional either. Some things are. For example, there would be some additional fuel costs. Often they are not great, particularly when it is for a short period of time. But we do keep a tally. It is often the case that you cannot work out the cost until sometime after the operation is completed, especially in this case because it is within the last few weeks that the operations have been completed in the case of some of the operations in Queensland and Victoria. We do go to government if the costs are significant—above \$10 million now.

There is another issue as well. These are not ongoing costs in this case. They are one-offs in the current financial year and in the current financial year we are always willing to try to see if we can accommodate that in our budget without asking government for additional funding. On the other hand, a long-term operation like Afghanistan involving a very large

amount of money we could not begin to accommodate and that is why the government has an arrangement for supplementing Defence for the additional cost of Afghanistan. So we will be adding it up. I am sure we would be happy to provide that information on notice when we have completed the add-up.

Senator IAN MACDONALD—Please pass on our congratulations. It has been done publicly by everybody but it was just a fabulous effort.

Senator KROGER—Staying up Senator Macdonald's way in Townsville, do the bases have evacuation procedures for cyclones? Given the incidences of weather patterns up there, are there clearly laid out evacuation procedures for those places?

Air Chief Marshal Houston—Yes, all of our bases in the cyclone belt have very clear plans for handling cyclones and they are well practised and very effective. For example, in a place like Townsville where there are aircraft, the aircraft are generally moved somewhere else. Depending on the size of the cyclone, they could go north or south along the coast or they could go inland. In my time in Townsville we used to take the helicopters inland to—

Senator KROGER—Do you actually fly them out?

Air Chief Marshal Houston—We fly them out. We fly them inland so they are available when the cyclone has passed. In the case of the Navy, the Navy deployed their ships. Every ship that was movable was deployed out of Cairns and they went up to Princess Charlotte Bay in Northern Queensland. That is north of Cairns. Of course, as soon as the cyclone passed they came back and, as you saw, they were very available to provide all the necessary support in response to the cyclone.

That is what we do. As you have seen, the Army tend to be focused on basically battening down the hatches but being very ready to respond immediately after the cyclone because after the cyclone we anticipate there will be a need for what we call category 1 defence assistance for the civil community, which is an emergency response which can be approved by the local commander. Beyond that, if there is a more enduring requirement, as there was with Yasi, we then move into what we call category 2 defence assistance for the civil community.

Senator KROGER—Senator Macdonald asked you at the last estimates about a base at Weipa—Scherger—saying that it was a bare base and being used by the department of immigration as a detention centre. For that base, who is responsible for the evacuation procedure? Is it the department of immigration, or, it being a Defence Force base, is it the Defence Force which is responsible for evacuation plans there?

Air Chief Marshal Houston—Generally, when the base is a bare base, we have a caretaker and his family there so we are only dealing with—

Senator KROGER—So there are not too many there then?

Air Chief Marshal Houston—one family. There is a plan to evacuate that family if the need arises. But in terms of the circumstances we have now, I would have to take that on notice. I imagine that is really a problem for the department of immigration, not a problem for the Department of Defence, because their activity is really separate from Defence business.

Senator KROGER—I would be very interested in the answer, if you would take the question on notice. Given that it is Defence property but you have got another department

occupying it for purposes other than Defence, I would be very interested to know who is responsible for that, who actually conducts the evacuation process and, if there actually was a concern at Scherger, whether there was an evacuation plan that was put into place and what that plan was, who was in charge of that and what happened.

Senator IAN MACDONALD—Could I just add to that: could you also let us know what happens to things like sewerage, water and buildings that may be damaged as a result of cyclones or other things—are they your responsibility to repair or the immigration department's?

Air Chief Marshal Houston—I will take it all on notice, but the base there was designed to exist and survive in a cyclone belt. I will take it on notice and let you know what the answer is.

Senator IAN MACDONALD—With all of your Defence bases—the physical structures, the buildings; I assume they are all category five cyclone rated—did you suffer any damage? If so, what is the cost? And are you insured for any capital costs there might be?

Air Chief Marshal Houston—Simon Lewis will be able to answer that, but before I get Mr Lewis to respond I will just respond to Senator Kroger on a question she asked me a few moments ago. I am informed that only this morning Defence was asked if we could assist in plugging a flood levee breach in the vicinity of Swan Hill. We are examining the feasibility of that task and whether we can assist in doing something about it.

Senator KROGER—Can I put on record my strong encouragement for that.

Air Chief Marshal Houston—I understand, Senator. You obviously come from Victoria! Mr Lewis will now answer Senator Macdonald's question about insurance.

Mr Lewis—We did sustain damage at a number of facilities on a number of bases in Queensland, considerably more damage in the south than in the north. It would be actually a significant list. If you are interested I can certainly supply that list.

Senator IAN MACDONALD—Yes, please.

Mr Lewis—I can assure you we have already provided an initial list to our insurers. We are part of the whole-of-government insurance arrangements which are managed by Comcover, which is an entity inside the finance department. We have lodged a claim with them. Their assessors are at work at the present time. There will probably be several events and in relation to each event we will have an excess we will have to absorb. But over and above that excess we would expect our insurance policy to deal with the rectification of most of those facilities that were damaged in Queensland.

Senator IAN MACDONALD—I would appreciate it if you could give us the list of what damage there was, on notice, and perhaps what the excesses are that you might—

Mr Lewis—From memory they were \$500,000, but if I am wrong I will correct it on notice.

Senator IAN MACDONALD—Per building?

Mr Lewis—Per event. For the south Queensland flood, which was an event, there will be an excess I believe of half a million dollars. If I have that wrong I will correct the evidence after afternoon tea. But our damage in south Queensland was, I think, several tens of millions.

Dr Watt—In response to a question by Senator Humphries at 14.10 as to when the CDF and secretary received a copy of the Black review: I owe an apology to the *Australian* newspaper—we did receive it on Monday, 24 January, so there you go. Also Senator Johnston asked about the chronology in relation to JASSM. The Defence Capability and Investment Committee considered JASSM EF5418 on 28 May and directed that a submission be worked up for the minister. That submission was worked up. We were, however, beaten by the caretaker period. We knew cabinet was sworn in on 14 September. We provided the submission to the minister. It was signed off on the 15th by the secretary and the CDF. It was received on 16 September in the minister's office. The minister came back to us on 6 October requiring some supplementary advice. We signed off that advice on 1 November. The minister received it on the 2nd. On the 21st, after subsequent discussions with the CDF and I, the minister directed that EF5418 be listed as a project of concern. That was announced on 26 November at the Defence senior leadership group meeting by the minister.

Mr Lewis—Chair, may I correct my evidence?

CHAIR—Yes.

Mr Lewis—Courtesy of a colleague in the back row, Senator Macdonald, the half a million dollars I referred to is actually the amount of damage which triggers the policy. If it is more than half a million dollars, the policy is triggered and the premium payable by Defence will be \$100,000. We are insured above the \$100,000 mark. But if there is not half a million dollars of damage then there is no claim to be lodged.

Senator IAN MACDONALD—But your excess is \$100,000?

Mr Lewis—It is \$100,000, not \$500,000.

CHAIR—We will now take a break for afternoon tea.

Proceedings suspended from 3.47 pm to 4.04 pm

CHAIR—The committee will come to order. Dr Watt?

Dr Watt—We have some answers to questions about amphibious ships.

CHAIR—Admiral Marshall.

Rear Adm. Marshall—At 11.44 this morning, Senator Trood asked me a question about the comprehensive stem to stern survey on *Manoora* in December, which compartments they go into and what was the specification for the original survey. The answer is: for the hull survey work conducted on *Manoora* we commenced on 15 September as part of a routine hull survey program—so before the Seaworthiness Board—and that survey work completed on 15 December 2010. They surveyed through all accessible compartments onboard the ship, bar a couple of compartments in the superstructure. They did not go into the inaccessible voids, which are generally down in the bilges and in the hull, because the ship needs to be in dock to do that work. The surveys were all conducted in accordance with the Navy Hull Survey

Policy and Procedures for RAN ships, which is a formal document used within Navy, and that was the specification and scope for the survey work.

There was a second question from Senator Johnston this morning in relation to how the Amphibious and Afloat Support SPO operated after their authorised engineering organisation's certification was withdrawn in December 2006. The answer to that question is that the SPO continued to operate, drawing on the broader resources of primarily the FFG SPO and the certified engineers within that SPO and, more broadly, through what is called their technical support network, partially up in the Centre for Maritime Engineering. Once their authorisation is suspended, that also triggers a greater level of surveillance by the Chief Naval Engineer and his team into the processes and activities within the SPO, for two reasons. One is to assure technical integrity and the second is actually as part of the process of rebuilding the engineering processes in the SPO to a point where the Chief Naval Engineer can, again, grant authorisation.

CHAIR—Thank you, Admiral.

[4.07 pm]

Defence Materiel Organisation

CHAIR—We now turn to the DMO. Is Mr Brown available? I want to pursue some matters, just very briefly, arising out of the discussion we had on the Middle East Area of Operations air transport contract.

Dr Watt—I think he is here.

CHAIR—Arising out of the discussion we had at last estimates, I had cause to review my file and the answers that were given by you, I think it was, Dr Watt. I have a few issues I want to clear up before I can move on with that particular issue. I know Dr Brown has been involved in a lot of the background work. So, Mr Brown, just to set the record straight, can it be confirmed that the expiry of the previous contract for the air transport material to the Middle East was well known within the industry and there should not have been surprise or lack of knowledge of what was likely to be entailed in the awarding of the future contract?

Mr Brown—Could you please repeat the question?

CHAIR—Yes. I am talking about the expiry of the previous contract and the airlift of material to the Middle East. Can you confirm that, with the expiry of the previous contract, it was well known within the industry and that there should not have been any surprise or lack of knowledge of what was likely to be entailed in the awarding of the new contract?

Rear Adm. Griggs—There was a one-year option that could have been exercised, but it is not unreasonable to think that it could have been retendered at any time there, but I am not sure I understand the thrust of your question.

Mr Brown—It is a very small industry, the air charter industry, within Australia and it is fair to say it would have been common knowledge through the industry. They have their own chat line online that they all go in through and there was a fair amount of discussion about the contract on that service, so I think it is a fair observation that it would have been well known that the contract was coming up for review.

CHAIR—Can it also be confirmed that the increase in freight capacity more or less reflected current loadings under the existing strategic contract, and again there would not have been great surprises to those who might have been interested in tendering?

Rear Adm. Griggs—Yes, I believe that is a fair characterisation. We were running at about 147 cubic metres under the arrangements Strategic had in place and it involved the aircraft itself and a separate forwarding of freight by a commercial carrier, so I think that would be a reasonable characterisation.

CHAIR—The imperative was to have one load and, hence, that was the reason for the increase up to the 150?

Rear Adm. Griggs—There was a strong preference for that, but it was made clear throughout the tender process that other solutions were permissible and tenderers were encouraged to have innovative solutions, if they existed. One of the main reasons that we wanted to get it into one aircraft was that we had freight going into a different hub and that brought a whole bunch of customs and clearance issues, which slowed down the transmission of freight into theatre. It would go to that hub and then we would have to get it to Al Minhad and then get it into Afghanistan. We wanted to try and streamline that process.

CHAIR—So, the preference was for the one shipment out of Australia to the one destination point, but the tender specs made it clear that tenderers could tender on whatever base they chose, provided the response gave best value for money and service; is that correct?

Rear Adm. Griggs—I think that is fair.

Mr Brown—I think the wording was that ‘creative solutions would be entertained’.

CHAIR—With respect to Mr Charlton, was there any specific knowledge on the contract which he might have had through his associations in the past that would have made the slightest bit of difference to any tenderer?

Mr Brown—We found no evidence whatsoever that Mr Charlton had any involvement in, or any awareness of, the actual content of the contract that was put out to tender.

CHAIR—Was an investigation made of Mr Charlton’s internal contacts during the period of the tender and, if so, what did that check reveal?

Mr Brown—Yes, there was. We did a download of all his online actions through the Defence Restricted Network and we found no evidence whatsoever that he had been in communication with the Headquarters Joint Operational Command, where the contract was run from.

CHAIR—Is it fair to say that knowledge of the contract and the tender was well established within the industry such that commercial judgement—a commercial assessment—of price and the nature that was being offered by the tenderer was paramount in making bids and this was reflected in the tender prices?

Mr Brown—Sorry—I do not follow the question.

CHAIR—The knowledge of the contract and the knowledge of the tender in the wider industry was well spread. Was it well known in the industry that commercial judgments as to

what a particular tenderer was offering would have a heavy impact on outcomes when the tender was finally awarded?

Mr Brown—If I could go back to my earlier answer, a lot was known about this through the air charter industry, and I think the fact that a number of the tenderers submitted very similar tenders in terms of aircraft type would have been a reflection of the knowledge of what was required to achieve the outcomes that Defence was looking for. So, if I understand your question correctly, I think it is a fair assumption that there would have been a lot of general knowledge out there, again, available through the chat lines. People observe things going on around the aircraft. It is a very small industry.

CHAIR—Finally, how much time was spent during the tender period conducting reviews in response to complaints by tenderers, and what did this mean for the compression of time available? Was a lot of time allocated by the people reviewing the various tenders because of the criticisms that were being made, the requests for reviews, review allocation tasks and those sorts of thing?

Rear Adm. Griggs—It turned out to be a delay of a month, in the final analysis, but getting the new contract in place was quite rushed at the end because of the time we had lost.

CHAIR—Because of the time lost, because of the request for reviews?

Rear Adm. Griggs—It extended the whole process out and then compressed putting in place the final—

Mr Brown—I understand your question now and I apologise. It did add time because of the nature of this contract and the importance to Defence. There was a RIP—

Rear Adm. Griggs—Relief in place.

Mr Brown—relief in place, which is a changeover of personnel in the Middle East. That was one of the driving factors to get this contract up and running as quickly as possible. Because that was coming up in October. We saw this as being a high-profile contract and therefore we undertook the reviews that we did cognisant of the exposure that this contract had. So, as a result of those reviews, yes, there were delays.

CHAIR—Finally, what were the impending costs if the contract had not been finalised on time?

Mr Brown—At the time that we were undertaking the work, the estimation was that it would be about a million dollars a week of additional cost over and above what the contracted rate would be to supply the services up to the Middle East.

CHAIR—Thank you, Mr Brown.

Dr Watt—There is just one other point that is worth making. We produced substantial savings through this contract and that is pleasing for us, given that we have our Strategic Reform Program deadlines to achieve. The final point that is worth making is the contract is in place, the new firm, Adagold, is delivering services and I think it is fair to say that their performance is satisfactory.

Rear Adm. Griggs—We are happy with their performance.

CHAIR—That concludes my questions on that issue. I now turn to Senator Johnston.

Senator JOHNSTON—Can I go back to DMO and sustainment of Collins, please. Can I start by asking about the increase in sustainment costs over the last six years. In 2003-04 sustainment for Collins was \$203 million per annum. That is straight out of the unit ready days Auditor-General report for management of Collins. In 2009-10, \$325 million, which when added to direct operating costs of \$363 million, meant that we had \$688 million per annum to sustain and operate Collins for 2009-10. In the period that I have mentioned that is an increase of 60 per cent. ASPI looked at unit ready days and of course, we stopped quoting unit ready days in 2007, but unit ready days have consistently, almost on average, gone backwards over that period. I can give you the numbers if you want—I do not think you will contest this. In 2009-10 we are down to 700 unit ready days. The price of a unit ready day has clearly gone up. Is this of concern to the DMO and to Defence?

Dr Gumley—Yes, of course it is a concern to us. The submarines are a very expensive fleet to operate. We have been working pretty hard over the last couple of years to get better productivity right through the system. We are hitting some obsolescence issues, which are going to be even more expensive into the future. You are well aware from previous testimony of the difficulty with the diesel engines, the motors, the generators and so on, and of course that all takes money to fix.

Senator JOHNSTON—You do not contest with me that we are spending, as of 2009-10, \$688 million in sustainment and operation on Collins?

Dr Gumley—I am not aware of the \$688 million figure, because we do not pay the crew operating costs out of DMO.

Senator JOHNSTON—These are questions answered on notice—\$325 million for sustainment and direct operating costs of \$363 million, is what you have quoted me. We know that unit ready days are going down. We have had over that period 2009-10 two of the six submarines at sea. If you look at all of the maintenance periods when those submarines have been out of the water, we have had potentially two submarines at any given moment that can swim. Do you believe, Dr Gumley, that those numbers—700 unit ready days at \$688 million for two submarines—are value for money for the taxpayer?

Dr Gumley—I would just refer to the costs becoming greater. I am not happy with the cost structure of the Collins submarine fleet and we have a lot more work to do to try to work on that. Now, there are a number of programs underway. You will recall this time last year we developed Team Collins to try and get a greater harmony and integration between the Commonwealth and ASC. Chris Deeble is now running the program and he has a number of initiatives underway to further involve the extended supply chain into the loop. I think we have to move to a new business model if we are going to be successful.

Senator JOHNSTON—I want to talk to you about that in a moment, because you promised me one. But let us come back and stick with the unit ready days and value for money. You have said you are not happy; when will you be happy and what is the figure that you will be happy with?

Dr Gumley—I do not have a set figure. I do not know what the figure will be into the future. What I do know is the current situation is not satisfactory.

Senator JOHNSTON—So, we have not analysed, or benchmarked if you like, where we need to be on unit ready days that we are satisfied with. We do not know what that figure is?

Dr Gumley—We do not have a hard target, no.

Senator JOHNSTON—Right. Let us talk about benchmarking. Defence has advised that they have benchmarked our submarine sustainment costs against a Gotland class Swedish submarine and also a United States Los Angeles class submarine, and when those numbers came out it was resolved that we were not comparing apples with apples. Can I ask, as a result of that comparison, what sort of availability does the Swedish navy get from its three Gotland class submarines?

Dr Gumley—I do not know.

Senator JOHNSTON—Does anybody know? So, the comparison we have made did not involve the sustainment costs and the availability? You have told me we have done a comparison. A maintenance benchmarking review was conducted in early 2010 against the US Los Angeles class 688 and the Swedish Gotland class. Where is the report on that? Where is the comparison? Have we got a report? These are pretty fundamentally important questions at \$688 million a year, I would have thought.

Air Chief Marshal Houston—Can we take that on notice? I suspect if there is, I have not seen that.

Senator JOHNSTON—You have told me there is.

Air Chief Marshal Houston—Yes, but I have not seen it personally and I suspect it might be classified. You have not seen it?

Dr Gumley—No, I have not seen it.

Senator JOHNSTON—No, I do not think it is classified. I will put the questions on notice. What sort of availability does the Swedish navy get from its three Gotland class submarines? I would like to know that. What are the annual sustainment costs of the three Gotland class submarines? What sort of availability does the United States navy get from its 45 Los Angeles submarines in terms of its unit ready days? What are the annual sustainment costs of the Los Angeles class submarine? I would like to know those answers on notice. Now, because it was resolved that a comparison between us and those two submarines was not apples with apples, we have this indication that we are now doing internal benchmarks. These are all answers to questions on notice that I have received. How on earth do we do internal benchmarks in terms of value for money?

Dr Watt—Could we just confirm the number of that question on notice? I want to make sure we have got the right question.

Senator JOHNSTON—Question No. 12A.

Air Chief Marshal Houston—Perhaps I could just make the comment that I would be very surprised that we would get any credible data on availability of Los Angeles submarines or indeed the Swedish submarines. Everybody is very sensitive about submarines.

Senator JOHNSTON—Why on earth would you be benchmarking against them if you cannot get the data?

Air Chief Marshal Houston—It may be because it is not us that benchmarked against them. It might be ASC, I am not sure. We need to have a look at that. I just wanted to make that comment, because nobody at the table is aware of this benchmarking study. I have just consulted with Admiral Moffitt. He is not aware of it, either. We will look.

Senator JOHNSTON—Who on earth has answered this question in this fashion? You are not aware of this? It is a pretty important question, I would have thought.

Air Chief Marshal Houston—No.

Senator JOHNSTON—So, parliamentary questions just get answered by someone and no-one knows anything about them?

Dr Watt—No, that is not what we said.

Air Chief Marshal Houston—No, not at all.

Dr Watt—I just need to do a bit of confirming, that is all.

Senator JOHNSTON—There is a review being conducted, according to the answer.

Dr Watt—Why don't you proceed with your question. We will just keep checking.

Senator JOHNSTON—My answer tells me, ‘Yes, a maintenance benchmarking review was conducted in early 2010 against the Los Angeles 688 and the Swedish Gotland class.’ I want to know what that said.

Dr Watt—As a consequence, this study did not provide a robust benchmark.

Senator JOHNSTON—No, that is right, ‘as a consequence’, but the review was carried out. What has happened is the numbers were so appalling in terms of our costs of sustainment?

Senator Feeney—That is jumping to a conclusion we are not yet at, I am sorry.

Senator JOHNSTON—I have to tell you, it is a pretty good bet, if I may be so bold.

Dr Watt—We will find the review for you.

Air Chief Marshal Houston—And respond to you.

Dr Gumley—Clearly, we will take it on notice, but it would appear that it was actually a benchmarking study done by ASC.

Senator JOHNSTON—That is right.

Dr Gumley—We have it on one of our computers there. We are now going to have a look at what exactly it is.

Senator JOHNSTON—My question says, for those of you that are interested in the question, ‘Has the DMO ever benchmarked the sustainment costs of the Collins class?’ The answer is unequivocal, ‘Yes.’ Now you are telling me that that answer is untrue?

Mr King—I think that is not the case. I think what happens is, firstly, there are a number of factors about each submarine that are unique to that submarine—the size of the fleet, the type of propulsion plant, the operational concept, whether you have a long time at sea or a short time at sea, how the maintenance is carried out. What I read into the work we have done to

date is that that did not provide a sound basis on which to understand the costs that should be rightly incurred for operating six Collins class.

Senator JOHNSTON—Why did we do it?

Mr King—You would have thought we were delinquent if we did not try and find some data to try and compare ourselves against other operators of submarines. My understanding was that was looked at. It was found to be not valuable in terms of getting reliable data, because of these different operational concepts. Can I say, even with our greatest friends, it is highly unlikely that we would get all of the operational data, because clearly submarines are a nationally important strategic asset. The conclusion drawn from that review, which I do not think was a full-blown study, as I understand it from the conversation, was that it formed an invalid basis on which to assess what the reasonable cost should be for us to operate six Collins.

Senator JOHNSTON—I would like to see the review.

Mr King—I understand that, Senator.

Senator JOHNSTON—And I would like to put my request on notice so that we can table the review before the committee to understand what we are unhappy about in terms of the comparison. I want to look at those numbers. Now, we have not benchmarked against countries like Japan, South Korea and Singapore. The funny thing is that they operate very similar submarines to us, correct?

Air Chief Marshal Houston—No. I would disagree with your assessment there. I do not think they are similar submarines to the Collins. Collins is quite different from the submarines—

Senator JOHNSTON—It is a lot older—I know that.

Air Chief Marshal Houston—It would be lovely to benchmark against their submarines, but I think we have got Buckley's of getting the information that we need to have a robust benchmarking comparison.

Senator JOHNSTON—That is exactly what the answer goes on to say, ‘Building on this outcome’—that is, it did not work—‘Collins is conducting a detailed review of the Collins sustainment system over the next 12 months to establish an internal benchmark.’ How on earth do we do that? What do we benchmark against internally? Can you help me with that?

Air Vice Marshal Deeble—I will take that.

Senator JOHNSTON—Air Vice Marshal, lovely to see you at the table talking about submarines.

Air Vice Marshal Deeble—Thank you very much.

Senator JOHNSTON—I am hoping your success in Air Force does transfer across to Navy. I live in hope.

Air Vice Marshal Deeble—I have not yet earned my ‘dolphins’ and I have had some seven months on the program, so I will give you what we are undertaking since I have been involved in the program. The internal benchmarking is clearly based on our understanding of the work scope to maintain the Collins submarine. We will be working closely with the

ASC—and we have already started some of this work—to understand that work scope that underpins the delivery of the integrated master schedule. There is some doubt as to some of that work scope and we have to work with ASC to understand exactly what we need to do to sustain submarines into the future. The integrated master schedule has provided us some stability, but the risk to the integrated master schedule is being able to predict what that work scope is. Clearly there has been a build-up of urgent defects that will need to be rectified and we are aiming to understand what that urgent defect is and how that is going to be rectified and built into the integrated master schedule.

Similarly, we have a range of projects we are hoping to implement on the Collins class submarine and we are looking at the best way to integrate those projects into the integrated master schedule as well. So, as we define the work scope we understand the urgent defects and what is required to rectify them, we understand how projects are going to be implemented and we will be able to determine from a bottom-up approach exactly what the cost of ownership is for the Collins submarine. I envisage that this work will take us a year to two years as we work with ASC under a new logistics support arrangement and the in-service support contract, ISSC, which we are aiming to have negotiated with ASC in the middle of this year.

Senator JOHNSTON—Let us just pause there. I appreciate that. Firstly, I do not think you have seen the 2008-09 Collins sustainment audit by the ANAO, and you were not here when the deputy in DMO told us last year—about this time, if I remember rightly—that we were going to renegotiate that contract. This renegotiation with ASC, which is an agency of the finance department, has been on the table now for, I think, more than two years—and none of that is your problem. But my question is to the secretary, who is from the department: how is it that we need desperately to renegotiate this master agreement with ourselves? It has been going on now for two years. Did Finance refuse to come to the party?

Dr Watt—I will give you general answers. I am going to have to defer to the CEO for a detailed answer. There is an existing contract in place between the Australian government and the ASC.

Senator JOHNSTON—Yes.

Dr Watt—That contract has been in place for some long period of time. The contract does need renegotiation, because Collins have moved on. That has brought us to a number of issues that are difficult issues for ASC and the Department of Finance and the Department of Defence, such as intellectual property, such as the nature of the incentive payments that might exist, and two or three other things I will ask Dr Gumley to talk about. Those problems do need resolution.

Senator JOHNSTON—Are you telling me that the Department of Defence is having a commercial-type stoush with the Department of Finance over the sustainment contract of Collins'?

Dr Watt—I am telling you the Department of Defence is having a serious discussion with the Department of Finance and the Australian Submarine Corporation.

Senator JOHNSTON—The Submarine Corporation is owned by the Department of Finance—is it not?

Dr Watt—The Australian Submarine Corporation is a government business enterprise with its own commercial objectives, its own board and its own CEO. It is not simply a matter of ‘it is owned by the Department of Finance’.

Senator JOHNSTON—Who owns it?

Dr Watt—It is a commercial government business enterprise.

Senator JOHNSTON—Who owns it?

Dr Watt—The Australian government owns it.

Senator JOHNSTON—Yes, and who owns Defence of Australia?

Dr Watt—I think we both know that.

Senator JOHNSTON—The Australian government.

Dr Watt—Let me finish. These discussions are about quite serious and complex issues. In the meantime, we have an existing arrangement in place.

Senator JOHNSTON—In the meantime, we are spending \$688 million a year on two submarines.

Dr Watt—The cost of the existing sustainment arrangements are not just a function of the nature of the contract, they are a function of many other things. I will pass over to Dr Gumley, because it is important that you get an understanding of some of the things at issue.

Senator JOHNSTON—When are we going to see a resolution of the contract?

Dr Watt—I would hope shortly.

Senator JOHNSTON—Could you possibly define ‘shortly’, because ‘shortly’ might mean, you know, a lifecycle docking of 30 months?

Dr Watt—I do not think it is that long.

Senator JOHNSTON—Two months?

Dr Watt—I am not going to get into that game. We hope it will be done shortly.

Dr Gumley—I think we have discussed previously some of the difficulties with the current contract; that it is a cost-plus; that if work is done badly and has to be redone we pay for that a second time, because it was a cost-plus contract. We talked about it at this time last year, when we had the trouble with the engines. You might recall that it was a second time around the buoy, having to pay for those to be fixed even though they had been fixed the first time. We want to move to a performance based contract where the contractor gets paid for doing the work properly and does not get paid if they do not do the work properly, just as you or I would do if we were getting our car fixed. We want to move to a system where the ASC can give us a bottom-up price for each activity. For example, it costs you X dollars to replace a periscope, just like if you went into a car yard it is X dollars to replace a fanbelt.

One would think that, after seven or eight years of doing these maintenances, ASC would have enough records to be able to quote appropriately and reasonably accurately, even if there was a small contingency on the numbers. What we have to do is get to a contract that gives much better value for money for Defence in how we do this work. ASC is cooperating. Steve

Ludlam as the new CEO is working closely with us to make that happen. There are a few intractable issues, though, as we attempt to negotiate with an arms-length company and they involve insurances, warranties, indemnities in intellectual property and step-in rights.

Dr Watt—And we are working on them.

Senator JOHNSTON—But what confuses me in all of this is that the ASC is a totally owned agency by the Australian government.

Mr King—That is true, but they operate also as a GBE and commercial neutrality, for example. That was a very important aspect of the down-select of shipbuilding between ASC and the then Tenix, on AWD. So, it is important—and in fact I think required—that they operate in a commercial way with a commercial bias and with commercial neutrality so that the broader defence industry can compete in the marketplace. We do have to have proper negotiations on the matter. To clarify something: you named a DCEO, but I do not think it was this DCEO that made that statement to you last May. My statement to you I think was late last year.

Senator JOHNSTON—Mr Gillies.

Mr King—Just for the record I am just trying to clarify.

Senator JOHNSTON—Mr Gillies said it and I have a copy of it here with me if you want to see it.

Mr King—Indeed. I am pretty sure I recall my evidence to you was that we would have it negotiated by mid-year this year. We are still working to that time frame. We anticipate that we will, and as the CEO points out, we have the cooperation of the CEO of ASC and the board of ASC in trying to bring this together as we think this is achievable.

Dr Watt—And I might add, the cooperation of the Department of Finance.

Senator JOHNSTON—I look forward to it. This time last year, Chief of Navy said to us, ‘So, the full-cycle docking period that we are currently allocating as we move forward will be around 30 months for our submarines.’ We have paid, I think, \$300,000 a pop to each of DCNS, HDW, Kockums and Navantia for an appraisal of their capability. Did we discuss with them the sustainment costs and the requirements for full-cycle docking in the information they provided to us and was it anything like 30 months?

Dr Gumley—Are you referring to the studies on the new submarine?

Senator JOHNSTON—Yes.

Rear Adm. Moffitt—The request for information that we have levied on the four European submarine designers that you mentioned sought a range of information regarding a couple of issues. Principally it was around their submarine product, not the totality of the sustainment models that they might recommend could be applied, should be applied, might be applied to their product in the event that we bought it. What we were specifically after were lengthy, quite detailed data related to the designs that they have available in the marketplace today or in the time in which we would be interested in knowing about it. That is to include those things that they might not necessarily be marketing today but could be in the time frame that we are interested in. Any questions that we might have about sustainment—and obviously

we would—would come at a later time when we have started to understand in more detail what pathway, amongst all the option spaces that exist, to acquire the future submarine we might be able to choose.

Senator JOHNSTON—Are you saying we did not ask them for their sustainment full-cycle or main overhaul docking periods when they gave us an appraisal of their capability?

Rear Adm. Moffitt—I do not believe that we asked that question, because at the stage and in the nature of the questions that we were asking them we were simply attempting to determine the state of the market for submarines in the world as it was at that time and is likely to be in the next little while, because we had been absent from that market for some time.

Senator JOHNSTON—Do you know how a 30-month full-cycle docking compares with the average full-cycle docking across the Scorpene, the 214, the A26 or the S80?

Rear Adm. Moffitt—No, I do not.

Senator JOHNSTON—Does anybody in Navy have any idea?

Rear Adm. Moffitt—I think we would have a range of anecdotal information about those sorts of things, but I am unable to answer your question.

Mr King—Can I add a little bit to that? The cost of maintenance can be broken into broadly three areas that we are talking about with Collins. The first is the inherent design—and that design now goes back quite some time—and with that design is the way you use it. That is what creates quite a unique environment. Accessibility to the equipment, for example, drives up the costs enormously if you are trying to remove or cannot remove equipment easily from a submarine in which to do the servicing. The second area that is driving our cost to some extent is making sure that we have any backlog of servicing caught up with, and the third element is the efficiency in which you do that.

I recently had discussions with, for example, Navantia, on the S80. It is not in the water, so you do not know. What you get is a big gap between—as we had on Collins—what we designed for and what you find in reality. It could be water temperatures, dissimilar metals or a whole number of elements that contribute to the maintenance cost. As to the new S80 design, this sort of concept is a very important one for us to consider as we move forward with future submarines. It is designing for lower cost maintenance. To be honest, S80 does not have a real figure. They are designing for a reduced FCD. Like everybody, they want to get more utility, more time in the water for their submarines, but it is a big challenge.

Senator JOHNSTON—I bet it is a lot less than 30 months.

Mr King—It is as a design goal, and of course if we were designing a new submarine we would have a design goal. What will still have to be proven is what do they really get when they are in the water.

Senator JOHNSTON—I am advised the 214 over 12 years has a 12-month full-cycle docking period.

Mr King—What we find is, when we investigate into these matters, the basis of the data, the operational profiles, even the way the money is accounted for in terms of maintenance and

the time, varies from service to service, and that is what makes it so difficult to get realistic data. But you cannot, in any case, compare the maintenance of a 214 with the maintenance of a Collins. It is Collins that we have to maintain. In terms of what we might aspire for, that is a different matter.

Senator JOHNSTON—In these questions that you have answered to me—and we can go to them specifically—talking about Collins, you have indicated there are a number of areas where Collins has a capability shortfall—discretion ratio, deep diving depth, main motor efficiency, signature, sonar and communications. Obviously you are not aware of these answers, but can you confirm with me that those answers are, in fact, correct?

Vice Adm. Crane—There are a number of challenges that we have with Collins, and I think you are aware of those. Collins is approaching 50 per cent of its life at the moment and we have programs in place for upgrades to the Collins' capability. There are a number of projects in the DCP that go to sonar and communications that we need to include. You are aware that those are programmed for normally the full-cycle docking, which is when we need that major period of activity. There are ongoing capability upgrades. It is a bit like a spiral upgrade program; we need to keep the relevant capability in place.

Senator JOHNSTON—Having told me the discretion ratio is problematic, deep diving depth is a shortfall compared to some of our neighbours' submarines, main motor efficiency—we have a standard; everyone else has magnet—signature, sonar and communications. You then say in these answers that Collins is assessed as being more capable than regional conventional submarines in many capability areas. What areas?

Vice Adm. Crane—I am sure you would understand that this is an area where I have significant difficulty in talking in any detail.

Senator JOHNSTON—I have just told you those areas. They are pretty important. You have told me that we have a shortfall on those.

Vice Adm. Crane—But they are broad statements and—

Senator Feeney—We might go in camera. Would perhaps a classified briefing for you be a way through this?

Senator JOHNSTON—The problem with classified briefings, quite frankly, is that we do not get to the nub of these issues. I have nominated in questions on notice areas that I wanted answered. I have got answers; that is a public forum. I am revisiting those answers here and I am told we do not want to talk about them because no-one is aware what the answers have been.

Senator Feeney—To take the example of a moment ago on the question of capabilities, you want some specifics about capabilities and, obviously, that most appropriately happens in the context of a classified briefing.

Senator JOHNSTON—You have told me that you have lack of capability, discretion ratio, deep diving depth, motor efficiency, signatures, sonar and communications. How much worse could it be?

Air Chief Marshal Houston—The point is that is a broad generic statement, but we cannot go into the detail that you seek on each of those matters.

Senator JOHNSTON—I am just asking for the areas in response to those that you say you are better than the neighbours.

Air Chief Marshal Houston—Again, that is an area we are not going to go into. We would be delighted to give you a briefing in camera, because all of those areas are highly classified.

Senator JOHNSTON—But you have told me very highly classified things where you are not in front, and yet you will not tell me where you are in front.

Air Chief Marshal Houston—We offer you a classified briefing and we are very happy to discuss those issues with you in that forum.

Senator JOHNSTON—The problem with a classified briefing is that the parliament does not get to understand what we are getting for \$688 million a year.

Senator Feeney—You might say that has been the long-time challenge of the submarine in Australian service.

Senator JOHNSTON—No, it has not.

Senator Feeney—That its successes and its capabilities remain a secret.

Senator JOHNSTON—Task ready days were in the documents and have been in the documents right through until 2007, but we now are completely in the dark about task ready days for these artefacts. Now, let us talk about this report. I am sure somebody knows about it. US Navy's Director of Operational Test and Evaluation on the 425 AN/BYG-1 Submarine Combat Control System says, 'It is not able to support operations in difficult, high-contact density environments.' This is our combat system, correct? And this is a system that we have paid \$15 million for since 2001 to be part of.

Dr Watt—What are you reading from now?

Senator JOHNSTON—I am reading from the report. The US Navy Director of Operational Test and Evaluation report. I have a copy of it here. Surely we know about this.

Vice Adm. Crane—You are reading from a particular report?

Senator JOHNSTON—US Navy's Director of Operational Test and Evaluation on the 425 AN/BYG-1 Submarine Combat Control System, which is the one fitted to Collins, and he says, 'It is not able to support operations in difficult, high contact density environments,' and there are a significant number of adverse comments by the director. Do we not know about this?

Vice Adm. Crane—I do not have that report to hand.

Senator JOHNSTON—Let us talk about that combat system.

Dr Gumley—Did that report come from the department?

Senator JOHNSTON—Your department?

Dr Gumley—Yes.

Senator JOHNSTON—No. It is a public document in the United States.

Dr Gumley—Thank you.

Senator JOHNSTON—Let us talk about the combat system. This is the one we have got, is it not? 425 AN/BYG-1, Lockheed Martin, correct? I see someone nodding. Can someone tell me?

Mr King—It is the US navy's combat system.

Senator JOHNSTON—Yes. We have been participating in the funding of the development of that, have we not?

Mr King—We are in an armaments cooperation program.

Senator JOHNSTON—Since when?

Mr King—I am not sure.

Air Vice Marshal Deeble—I will take that on notice.

Senator JOHNSTON—I think it is 2001 and we have been paying \$15 million.

Mr King—It is probably a little bit later I think, but that era.

Senator JOHNSTON—Is it \$15 million a year?

Mr King—We pay our percentage share to participate in the program.

Senator JOHNSTON—Do we know what that percentage is?

Mr King—It is in that order, but I will check it for you.

Senator JOHNSTON—Right. Are we privy to the test and the classified results behind this public report?

Mr King—I cannot comment on that public report, but I can comment on our participation in the program and the value that it brings. The US navy's submarine combat system is the most highly invested in, highly fielded combat system that we could get access to, as Australia, with an ally.

Senator JOHNSTON—How much have we spent on it so far—total?

Mr King—Do you mean being in the program or—

Senator JOHNSTON—Total program costs. We have put it into our submarines. I think two have got it.

Mr King—There are two elements, of course. There is the participation in the program and then the fielding of the—

Senator JOHNSTON—I want the total cost of what this combat system has cost us.

Mr King—I will have to get the number for you, the total investment.

Senator JOHNSTON—Could you give me a rough idea? Is it \$400 million, \$500 million? What is it?

Mr King—I would rather get the information and give it to you.

Senator JOHNSTON—Can you give me a band as in the DCP?

Dr Gumley—The original approved budget in December 2002 was \$455 million.

Senator JOHNSTON—\$455 million.

Dr Gumley—Yes. I presume they are going to be December 2002 type dollars.

Senator JOHNSTON—All right.

Dr Gumley—The spend to date is \$424.7 million.

Senator JOHNSTON—It is \$424.7 million?

Dr Gumley—Yes.

Senator JOHNSTON—Million or billion?

Dr Gumley—Million. Even our budget does not go to billions.

Senator JOHNSTON—What elements of that \$455 million—

Dr Gumley—It is \$455 million approved; \$425 million spent to date.

Senator JOHNSTON—The \$425 has an Australian component?

Dr Gumley—I do not have that data. You want the local installation costs versus what we pay the US?

Senator JOHNSTON—Are there any Australians getting any onshore benefit from that combat system in terms of industry?

Dr Gumley—We will get that data for you.

Senator JOHNSTON—You are aware of the Acoustic Rapid COTS Insertion Sonar System onboard US ships?

Mr King—Yes.

Senator JOHNSTON—Yes. ARCI, I think it is called. That same report talks about ARCI being ‘not effective against threat diesel-electric SSKs,’ ‘not suitable for most operations and demonstrates poor situational awareness in high-traffic areas’. It is reported as not suitable due to problems with reliability, training, documentation and poor performance of supporting subsystems. Are we looking to buy ARCI sole source?

Mr King—We have not made it to first pass yet for that project.

Senator JOHNSTON—When will we make first pass?

Mr King—It would be later this year.

Senator JOHNSTON—Are we looking to have a contest or are we going sole source?

Mr King—We are looking at all of those aspects at the moment before we bring the recommendation up to the secretary, CDF and then to the minister.

Senator JOHNSTON—It is a \$700 million to \$900 million piece of expenditure. This report gives ARCI a pasting. If we go sole source on this there will be a significant problem, I suggest.

Mr King—Can I reflect a little bit on what happens with projects over a long period, having been on both sides? That may or may not be the case, but there is one thing about the US Operational Test and Evaluation—it is very hard on itself.

Senator JOHNSTON—I hope so, because we use a lot of their gear.

Mr King—And we do that very effectively. In most cases we would articulate that the continued investment by America in having leading-edge technology to pursue its interests in the defence of the country reflects well for us to use that equipment. Just because they are hard on themselves and their assessment of themselves does not mean it is a failed system, because it is not a comparator between how that system performs and, say, a European system; it is a comparator about how that system performs in pursuit of their operational objectives.

Senator JOHNSTON—You sound like you want to edge towards sole source on this. I am nervous. When you start defending this I am getting nervous—at \$700 million.

Mr King—I was on the other side of the table competing for the replacement combat system—I remember it vividly—and I am rarely a proponent of sole sourcing. However—

Senator JOHNSTON—So when we come back in May we will have an idea of whether we are sole sourcing this?

Mr King—I could not be certain, because we are still—

Senator JOHNSTON—May estimates, no?

Dr Watt—There is a step in this that we seem to be missing. Firstly, we will take our advice to government and then when the decision is made I am sure you may wish to discuss it.

Senator JOHNSTON—The reason I am talking like I am now is because I am trying to help the government.

Mr King—Can I make an observation—

Senator JOHNSTON—I do not want to see them railroaded into something that is not effective against threat diesel-electric submarines.

Mr King—Can I make an observation about selecting equipment? There will be a time when we come back and reflect that we made a poor decision another way. Sometimes the decision to choose an existing system over a developmental system when you know, for example, in this case that the US has worked very hard to know what its system does, you at least have a real system at sea for which you can compare its capabilities. Quite often, unfortunately, when you are looking at a developmental system you are evaluating what it might deliver.

Senator JOHNSTON—Sure.

Mr King—It is an offer that it might deliver, but what we need as a nation, ultimately, is certainty that it will deliver those outcomes, the costs and the risks associated with it. Now, at this stage it is still under evaluation.

Senator JOHNSTON—Can you confirm with me that the sonar and acoustic system is a PIC?

Mr King—Is a what?

Senator JOHNSTON—Priority industry capability. I get very nervous when you say, ‘What’s a PIC?’

Mr King—No, I did not say, ‘What?’ I could not hear you.

Senator JOHNSTON—Priority industry capability. Can we confirm that?

Mr King—Yes, I can confirm that.

Senator JOHNSTON—Thank you. What effect does that label have on our selection of a system vis-a-vis the United States? None, I think is the answer, is it not?

Mr King—No, that is not true.

Senator JOHNSTON—Tell me how a priority industry capability label on sonar and acoustics affects our purchase?

Mr King—Or do you mean: how does it affect the way we are going to approach the market?

Senator JOHNSTON—Yes.

Mr King—It is taken into account and we have not made a decision yet.

Senator JOHNSTON—So it is taken into account?

Mr King—Yes, of course.

Dr Gumley—I would also like to add—and we have been through this several times in the past year—that a developmental system incurs huge risks.

Senator JOHNSTON—Of course. We hate risk.

Dr Gumley—Some risk has to happen, but you have seen what happens if you take on too much risk in a project and we have been through that in many other places. It becomes quite an interesting discussion with a lot of analysis required where you sole-source an existing system that is operational, which would be a lower risk, versus a promise of a developmental system, which might take five or 10 years to get up to full development. They are all the things you have to take into account.

Senator JOHNSTON—Let us talk about masts. Do any of the masts on our submarines have an inhibiting operational caveat with respect to who can operate them?

Vice Adm. Crane—Sorry, could you ask that question again?

Senator JOHNSTON—Let us talk about masts. They know what ‘masts’ is—communication masts. I think we have two particular ones that have an operational caveat that require certain personnel to be present. Please tell me about it.

Vice Adm. Crane—Again, as you might appreciate, when we start talking about communications fixed to—

Senator JOHNSTON—I do not want to talk about the mast; I want to talk about who has to be there when we it is used.

Vice Adm. Crane—Again, that is going to information that is not something that I would like to discuss in this environment.

Senator JOHNSTON—You have projected that the sustainment costs of Collins will rise a further 13 per cent this financial year and 36 per cent over the next 10 years. That would be remarkable given what has gone before in the previous six years. It has gone up 60 per cent

and you are saying that the next 10 years it will only go up 36 per cent. Is that realistic? What are we basing those percentages on? You have given me the current 10-year budget out to 2021, where the sustainment of Collins is \$442.9 million in year 2021. How could that possibly be a credible figure? I hope the government is listening to this, because they have to get ready to write some bigger cheques than they are anticipating.

Dr Gumley—Those estimates, at the moment, for sustainment were put together about 12 months ago, and they are the estimates at the time. I cannot make any guarantee that they will not be exceeded in the future. The obsolescence issues in Collins are mounting; they are becoming difficult. I have already said to you that I admit we are very concerned about the cost structure and—

Senator JOHNSTON—But we do not know what a good cost structure is.

Mr King—Look, maybe—

Dr Watt—We know what a better cost structure is. I think that is a more important point.

Senator JOHNSTON—Yes, but how much better—\$5 million, \$10 million or \$200 million?

Dr Watt—Again, we know we are going to get it down significantly.

Senator JOHNSTON—With respect to the integrated master schedule agreement, ANAO identified the need to renegotiate it in February 2009. Let us hope we get there in July 2011, 2½ later. How can it possibly take that long?

Mr King—Maybe I could take the lead on that. You will recall that the submarine sustainment was made a project of concern. As a result of that, I chaired a gate review of the project and identified a number of elements that need to be addressed on the Collins, and basically we are rebuilding a surety that the boats will be available to the level required so that the Chief of Navy can get the operational days. In doing that we had to go back to basics and rebuild what was required. That really came back to the core issues that the CEO spoke about. If we did not do that, then maybe in a few years time we would be sitting here explaining why Collins has not been remediated. I take responsibility that we are going back and building up the realistic costs, the schedules and the work that has to be done to make sure these boats are available.

Senator JOHNSTON—You have said to the committee that this Force Element Group, FEG, platform is on the project list of concern.

Mr King—It is.

Senator JOHNSTON—It follows, being in that list, that scrapping of Collins is a possibility; is that correct?

Mr King—This is a sustainment. Of the projects of concern listed, 10 of them are actually projects. When a project is put on that list it may not survive.

Senator JOHNSTON—Air Vice Marshal Deeble is working on a project and, I have to tell you, it is probably the biggest project we have on our table.

Mr King—I think it is a sustainment activity of great concern obviously to Defence and the government. I think in those circumstances the application of cancellation does not apply. The submarines are acquired.

Senator JOHNSTON—Okay.

Mr King—I am sure what the government demands of me is to understand what is required to bring these submarines back to a realistic level of material availability. The work is to do that and how we can get that done as efficiently as is possible. I think the problem here is that the extreme of capability on something like a spacecraft or a shuttle, where you get maybe 10 days of serviceability for a year's worth of preparation, is one extreme of transportation. That goes right down to, let us say, the transport truck on the other hand, where you get it to run 99 per cent of the time. Where you are with submarines is a very complex platform in a highly risky environment in which we have an obligation to make sure that material integrity is sound and it is as available as is reasonably practical. That is the work we are doing.

Senator JOHNSTON—Given what happened with F111s and given what we have heard about the amphibious ships today, at what point do you go to government and advise that the cost of sustaining Collins no longer represents value for money or good value for the taxpayer? Have we got to that point?

Mr King—We have this new in-service support contract, ISSC, which has incentives in it for ASC to become world's best practice submarine sustainment company. That statement of work has had a long time in development. We now have that with ASC and they are costing it. We will obviously give that great scrutiny. That will produce a number for us that will inform us about what the starting point is, what efficiencies we can expect over the coming years and what the likely costs are.

Senator JOHNSTON—The problem I have with all of that—and I think that is fabulous—is that we have had these boats in the water since 1993 and we have not done that to this point in time.

Mr King—I can really only observe what I have done in the period here, but what I would reflect is that there was an intervening period where the potential sale of ASC diverted some of its energy from its core business into readying the company for market. I can say that, since a decision was taken not to sell ASC, we have seen a concerted concentration by ASC management and board to get on top of the sustainment issues and to offer a value for money solution. We hope that is the offer we get from the company. We have not got that yet. We do not know the numbers.

Senator JOHNSTON—But you are saying the fact that this platform is on the list—the famous list of concern—does not mean there is any possibility of its being scrapped?

Mr King—It is not my decision. My position is to get reliable and informed information for the secretaries to CDF to take recommendations to government, but what I can tell you is it brings a focus to getting that information, to getting the basics right and to avoid having to, I guess, face you and others and the nation in years to come saying, ‘Why didn't you get it right?’ We are doing that. That is my position on it and I think we will be very much informed, as will the government, when we get the information from ASC.

Senator JOHNSTON—So it is at the top of the list?

Mr King—It is indeed.

Dr Gumley—It is absolutely clear that change is needed. I do not think we—

Senator JOHNSTON—You have told me that for two years now.

Dr Gumley—And it has proven very difficult to get that change.

Senator JOHNSTON—And I cannot understand for the life of me why one department dealing with a wholly-owned commercial entity by another department takes 2½ years? I seriously have some great difficulty in understanding this. Notwithstanding the requirements that are built into the legislation and all the protocols, I just do not get it—2½ years.

Dr Gumley—Even in commerciality terms, we are sole-sourcing. How much incentive is there for other people to change their behaviours if they know there is no competition?

Senator JOHNSTON—Thank you. I have had enough on submarines.

CHAIR—Have you finished with the DMO?

Senator JOHNSTON—No. I would like to talk about HMAS *Success* in Singapore. I am hoping it is a good news story.

Dr Gumley—It is going well so far. We have had people up there looking at OH&S, and the OH&S requirements are just as good as Australia. We have been inspecting it. The project is on cost and on schedule.

Senator JOHNSTON—When did we sign the contract?

Dr Gumley—Admiral Marshall can give you the exact dates.

Senator JOHNSTON—Admiral Marshall is doing a remarkably good job in dealing with these issues. The question was, Admiral: when did we sign the contract with the Singaporeans?

Rear Adm. Marshall—The contract with ST Marine was signed on 10 December 2010.

Senator JOHNSTON—What was the scope of the work to be done?

Rear Adm. Marshall—The scope of the work was the IMO conversion double-hulling work, which was production and execution. We provided the design.

Senator JOHNSTON—Who is ‘we’?

Rear Adm. Marshall—‘We’, as in the Commonwealth. We had separately contracted for the design well beforehand.

Senator JOHNSTON—With whom?

Rear Adm. Marshall—With BMT, a company based in Melbourne.

Senator JOHNSTON—How much did we pay for that design?

Rear Adm. Marshall—The design cost was A\$1.307 million.

Senator JOHNSTON—When did the work commence?

Rear Adm. Marshall—The work commenced on 13 December.

Senator JOHNSTON—Three days after we signed the contract?

Rear Adm. Marshall—Yes.

Senator JOHNSTON—When was it supposed to commence?

Rear Adm. Marshall—I do not have that in my head and I do not have it in front of me.

Senator JOHNSTON—We took the boat up, but we were not allowed to empty the bilge so we had to bring it back to Perth. What was the cost of all of that?

Rear Adm. Marshall—We actually saved money by bringing the ship back to Perth, because we were able to offload the fuel into the naval fuel installation of HMAS *Stirling*, rather than storing it in Singapore. Bringing the ship back to Perth saved us some funds. In addition, the ship gained some valuable, what we call, ‘in company’ at sea time—sailing with other ships and exercising with our other Australian ships.

CHAIR—Why could you not empty the bilge in Singapore?

Rear Adm. Marshall—We could unload the fuel in Singapore, and we had made arrangements to do that but, noting that we had not signed the contract and we were having difficulties negotiating and finalising the contract, Navy made the decision to sail the ship back to *Stirling*, which afforded us an opportunity to offload the fuel in HMAS *Stirling*.

CHAIR—I said the bilge.

Rear Adm. Marshall—I think those were the words that Senator Johnston used. I interpreted that to mean ‘offload the fuel’.

Senator JOHNSTON—So it was not emptying the bilge?

Rear Adm. Marshall—Not that I am aware of.

Senator JOHNSTON—I stand corrected. What were the difficulties in signing the contract?

CHAIR—Admiral Crane, what were you saying?

Vice Adm. Crane—I can try to provide a little clarity here. The result of bringing her back saved us in the order of \$2.5 million, which we may well have lost through fuel write-off. Fuel was nearing end of life and we needed to be able to get it off loaded so it could be used. We did not have that option in Singapore and we would have had to pay a lot of money for it.

Senator JOHNSTON—We did not anticipate that cost? We had the ship there—

Vice Adm. Crane—The cost was anticipated, but it was an opportunity to save money on an anticipated cost.

Senator JOHNSTON—So we sailed it back 2,500 nautical miles to Perth.

Vice Adm. Crane—At the cost of about half a million dollars.

CHAIR—The boat had \$2.5 million worth of fuel on board?

Vice Adm. Crane—It had \$1.7 million, but in the \$2.5 million there were cost savings that had been provided to me including port costs in Singapore of about \$60,000; gas re-clean \$800,000; fuel storage, \$57,000; and fuel write-off \$1.7 million.

Senator JOHNSTON—Could you provide the committee with a detailed analysis of, firstly, why we had to come back to Perth and not Darwin, for instance?

Vice Adm. Crane—I can tell you that was an opportunity for an in-company transit with two other units on the way back from Singapore after an exercise activity. It was an opportunity to keep the ship at sea working and training. Those two frigates were coming back to Fleet Base West in Western Australia.

Senator JOHNSTON—Secondly, what were the cost savings itemised with respect to bringing the ship back to *Stirling*? We had some contract difficulties at the front end, as the Admiral mentioned. What were they?

Rear Adm. Marshall—What do you mean by ‘at the front end’?

Senator JOHNSTON—You said, ‘We had some contract difficulties.’

Rear Adm. Marshall—Yes.

Senator JOHNSTON—I would like to know what they were.

Rear Adm. Marshall—Negotiating a contract is always an interesting activity. ST Marine are a commercial shipyard. They do a significant amount of work for the Singaporean navy, but broadly it is a commercial shipyard and they try to operate on a very lean and commercial basis.

Senator JOHNSTON—As they should.

Rear Adm. Marshall—Indeed. While we were negotiating and seeking to get into contract, to sign the contract, there was naturally an array of issues. The biggest sticking points became the Commonwealth’s requirements for limitation of liability that ST Marine were trying to impose versus the Commonwealth’s position.

Senator JOHNSTON—Liability in what respect?

Rear Adm. Marshall—Liabilities for loss of the vessel, personal injury and some of those aspects.

Senator JOHNSTON—To crew members?

Rear Adm. Marshall—To people working on the ship and to crew members.

Senator JOHNSTON—So we were assuming and have assumed liability for people working on the ship?

Rear Adm. Marshall—We carry that liability, anyway. The main contentious issue was loss of the ship.

Senator JOHNSTON—Loss of the ship?

Rear Adm. Marshall—Loss or damage to the ship was the main sticking issue in those negotiations.

Senator JOHNSTON—They did not want to accept any liability for that?

Rear Adm. Marshall—The settlement position we agreed at contract signature was that liability was capped at the value of the contract. To put that in perspective, I validated with a commercial shipping company who advised me that normally a commercial shipping

company would come into an arrangement with a shipyard such as ST Marine, where the limitation on liability for loss or damage to the ship would be capped at about 10 per cent of the value of the contract.

Senator JOHNSTON—What was the value of the contract? Was it \$20 million?

Rear Adm. Marshall—It was \$15 million Singaporean, give or take, roughly A\$12.2 million.

Senator JOHNSTON—The value of the ship was A\$1.2 million?

Rear Adm. Marshall—No. The contract value is A\$12.2 million. We agreed a liability cap at the value of the contract.

Senator JOHNSTON—A\$12.2 million?

Rear Adm. Marshall—Yes.

Senator JOHNSTON—So, if we lost the ship they would give us A\$12.2 million?

Rear Adm. Marshall—Yes, if it was attributable to them. I should add that we did subsequently take out additional insurance on the value of the ship to the tune of \$100 million.

Senator JOHNSTON—So we think the ship is worth \$112 million?

Rear Adm. Marshall—I cannot tell you the book value of the ship.

Senator JOHNSTON—But they have sole possession of it?

Rear Adm. Marshall—For a ship that is 25 years old.

Senator JOHNSTON—It is a significant naval asset of ours, and some of its functions are unique to our surface fleet.

Rear Adm. Marshall—Yes.

Senator JOHNSTON—So we had to insure it for \$100 million over and above the \$12 million?

Rear Adm. Marshall—We chose to. We considered that better value for money.

Senator JOHNSTON—What was the premium on the insurance?

Rear Adm. Marshall—It was \$340,000.

Senator JOHNSTON—\$340,000?

Rear Adm. Marshall—Yes.

Senator JOHNSTON—We took it back from Perth and we lobbed it up there around 3, 4 or 5 December?

Rear Adm. Marshall—Somewhere during that week, yes.

Senator JOHNSTON—They have started work?

Rear Adm. Marshall—They are well into the work.

Senator JOHNSTON—What is their date for completion?

Rear Adm. Marshall—The duration of production was set at 16 weeks when we signed the contract, which took us through to 1 April.

Senator JOHNSTON—That is a horrible date, isn't it?

Rear Adm. Marshall—Thankfully, perhaps, as a result of a defect on the rudder—and I will explain that if you like—we have extended the completion date through to 13 April. That now remains the completion date for the availability.

Senator JOHNSTON—So when we come back in May all should be resolved?

Rear Adm. Marshall—When the ship arrives back in Australia, which I think will be in late May—I am not sure of that because there are passage times—we will have completed the IMO conversion and fixed the defect on the rudder.

Senator JOHNSTON—Do we have some more work to do when it gets back?

Rear Adm. Marshall—Yes.

Senator JOHNSTON—With respect to that IMO reparation?

Rear Adm. Marshall—No, not in relation to the IMO conversion.

Senator JOHNSTON—What do we need to do?

Rear Adm. Marshall—We have routine maintenance to do on the ship.

Senator JOHNSTON—As far as the IMO conversion is concerned, everything will be completed when it comes back to Australia?

Rear Adm. Marshall—That is my understanding.

Senator JOHNSTON—What is wrong with the rudder?

Rear Adm. Marshall—The rudder defect has been known for some time and it is associated with the mechanism in which the rudder attaches to the rudder stock, the shaft that the rudder pivots on. That has been monitored for some time now, since it was identified. I cannot quite recall when it was identified. We have also had some prefabrication of some of the components that are required to replace the rudder, but obviously you need to have the ship in dock to do that repair, and we have taken the opportunity, while the ship is in Singapore with ST Marine, to do that work, because we have found through inspections while the ship is up in Singapore that the rudder stock has degraded further.

Senator JOHNSTON—That is an additional cost to the \$12 million?

Rear Adm. Marshall—It is an additional cost, yes.

Senator JOHNSTON—How much is it?

Rear Adm. Marshall—It is \$950,000.

Senator JOHNSTON—Give or take a million! How many crew members do we have in Singapore at any given moment, with respect to the ship?

Rear Adm. Marshall—We have roughly 70. It has been up or down one or two, but effectively 70 crew members with the ship at any one time.

Senator JOHNSTON—Where are they staying?

Rear Adm. Marshall—They are staying in some houses/apartments in Sembawang.

Senator JOHNSTON—I would like to know on notice what the cost of that will be?

Rear Adm. Marshall—I can give you that. The crew costs aggregated for the availability is \$1.6 million.

Senator JOHNSTON—For the 16 weeks?

Rear Adm. Marshall—That is for 16 weeks.

Senator JOHNSTON—And there have been no issues or problems in the conduct of this work to this point in time?

Rear Adm. Marshall—ST Marine has been performing exceptionally well in executing this availability. They do all of the planning work upfront. In execution, they seek to execute the availability so that they get ahead of the schedule and hold themselves just ahead of the schedule throughout the whole availability, so that allows them a little bit of float in managing any events as they arise. Occupational health and safety was clearly one of the significant issues for the Commonwealth prior to getting into contract with ST Marine.

Senator JOHNSTON—Why was that?

Rear Adm. Marshall—We were concerned, largely through our lack of understanding of some of the issues in Singapore, potentially about their work practices. We did a series of audits of ST Marine's work practices using Lloyd's register as one of the agents. The other company was an Australian company called Working Armour. That proved that the Singaporean occupational health and safety law is very good, comparable to Australia's and that the practices within ST Marine are of an exceptionally high standard. We have the Commonwealth production oversight team in Singapore. A safety manager is one of the team members. Every morning he does rounds with the ST Marine safety manager and a senior member of the ship's staff. They do rounds of the ship, the work site and the adjacent areas, and I am advised by them that whenever there is a minor issue it is picked up. You can turn your head, looking for the next issue, and people are already fixing that problem. It is instantaneous.

I visited the ship in Singapore on 31 January. My observation was that personnel protective equipment compliance—that is, goggles, hard hats, safety harnesses and compliance boots—were first rate. I am told that one of the ways they enforce that is that for minor infractions a worker will receive a fine, followed by a second fine and then dismissal. Their compliance was first rate. We have put in place procedures to monitor occupational health and safety, because Minister Clare gave us very clear direction about that, that he wanted absolute assurance that their compliance was comparable at least to that in Australia. I can assure the Senate and the committee that they are right on the mark.

Senator JOHNSTON—I am very much obliged to you for those answers. Just confirm again: we have not had any variations? We have had no disputation as to the scope of the work and everything is proceeding precisely according to the contractual expectation?

Rear Adm. Marshall—As with any complex engineering activity, there have been some variations and they have been processed.

Senator JOHNSTON—To a value of?

Rear Adm. Marshall—I am advised, \$295,086.71.

Senator JOHNSTON—Is there anything significant in those variations?

Rear Adm. Marshall—No, I do not think so.

Senator JOHNSTON—Was it bulkhead work that was required that was not anticipated or something like that?

Rear Adm. Marshall—There have been some minor issues in things like the running of pipe work that is in the design that, for various reasons, just does not work on board the ship—those sorts of things.

Senator JOHNSTON—I think that is not unreasonable. I thank you very much, Admiral, for your answers. Chair, I have no further questions on DMO.

CHAIR—I think Senator Humphries had questions on DMO.

Senator HUMPHRIES—I wanted to move to projects of concern. Can we run through those? I have questions on different projects, but I think you made a statement last time about those projects. Do you want to do the same thing again or simply have me ask questions?

Mr King—I am quite happy to summarise if you like.

Senator HUMPHRIES—Yes, as long as we do not take too long to do that.

Mr King—A key responsibility that has come my way is projects of concern. There have been 18 projects that have been on the list over time. Seven have either been remediated or cancelled, so that leaves 11 at the moment. One is a sustainment, Collins, and we have discussed that at some length. I can run through the other 10 with you, if you like. There is also one that the minister has referred to me to conduct a diagnostic gate review on, which is AIR 9000 phases 2, 4 and 6—the MRH 90 helicopters. That is not on the list, but it is subject to a detailed gate review. If you are not aware, the gate reviews are conducted for major projects chaired by me. In big projects like this we have two independent members that are not inside Defence but have experience in the arena, and specialists inside Defence.

Senator HUMPHRIES—Can I interrupt there and get you to paint a brief picture on how projects fall into these various categories? We have at least one diagnostic review going on, the projects of concern and the gate reviews. Can you tell us what is the nature of the project that needs to take it into one of those categories?

Mr King—We need to differentiate between projects that have the normal, what I would call, difficulties that projects always encounter while we have project teams to solve problems, and projects of concern, which represent significant issues for Defence and government. The sorts of things we look for in nominating, or indeed a minister nominating a project of concern, are that the capability is not going to be what we expected it to be; it is late; cost, although cost is rarely an issue with our projects overall; or sometimes just industry relationships or sometimes they are of national significance and there is a need to be very focused on them. When projects trigger those sorts of parameters—that is, it is later than we expected—then the normal method is to conduct what we call a detailed diagnostic gate review. We have a good thorough look at the project, its challenges and what issues it has.

What happens in most cases is that information is taken to DCIC. The capability manager clearly makes some statement about the impact on capability of the delay or the reduced capability, and whether it remains a needed capability, given that it is going to be late or whether we should cancel. That recommendation, in all cases, is taken to the minister, so the situation, Defence's recommendations relevant to that project, and then the minister makes a determination about what should happen on the project. As Senator Johnston pointed out, for projects on the projects of concern list it is not necessary that they will survive, so in some cases it has been a considered decision to cancel them. Does that explain how it goes?

Senator HUMPHRIES—Yes, it does. Thank you.

CHAIR—Is there a difference between a diagnostic review and a gate review?

Mr King—No, it is a more focused gate review. We have been growing the gate review process inside Defence. We now conduct gate reviews before first pass and second pass. They are the same type of structure. We have a small team that looks at the project, in conjunction with the project, but not project members. We have independent membership of the gate review team and the chairman, in most cases if it is a large project, is me. They are run for a number of key points in the project development phase. This is a relatively new implementation for us in Defence. When it is a project of concern, the diagnostic review is a more detailed analysis of key issues, underlying problems and identification of what the impacts of that would be.

CHAIR—As to the diagnostic review that Minister Smith ordered on the MRHs—correct me if I am wrong, but we have received about a dozen or 15 up there in Brisbane?

Mr King—Thirteen.

CHAIR—We have received 13. Minister Smith has now ordered a diagnostic review.

Mr King—That is correct.

CHAIR—We have 60-odd to receive yet. That is a very serious step that he has instituted?

Mr King—Of course.

CHAIR—Having had 13 in service for some time now.

Mr King—Yes, of course. Far be it for me to second-guess a minister, but of course it is a very necessary step. Each one of these projects are key for Australia's defence capacity and it is always going to be a serious issue when a project is late or when the capability is not being delivered as we anticipated. I think what this allows Defence to do and then feed back to the minister obviously in a very detailed analytical way is what is the state of the project, what is the likely impact on the national capability and what are the right ways to approach that problem?

CHAIR—Have any of those 13 helicopters been signed off into full operational service?

Mr King—No, they have not.

CHAIR—Are they all a long way from being ready for that?

Mr King—I have just had the first meeting in the gate review, so I am reluctant to be definitive on that, but I can say that they are not at the final delivery baseline.

CHAIR—If they were at the final delivery baseline and the minister had ordered a diagnostic review, we would have a whole heap of problems, would we not?

Mr King—There are clearly challenges on the project and that is why the minister has directed that this diagnostic be undertaken. My obligation is to assemble all of that information in a very objective and analytical way. We will speak to the company to take their view of the position. We do not look at just the technical aspects; we look at the business relationships and the support from the parent company. Once we have looked at the project status, if you like, the capability manager puts the overlay and, in this case, it is both Chief of Army and Chief of Navy, for their take on the conclusions that are drawn on any capability and schedule impacts and how that affects them in meeting their obligations.

Senator HUMPHRIES—Since we are on MRH, the minister's media release on 1 February stated, 'A full diagnostic review would be supported by external specialists.' Who are those external specialists or will a tender process choose those?

Mr King—No. We have a panel now, because gate reviews are a repeating process. They are not just done diagnostically. We are now implementing them as a routine system. The two independent members of this one are Dr Ralph Neumann and retired Rear Admiral Peter Purcell.

Senator HUMPHRIES—I would like to go to the Wedgetail project.

Mr King—As you know, the Wedgetail project has been a very challenged project, but we have made good progress over the last two years. We now have four aircraft at initial acceptance and we have a plan to meet initial operational capability by the end of this year. You may recall that in that process of re-benchmarking this project we came to a commercial settlement with Boeing regarding certain deficiencies on its performance, and we have implemented a program in parallel with the initial acceptance of these initial operating capabilities. We also have a parallel program already underway of radar improvements. Fundamentally the project is performing much better and much more reliably to the re-baselined schedule. The key issue that faces us at the moment is the ESM, electronic support measures system. We had a setback in December/early January where the redelivered ESM system to the final configuration had reliability issues. That is an emerging problem. We are taking that up with the companies involved. The subcontractor supplying ESM is BAE Systems and their subcontractor is an Israeli company, Elta. This is a challenge for us to get the ESM system performing reliably. It is more a reliability and maintenance issue than it is a capability performance issue, and that work dealing with those companies is underway now. The bottom line is we are still working diligently, but with some risk to having initial operating capability for the Wedgetail aircraft at the end of this year.

CHAIR—So the percentage that you have now inserted in the table on page 55 of the ANAO *Major projects report*, or the ANAO has inserted it for Wedgetails, the last 20 per cent has now gone to a red line?

Mr King—I will just get it.

CHAIR—You can take my copy if you like. Mr King, the chart by the ANAO now has the red line for the last 20 per cent. Is that for matters relating to the commercial settlement on the contract or is that the new matters that you are now discussing with Senator Humphries?

Mr King—My immediate reaction to this measure of effectiveness is capability performance. As I have stated, we have undertaken a commercial negotiation with Boeing, which anticipated that at final operational capability there would be some shortfall in capability on the overall Wedgetail performance, for which we have been compensated. We are now working inside that revised compensatory approach, but more importantly we are clawing back improved performance.

CHAIR—What I am really asking is: is that table with the red line at the end, the final 20 per cent, just a tabular representation of the concerns you discussed with us about 12 months ago in terms of deficiencies, in terms of delivery of capability, which have been the subject of extensive negotiations between the parties?

Mr King—That is right.

CHAIR—So there is nothing new there?

Mr King—There is nothing new. Sorry, there is the ESM reliability and maintaining capability issue, but it would refer to prior to that. This would refer to the overall effectiveness that you are talking about. The good news is that there is a prospect at the moment that we will regain some of that capability that we thought we might have lost in the reasonably near future. I think we have improved our position.

CHAIR—In due course, when you review the *Hansard*, can you check that we are on the same page in our terms of understanding of that table and what you discussed with us 12 months ago?

Mr King—Yes.

Air Vice Marshal Deeble—I want to add a little bit about the work that we have been doing with Boeing and Northrop Grumman in recovering some of the radar performance that we settled on over a year ago. The work has been a collaborative endeavour. We have worked with Northrop Grumman and Boeing. Over the last year we have been able to achieve a number of improvements in areas that were shortfalls for the radar. Those areas include clear performance, false alarm rates, and we have some good work ongoing at the moment in terms of recovering clutter performance. At this point in time, based on the negotiations that we are having with Boeing and Northrop Grumman, I feel confident that we will substantially recover the capability with respect to the radar to an operationally acceptable level for Air Force. I think that work and being able to work with Northrop Grumman and Boeing has been very successful.

The one challenge I have at the moment with respect to Wedgetail is the electronic support measures and that relates to the reliability, maintainability and supportability of those systems. We are working with Boeing. We have re-engaged with BAE and also with Elta, the original supplier of this system, and we hope to have those issues resolved by the end of the year.

CHAIR—Thank you.

Senator HUMPHRIES—This project has slipped \$162 million this year, but that is not represented by process failure or problems, entirely in any way, by other problems with process; it is represented partly by a reduction in effect of the purchase price that we are paying for this product?

Mr King—No. It reflects that we did not make all the progress payments that we anticipated and, therefore, it is an analogy for schedule. There were challenges with that schedule. That is why we have slipped in that payment process, but we have redone that program with Boeing and, because of that program, which is now a multi-stage program, we still believe we can meet the IOC date, the initial operational capability date, at the end of this year.

Senator HUMPHRIES—The end of this calendar year or financial year?

Mr King—Calendar year.

Senator HUMPHRIES—You were saying in October that you thought the final acceptance would be between March and June.

Mr King—No. They are different terms. There is a difference between final acceptance and initial operational capability. The final acceptance is a material acceptance of the equipment. Obviously the main thing for the ADF is initial operational capability, when you bring all the elements together so that they are able to field this capability in an operational sense.

Senator HUMPHRIES—I promised my colleague Senator Macdonald that I would allocate him some time before six o'clock.

CHAIR—You do not allocate and I have further questions on this issue of the DMO.

Senator HUMPHRIES—I have further questions.

CHAIR—We are nowhere near finished the DMO, so with due respect you will not be allocating questions to Senator Macdonald. We will come to Senator Macdonald's issues at the appropriate time. If you have further questions of the DMO you can proceed.

Senator HUMPHRIES—I would like to proceed to the next project, which is C1448 on my list.

Mr King—C1448 Phase 2B is the Anzac frigate anti-ship missile defence project. This is one that is definitely progressing along the revised remediation path and achieving its milestones. I will remind you that this is a very big step forward for Australia. Senator Johnston talked about this. The supplier of the radar system for this program for the Anzac ships is an Australian company, CEA Technologies. It is what is called a phased array radar. It is world-breaking in its performance for its cost and it had challenges early in the program. The program, with government approval, is now do the first ship, if successful we will do the remaining seven ships. I am very pleased to report that industry has responded very well on this program, particularly CEA. We have completed acceptance trials on the first ship in Perth. I had an email a little while ago to say we are at sea with the radar and initial tests are very encouraging. We will have about an eight- to 10-week technical testing program to make sure that this radar can track targets. The important thing about this radar is that it has to also control missiles in flight for a missile engagement. This project was one which looked like it would fail when it became a project of concern and it now looks like a project that will succeed. I am very pleased with the results.

Senator HUMPHRIES—You may be removing this project from the projects of concern list in the future?

Mr King—We have a little way to go. It is a very challenging program. We are doing things in this country that are world leading edge on this technology. We have planned this eight- or 10-week program. There is a pessimist in me that says we may encounter problems that we have not anticipated, so it may take a little longer. However, if it succeeds in all of those trials—and I know the Chief of Navy is very keen to take it to the Pacific Missile Facility off Hawaii to operate it there—I can see no reason why they would not recommend to the secretary, CDF and obviously the Chief of Navy to take to the minister a recommendation to remove it. With that we will have to have a parallel piece of work, which is government approval to do the remaining seven ships.

Senator HUMPHRIES—I would like to move to 2043. I will not request a full briefing on that because of the constraints on our time. You said in October that you were hoping to make a recommendation to the minister around now about removing this project from the list. Is that recommendation imminent?

Mr King—It will be. We have done a lot of reliability testing. The system is now used in support of ADF. We have had very good results over that period since I last spoke to you. I am literally about to formulate my recommendation for the minister's consideration that this project should be removed from the list. That is the project, as it relates to the fixed HF network and the Boeing company's participation. I would like to compliment Boeing on their response, when this project came on to the list, and how well the company tackled this problem and solved it.

Senator HUMPHRIES—With AIR 5333 you said in October that the project was in a good position and improving. Is it still improving?

Mr King—Yes. We are comfortable with this project. I think I reported to you then that we had the North ROC, as we call it, regional operational centre, operating. We are now bringing the East ROC up to operational status. When both of those are operating fully we have to make sure that we can move from one operating centre to the other, simulating a failure. Once that is done—and we are getting a much higher degree of confidence in that—I believe we will be making a recommendation later this year to the minister.

Senator HUMPHRIES—Tell me about the tactical UAVs.

Mr King—Again, this is another project that has done well. This was a project where we originally cancelled the project, based on an early indication that the contract was not performing well. We did a cancellation of the original contract at no cost to the Commonwealth. We now have a government agreement to buy the shadow system from the US. We have signed the FMS—foreign military sales—case. The government approval was to bring this into service by the end of 2013, but with a direction to bring it into service as soon as possible for overseas operations. I am very pleased to say that, with the support of our Chief of Army and the US Army, the US Army have formally freed up one of their systems for us. We expect that to come to Australia around the middle of this year or maybe a little bit later so that our army can train on its use, and we are anticipating deployment either very late this year or early next year.

Senator HUMPHRIES—So the system, in that sense, is the piloting system and the craft?

Mr King—The ground system and the vehicles.

Senator HUMPHRIES—Where would we test something like that?

Mr King—We are still sorting that out. One of the issues is that it is an unmanned aerial vehicle, so you have to have a certain case built for where you can operate and how you can operate it for safety reasons—other traffic. One of the options that we are looking at, at the moment, is Woomera but there is a variety of sites where we could; Hervey Bay is another. But that is not quite finalised.

Senator HUMPHRIES—Is it possible that could be tested off the north-west coast as part of our border protection program?

Mr King—We had not contemplated that. I suspect that with that first bit of testing we would not want to put it into operations in that manner until we really knew how to operate it.

Senator HUMPHRIES—LAND 121 Phase 3 someone unkindly described as a sort of glorified truck purchase program. What is the situation with it?

Mr King—Whoever coined the phrase ‘just trucks’ should be shot!

Senator HUMPHRIES—Trucks and trailers.

Mr King—Even just for ‘trucks and trailers’ they should still be shot. This was the one where we tendered and got made an offer but, when we tested the vehicle offer, it did not live up to the capability that the supplier had said it would, so we have retendered the market. At the moment, that tender process and the formulation of the tender evaluation are completing. It is not finalised yet. When that is finalised and gone through the senior Defence management, a recommendation will be made to the minister about what the recommended mix and suppliers are.

From the point of view of a project of concern, this was very much a project of concern for us in DMO in order to get this project back on track in terms of getting tenders out, getting tenders evaluated and making recommendations to government. I believe that, once that recommendation is made to government and the government chooses which option it wants to proceed with, this will be another candidate for removal.

Senator HUMPHRIES—What was the capability that was missing at that early stage?

Mr King—When we tested the truck it had OH&S issues. It had problems with driver fatigue and injury and it did not offer the capabilities that had been claimed by the supplier.

Senator HUMPHRIES—If it is all right we will pass over JP 2070 and go to AIR 5402, the multirole tanker transport. I understand that previously we were advised that this project was late and delay was likely to be more than 18 months. What are the dates that we are now looking at? What was the old ETA and the new ETA?

Mr King—I hesitate to give you a final answer because we had a setback on this program recently. There was an incident—a boom refuelling incident off Portugal—where one of our aircraft, with our acknowledgement, was being used by Airbus Military to train Portuguese F16 pilots on refuelling, using the boom refueller. This is an aircraft with both boom and pod refuelling.

Senator HUMPHRIES—That is the tube that comes out of the back?

Mr King—Yes. Each aircraft that comes up is called a contact. There was an incident on the 14th contact. The F16 had to break away. There was some damage to the F16, the boom also broke away and there was a small amount of damage to the aircraft as well, apart from the boom. Airbus Military immediately complied with declaring the incident and having it investigated. A preliminary company confidential report has come in on the incident and what the implications are. That report also sits with the Spanish airworthiness regulators, INTA, who are looking at it. So it is in an interim phase and I am not in a position to announce what the impact of that will be on our aircraft delivery.

Senator HUMPHRIES—Do you expect that any of this would have an impact in terms of final price?

Mr King—No. The Chief of Air Force just pointed out to us that we also had two of our investigators on that initial investigation team.

Dr Gumley—Airbus Military has shared all of their information with us, because it is a safety incident. So they have done the right thing.

Senator HUMPHRIES—Do these sorts of craft have a reputation for accidents?

Mr King—No.

Senator HUMPHRIES—Is this the sort of thing that is inherently dangerous?

Mr King—I think a lot of the military evolutions we do have an inherent danger to them. The notion of, travelling at 250 knots-plus, two aircraft in very close proximity transferring big volumes of fuel, inherently has a risk element. Clearly the airworthiness folk go to a lot of effort, with a lot of science and engineering, to ensure that is at the minimum possible risk. I would just say that the base aircraft is a proven Airbus aircraft, which has a very good safety record.

Senator HUMPHRIES—One of the things that has come off this list, because it has been cancelled, is the water craft, the 2048. I would like to interpose that for a minute on the basis that it was on the list before. What is the process for disposing of these sorts of craft? How do we go about putting these things presumably on to some kind of military market?

Mr King—At the minister's direction, we are developing the disposal recommendation at the moment, but the candidate disposal options that we broadly employ are: gifting to other organisations or under cooperative programs; disposal by way of sale, tender or on the market; and, obviously, disposal by cutting up. It would depend. If it was a very sensitive piece of equipment, we may not be able to resell it; we may have to just destroy it. We have not made that recommendation to the minister yet, but it seems most likely that a disposal in the marketplace would be the best way to get value for money.

Senator HUMPHRIES—What about the AIR 5276 Phase 8B project?

Mr King—That is the ESM system on the P3s. It is running approximately two years late. Since it has come onto the projects of concern list it has been stabilised—that is, we are not seeing any further deterioration of that schedule. BAE, as the supplier of the system, are working very closely with us to make sure that we do not let that program slip any further. From memory, for the last 11 months we have seen no further slip in that schedule.

Senator HUMPHRIES—What was the origin of the original slip, though?

Mr King—The origin of the original slip was interesting. It has some roots and correlation with Wedgetail. BAE was also the ESM subcontractor on Wedgetail and Elta was also the supplier of the core equipment on Wedgetail. A conscious decision was made, given the level of priorities, that more of the effort would go into remediating the Wedgetail issue and then move on to the P3 issue. The origins are really inter-related.

Senator HUMPHRIES—I would like to skip over AIR 5418 and we have done the MRH. I would like to ask some general questions about the way that DMO works at the moment. Has DMO changed or clarified its criteria for designating projects of concern since the last time this committee met for estimates?

Mr King—We have not finalised that, but we are working at more defined triggers on the matters that I spoke about—capability, schedule, cost and customer relationships in particular. That is a little bit harder to quantify. We are developing a range of what we call early triggers, early indicators and warnings to say, ‘This project looks like it is heading into trouble.’ Those triggers will be hard coded, so a project cannot avoid it. If it triggers, it will be highlighted. Our recommendation will be that, once that triggers, DMO will advise DCIC of the issue, the secretary and CDF would then take that advice to the minister and initial reactions put in place to say, ‘You are heading in the wrong direction. We need to do something to fix this project.’ It is then likely that we will implement a hard trigger for project of concern. If that does not remediate, the next level will be that you are now triggering a project of concern. Defence will, of course, advise the minister. Then the diagnostic gate reviews and remediation programs will be developed that say how you introduce this capability, and then both DMO and industry will be held accountable to deliver that remediated program, but that is still in its formulation phase. I think with projects of concern, because they trigger national interest issues, you cannot be 100 per cent prescriptive about when a project is a project of concern and when it is not.

Dr Watt—Projects of concern are always a matter of decision for the minister.

Senator HUMPHRIES—But finer triggers, as Mr King puts it, are likely to make the list longer in future, in theory.

Dr Watt—The answer is: not necessarily. The work that Mr King is talking about which is being done—say, the work we have done on early warning systems—is actually designed to stop projects becoming projects of concern. I regard projects of concern as a workout approach. There is a problem and we need to solve it. The early warning systems are designed to say, ‘Let us get to the problem before it becomes a big one.’ You need to work it out and stop the project going off track before it gets substantially off track. That is the difference.

Senator HUMPHRIES—In his speech to the ADM congress the other day Minister Clare said, ‘I also want to put more rigour and measurable standards into the projects of concern process.’ How are you doing that? What rigour was he suggesting was not there and what standards are not properly measurable?

Mr King—It was what I was alluding to. We will create these hard triggers and they will be non-discretionary. It will not mean that a project actually goes on to the list, but what it does mean is it will trigger, it will be reported to senior management and to the minister, and

then what is done about that will then be the next step. I am sure that is the rigour that he is talking about.

Senator HUMPHRIES—I will give way in a minute to some colleagues. I just wanted to ask about a couple of other projects that are significant and which have slipped. The payments are going to be substantial this year. AIR 87 Phase 2, the Armed Reconnaissance Helicopter, has a \$34 million shortfall. What is the reason for that?

Dr Gumley—Its milestone is not being met. In DMO we pay when the contractor does the work. If the contractor slows down then we do not pay them, which means you get a money slippage in the financial year concerned.

Senator JOHNSTON—Is that the night vision goggles issue?

Dr Gumley—That was one of the elements.

Senator HUMPHRIES—There is no element in this at all of wanting to free up money in the capital budget?

Dr Gumley—No. If you read the additional estimates financial data, it is all due to slippage from milestones not being met. They are not savings initiatives. It means that if work is not being done then we are not paying for it.

Senator HUMPHRIES—So, we are not changing the parameters of what we are purchasing or the kind of things that we want?

Dr Gumley—No.

Senator HUMPHRIES—It is the suppliers or the developers who are responsible for this?

Dr Gumley—The vast majority, yes. There are a couple of early stage projects where we predicted to get approvals through or predicted to do some of our work, but the big ones that you are quoting from at the top of the list are already existing contracts post second pass.

Senator HUMPHRIES—Our air warfare destroyers are \$146 million down. What is the reason for that?

Mr King—There are a number of contributing factors. The most significant is that we had delays on the block production, particularly in the BAE site. That is the main contributor. There was also some goodness. We picked up some savings in foreign exchange rates, and we had some savings on the foreign military sales purchase in Aegis. So, one piece of not good news is that implies pressure on the schedule. The other two major contributors were good news.

Senator HUMPHRIES—We have over \$1 billion of total slippage in this budget. Would that be higher than average?

Dr Gumley—Where does the \$1 billion come from? Which figure are you quoting there? I thought the figure was about half of that—

Senator HUMPHRIES—Total slippage is \$1.102 billion for the top 30 projects.

Dr Gumley—Yes, but they are gross plans. The way it works is that we work out what each project is expected to spend in a year. Because people have to assume that they are going to make their project work at 100 per cent it means that you will always get some slippage in

your project. Life is like that. You very rarely get a project coming forward because most things go late.

Senator HUMPHRIES—I completely understand. My point is whether this level of slippage is higher than average. Perhaps you can answer the question on notice by giving us a total spend versus the total slippage for, say, the last five years so we can see for ourselves whether it is higher than normal.

Dr Watt—Yes. There is an important point here. What Dr Gumley is saying is that you have the wrong measure of slippage.

Dr Gumley—That is correct.

Senator HUMPHRIES—What should I be looking at?

Dr Watt—Move down that table. It is the estimated outturn for existing major projects.

Dr Gumley—The minus 419 number.

Senator HUMPHRIES—Is that figure higher than average?

Dr Gumley—Higher than the last two years, but lower than the two years previous to that. We will give you some numbers.

Senator HUMPHRIES—Is that relative to the size of our buy? You have given me a raw figure of the total dollars rather than as a percentage of what we are actually purchasing.

Dr Gumley—Yes. We can give you both raw dollars and a percentage.

Senator HUMPHRIES—I look forward to that. I have other questions that I will place on notice.

Senator JOHNSTON—I would like to ask about the projects of concern. LAND 121 Phase 3—where are we up to with that? Did my colleague ask you that question?

Mr King—Finalising the tender evaluation process and the recommendations from Defence to the minister.

Senator JOHNSTON—To be received approximately when?

Dr Gumley—Midyear.

Senator JOHNSTON—So June or July?

Dr Gumley—Somewhere around midyear.

Senator JOHNSTON—Thank you.

CHAIR—I have one question. Dr Gumley, in the ANAO report into major projects, paragraph 31 states:

... the ANAO continued to observe a lack of consistency in the application of various policies, practices and systems at a project level which were relevant to the provision of assurance over the information contained in the PDSSs.

At paragraph 3.9 it states:

This has again resulted in an inconsistency between the information produced by each of the project's IT systems (i.e. risk management, financial management, and document management systems) and

highlights an issue for the DMO in ensuring reliable and consistent information to properly inform project management and decision making in relation to Major Projects.

What they are saying is that across the DMO, in all the major projects, there is a lack of consistency across projects and information going up to your office to do an across-the-board analysis of projects. My question to you is: how serious an issue is this and is it preventing serious, hard evaluation going to government?

Dr Gumley—It is an indication that we do not have perfect standardisation systems yet across the projects. Therefore, to get consistency and to be able to get any form of sign-off or any form of good management information, there is a lot of human effort required to make sure that any corrections that are required in the system are carried out. It goes more to the efficiency of how well you are getting all of your data together more than whether the data is inaccurate or not.

CHAIR—I also noted in the certificate attached to the 20-odd reports, again, the same qualification in terms of the evaluation in the PDSS where you are unable to provide information because you cannot get it out of your systems.

Dr Gumley—Yes, and some of the projects go back to the mid-nineties. We do not have perfect information going back. The Auditor-General has also made a comment on that in that report.

CHAIR—Is the DMO considering putting any proposition to government to remediate that inability to quickly get hard information out of your systems going into the future or is that not a priority?

Dr Gumley—We are working on a series of systems improvements at the moment. We have not had to go back to government. We have had enough internal resources to do it up until now, but there is still more work to do.

Dr Watt—If I hear Dr Gumley correctly, this is not necessarily an IT system. It is a small line information system that we are talking about, human intervention.

CHAIR—I gained the impression there were signature amounts of man hours doing routine work when, theoretically, your systems should be able to provide it.

Dr Gumley—I think that is right. We accept that we do not have perfect systems across all projects and that there is work to be done.

CHAIR—But it is not yet of sufficient concern to take to government to get extra funding?

Dr Watt—I think government would tell us to sort it out ourselves.

CHAIR—We have a lot of legacy systems.

Dr Watt—We have some legacies, but again what Dr Gumley is describing is not an IT project.

Dr Gumley—We have a group called the Standardisation Office. They are a group of 15 or 20 people who spend their time trying to bring all the systems together and get greater uniformity than we have had in the past.

CHAIR—I might pursue that at another time when we have more time. Further questions on DMO?

Senator JOHNSTON—I have a lot, but there are other people.

CHAIR—Senator Macdonald, would you like to go to estate management?

Senator IAN MACDONALD—Yes, and there are a couple of other things.

Dr Watt—Can the DMO go home?

[6.13 pm]

Department of Defence

CHAIR—Yes. I think we will do estate management, bases and some personnel management issues until 6.30 pm. Senator Macdonald.

Dr Gumley—Can I read into the record a response to a question on notice from Senator Johnston at 11.26 am today?

CHAIR—Yes, Dr Gumley.

Dr Gumley—The question is: how much have we spent on JSM so far? The answer is: just under \$230 million to 31 January 2011.

CHAIR—Thank you. Senator Macdonald.

Senator IAN MACDONALD—Mr Chairman, with your approval, I have agreed to share my 15 minutes with Senator Bushby, who has some important questions.

CHAIR—Who is leading off?

Senator IAN MACDONALD—I am. I hope that I can ask these quickly and get reasonably quick responses or if I cannot perhaps they could be taken on notice. Thank you for the written answer to my questions about Wharf 10 at Townsville and the LHDs. You have indicated that the LHDs could not use the Townsville port in its current form. When are we expecting delivery of the LHDs?

Air Chief Marshal Houston—The first one will be in 2014.

Senator IAN MACDONALD—Can you tell me what the plan is for the Townsville port that will enable them to be used? I would assume that they would be intended for use in and around Lavarack Barracks by 2014.

Air Chief Marshal Houston—Mr Lewis is the expert on wharfs.

Mr Lewis—Defence propose to make a one-off upfront payment to the Port of Townsville Ltd, which will manage the berth 10 upgrade. The deed of licence currently being negotiated between Defence and the Port of Townsville Ltd will of course contain financial safeguards and assurances, but Defence will transfer its contribution of \$30 million when the deed is finalised. Further negotiations since we last spoke have been held with the Port of Townsville Ltd and all substantive issues have now been resolved. We are in the process of getting the internal approvals inside government in order to make the payment and to execute the deed.

Senator IAN MACDONALD—Would you expect the upgrade to be done by 2014?

Mr Lewis—Absolutely. It is scheduled for completion by 2014.

Senator IAN MACDONALD—Is that all part of the agreement that you have reached with the Port of Townsville Ltd?

Mr Lewis—That is part of the deed of licence and built into that will be guaranteed access for 25 years at a minimum, I believe, of 45 days per year.

Senator IAN MACDONALD—Thank you. At the last estimates I asked about Scherger, and I thank you for the written response. The written response indicates that Scherger is there to conduct air combat operations, project force and to support the ADF operations across the vast expanses of the north, in order to successfully deter and defeat potential attacks on Australia, which confirms what you said before. Does the fact that there are 200 to 300 refugees living at Scherger cause concern, in any way, as to the ability to operationally use Scherger if it were required to be used?

Mr Lewis—I do have Chief of Air Force here to amplify my comments. From our perspective, it has nil effect at this stage.

Air Marshal Binskin—I can confirm that. We work very closely together on this.

Senator IAN MACDONALD—‘We’ being?

Air Marshal Binskin—Me and DSG. We still have the facilities up there to do what would be foreseen contingencies without any impact at the moment.

Senator IAN MACDONALD—I hope to get up there shortly, subject to approval from the minister, but people who have been there tell me that it is now a little city on your RAAF base. I find it incredible to think that you could use it as an operational forward Air Force base with 300 non-Australians permanently camped there. You are telling me that you would feel quite confident if an emergency arose. I appreciate that you do not expect that you would have to use it in the immediate future, which begs the question of why we keep it, but if at some time you did, if there were an emergency, are you seriously saying to me that you could operate that as a forward effective Defence base with all those other people hanging around?

Air Marshal Binskin—Obviously we look a long way ahead at the strategic environment with a lot of intel assessments and the likelihood of using it in that high-end task that I think you are alluding to. The most likely use would be in some sort of search and surveillance, search and rescue, humanitarian-type small operation and that is not a problem for us there.

Senator IAN MACDONALD—If you are going to use it for that then wouldn’t you use Cairns or Darwin?

Air Marshal Binskin—That is exactly right.

Senator IAN MACDONALD—Why bother keeping it?

Air Marshal Binskin—It takes a long time. There are different contingencies. For the shorter notice contingencies, we put aircraft through there to extend their range if they are going out on a search and rescue operation or a surveillance operation. We can put them through if we need to. In the longer term operation, the base is built to take a squadron of Hornets, but I do not envisage that it is going to use those Hornets in a short notice time frame in the next year or two, based on the current intelligence and environmental assessment.

Senator IAN MACDONALD—There are a couple of things that I wanted to pursue at greater length, but time is going to prevent me, given an undertaking to my colleague. Perhaps the minister could answer this one. Do you need ministerial approval to visit a cadet base? If a

local cadet unit invites the local politician to some function at the local cadet base, do they need ministerial approval for that?

Senator Feeney—I can honestly say that I have not been asked that question before. My initial reaction is that it would be a matter of courtesy to notify our people. I am sure in the first instance our people would want to make appropriate arrangements if their member of parliament was visiting, but I am also confident that such a matter would be a mere formality. I am aware of the fact that it is commonplace for members of both the House of Representatives and the Senate to have strong relationships with cadet groups. There is nothing unusual about that.

Senator IAN MACDONALD—No, certainly there is nothing unusual, but I have been told that to arrange a visit requires them and perhaps the parliamentarian to go through the process of seeking formal approval from the minister's office to invite a local politician to some function that they are having.

Senator Feeney—That might simply be an abundance of caution on behalf of those involved. Given that the cadets fall within my portfolio of responsibilities, it is a matter that I am sure you and I can resolve very swiftly.

Senator IAN MACDONALD—It is not just me. I am sure you and I will be fine. I am sure you and everyone would be fine. The cadet units have an instruction apparently from somewhere that before they can do it they have to seek approval. They do not have a team of 10 people sitting in the office of every local cadet base doing the paperwork. It is very difficult for people who do not have the secretarial support.

Senator Feeney—All I can say is that it has never been a matter that has been brought to my attention. I am not aware of it ever having caused either a parliamentarian or a cadet group—

Senator IAN MACDONALD—It has been raised with me. Perhaps you might be able to issue a directive to say that it is not really necessary. We would expect the politician would, as a matter of courtesy, notify—

Senator Feeney—I will take the matter on notice and I will provide some advice about what is standard operating procedure.

Senator IAN MACDONALD—I would be interested if all three cadet arms had the same rules because, again, it has been suggested to me that they do them in different ways. We are not talking about Defence units here or Defence bases. In many cases, they are simply cadet units. You all know better than I what the role of the cadets is these days. It hardly seems necessary that the Chief of Staff and the minister have to be advised for every visit you might intend making to a cadet unit.

Senator Feeney—I will take up the matter.

Senator IAN MACDONALD—Thank you. I might have to put the other question I have on notice.

Senator BUSHBY—As you may be aware, there has been some public speculation about the future of the Fort Direction Defence site in Southern Tasmania. This arose following the

surfacing of a document that appears to be a Defence department work order, which states amongst other things:

Demolition of 42 structures is planned to occur in the December 2010-January 2011 period. Any demolition of Fort Direction will result in a very emotive response from locals and possibly the Clarence City Council. This WR seeks a report from a qualified heritage assessor that references and, if necessary, provides updated comments on the existing heritage plan. Secondly, it provides advice to the department on how to manage this risk from these demolitions. The assessment needs to be concluded in the next two to three weeks to allow time for contracts to be let for those works.

Was such a work order issued by the department or any entity associated with it?

Mr Lewis—It was in error and it was corrected in October.

Senator BUSHBY—Are you saying that a work order which quite specifically states that 42 structures are to be demolished over a particular period, and with a time period for the letting of contracts, was done in error?

Mr Lewis—The work description was in error and it was corrected. It was corrected as soon as it could be because, of course, a number of those buildings are heritage listed and, therefore, we would need to go through a full heritage assessment. That is what has happened. There has been a full heritage assessment report done.

Senator BUSHBY—What is the current position in terms of Fort Direction?

Mr Lewis—The current position is that a heritage report either has been, or very shortly will be, received by the department. That will be fully analysed. That will include recommendations for the future handling and treatment of Fort Direction, including the heritage buildings onsite, and then the department will need to consult the minister about the next steps. Part of that, obviously, will include a public consultation program in relation to whatever is resolved.

Senator BUSHBY—So a full proper public consultation program that will look at all potential issues?

Mr Lewis—Yes.

Senator BUSHBY—I find it hard to conceive, and I think the public concern that emanated is very understandable when an error is made that talks about demolishing the 42 structures and the need for urgent action in terms of the heritage assessment, because there is a need to let the contracts to demolish the property within two to three weeks.

Mr Lewis—You are quite right.

Senator BUSHBY—It does not read like an error. It reads like a very high-level error in terms of somebody making a decision to proceed and then deciding that decision was an error.

Mr Lewis—I would not know the particular circumstances here, but that is unlikely.

Senator BUSHBY—The minister wrote a letter to me, which I received last week, saying that the initial request for heritage assessment incorrectly made reference to the request being related to a demolition. This is not a reference. It is a work order discussing the demolition of 42 structures. I take what you are saying and I understand where you currently are, but I do

not accept that this is an inadvertent error that included the word ‘demolition’. It is specifically talking about demolishing 42 structures.

Dr Watt—There is a point to make. The work order was issued in September and the correction was done in October. That suggests to me error rather than anything else.

Mr Lewis—The work was done on the proper basis and there were no constraints placed on the heritage consultant in relation to the nature of the work done.

Senator BUSHBY—I will leave it at that. Thank you.

Senator JOHNSTON—I have a DMO question.

CHAIR—They have gone.

Dr Watt—We sought your consent.

Senator JOHNSTON—That is fair enough. I did not expect to get another go.

CHAIR—Senator Kroger.

Senator KROGER—I have a question in relation to security checks. I read in the newspaper about an instance where somebody had been charged with assault overseas in England. They had moved here and joined the forces. I wondered what processes we went through in recruiting personnel.

Dr Watt—We have our Deputy Secretary of Intelligence and Security, Mr Merchant, with us. I think we might need a bit more information to answer that one. We can take it on notice.

Senator KROGER—I am very happy to put it on notice. It was in relation to an individual from overseas who is now in the forces but had been convicted and imprisoned.

Mr Merchant—I could talk generally about the checks that are done for people being recruited and undergoing security clearance, if that would be helpful.

CHAIR—Yes.

Mr Merchant—For the baseline security clearance what is required is a qualification verification, referee check, a police records check, a five-year background check, and an identity check. That is our baseline clearance. From there the checks get more stringent as you go up the higher levels of security clearance. For example, for the next level up, we also require a financial declaration, a suitable screening questionnaire, ASIO assessment, two referees’ checks, and a 10-year background check. As I said, it is a sliding scale. The baseline does include a police records check.

Senator KROGER—Is the police records check an Australian check or an international check?

Mr Merchant—It would generally be an Australian police records check, but if the person had overseas experience we would also be checking on any convictions overseas as well for a baseline check.

Senator KROGER—I will put a couple more on notice. Thank you.

Dr Watt—We will take the question on notice. We will probably need a little bit more information.

Senator KROGER—I understand. Thank you.

CHAIR—I would like to thank CDF, Dr Watt, Dr Gumley and Parliamentary Secretary Feeney, plus all officers from the department and the services for their assistance today.

Proceedings suspended from 6.30 pm to 7.33 pm

Department of Veterans' Affairs

CHAIR—The committee will come to order. I welcome back Senator Feeney representing the Minister for Veterans' Affairs. I also welcome the secretary of the department, Mr Campbell, and Mr Carmody. This evening the committee will examine the additional estimates for the Veterans' Affairs portfolio. Answers to questions on notice are to be returned by 21 April 2011. Senators should provide their written questions on notice to the secretariat by close of business on Thursday, 3 March. Under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice.

Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised. Minister, do you or an officer wish to make an opening statement?

Senator Feeney—No.

CHAIR—Mr Campbell?

Mr Campbell—No.

CHAIR—In that case we will turn to questions.

Senator RONALDSON—I did not realise that Mr Campbell and Mr Carmody had been doing a tag team in talking to me so that I could use some of my time. Congratulations! You have done well.

Mr Campbell—We will probably pay for it later.

Senator RONALDSON—Mr Campbell, we briefly discussed the timely provision of answers at the last estimates and I would like to thank you and the minister for meeting that request. I am afraid that is not what happens across the board, so I would like to pass on my thanks to you and your staff and, parliamentary secretary, through you to the minister.

I will probably be required to place on notice a large number of matters relating to a high number of income processing claims in 2009-10 and a response to a question on notice from last October. There are some questions about health costs over the forward estimates and the government's commitment to budget savings over that same period; further questions about the provision of costs for veteran disability pension reform; an update on the implementation of key recommendations for the Dunt review; some questions about mental health protocols operating in the department; questions about the special accounts relating to the Defence Service Homes Insurance Scheme and the cost of BPCS services, particularly the reduction between the actual costs identified in the PAES and the portfolio budget statements; and some questions about multiple eligibility clients and the handling of those files. I will get to those, but otherwise I will put those questions on notice.

I would like to firstly turn to the MRCA review. If my recollection serves me, at the last estimates, after discussions about whether it was to be provided at the end of the financial or the calendar year, we agreed that this report would be provided to the minister by the end of the calendar year. I am just wondering whether a copy of that report was provided to the minister within that time frame.

Mr Campbell—In October I was saying that we would hopefully provide it by the end of the financial year.

Senator RONALDSON—It was to be the end of the calendar year.

Mr Campbell—Yes, my apologies. I think, then, because of some of the things we were discussing, I started to say—and I would have if you had asked me the question subsequently—that it would be either late this year or early next year. The report will be provided to the minister, if not tomorrow, within a day or two of tomorrow. It is being put into a printable style format for him. It will certainly be with the minister by the end of February and probably by the end of the week.

Senator RONALDSON—When is it anticipated that it will be released publicly?

Mr Campbell—That is a matter for the minister, but my understanding, in discussing this issue with the minister, is that he proposes to release it sooner rather than later and then have a period for comment and consultation up to 30 June this year.

Senator RONALDSON—At the last round we talked about a consultation process. Has there been any thought given as to what that might be? Would it be public hearings? What processes are likely to be in place?

Mr Campbell—The minister has not made a final decision on that. It will be put out publicly so, therefore, it will be put up on the minister's website. The ex-service organisation roundtable would be formally involved, as would PMAC. I do not think that the minister has yet put his mind fully to the issue beyond that or to the question of whether or not there will be any public hearings or, if there are, how extensive they would be.

Senator RONALDSON—Parliamentary Secretary, I would have thought that, given the importance of this and given that you and I discussed this back in October, some serious thought would have been given to the aspect of public consultation. When is the minister likely to make that decision?

Senator Feeney—I have no advice as to when the minister will make a determination on this. That is, of course, a matter for the minister.

Mr Campbell—Perhaps I can help. I think the minister will make a final decision on those matters in the next week to two weeks.

Senator RONALDSON—Will the roundtable and the PMAC receive briefings before the report is publicly released?

Mr Campbell—Again, the minister and I have not discussed that, but if I were to chance my arm I suspect probably not, given that it is being put out there as a fresh document with no government decision and no government view on it. I am not sure that there is a lot of value in briefing them on a rather large and complex document—and it is a large and complex

document—giving it to them and their experts, for them to, if you like, chew on it before there is any substantive discussion.

Senator RONALDSON—Realistically, from what you have told me, time will probably preclude that anyway if it is tomorrow or the day after. Your understanding is that there will be no informal consultation with that group before the release?

Mr Campbell—There is always informal discussions with both groups, because we are in contact with them but, no, not in that sense. As it is not being put out with a government response and because of the complexity and the size of it, I think everybody would probably be better served if they have the time to read it, assimilate it and absorb it before there is any substantive discussion.

Senator RONALDSON—Correct me if I am wrong, but one of the answers to a question on notice from last time around—where I asked you about the consultation with the ESO representatives—was that they were last consulted back in May or certainly at the time of the question on notice being tabled they had not been consulted since May of last year. Is my recollection of that correct?

Mr Campbell—Are you talking about the four representatives?

Senator RONALDSON—Yes.

Mr Campbell—There have been two layers of style of consultation in the last six to nine months. One was that it was mentioned and issues were discussed at every meeting of the roundtable; and it has been mentioned in every meeting of PMAC. The ESO roundtable chose four members of the ex-services community for consultation, one of whom is on the roundtable and the other three are not but they represent agencies on the roundtable. There were a number of discussions and, as you say, the last one was in May, but then after our hearings towards the end of October there were a couple of subsequent meetings—two or three before Christmas, where Mr Bayles and I had extensive discussions with those four representatives.

Senator RONALDSON—There were a significant number of meetings between whatever that date in May was and I presume the end of October. Is there any reason why that group who had been specifically tasked with this responsibility, from a consultation point of view, were effectively not brought into the loop for nearly six months?

Mr Campbell—No. Most of those meetings and indeed all but one or two of those meetings were largely meetings where the report was being drafted. They were drafting meetings. In a sense, the steering committee became a rather large drafting committee. When the process of drafting was occurring I do not think that the members of the steering committee thought there was any requirement or value in that. But towards the end of that period in October we then had a series of policy issues that had to be worked through, and that was when Mr Bayles and I spent some time in several meetings with the ex-service representatives.

Senator RONALDSON—So the report was starting to be drafted in May?

Mr Campbell—The report is about 480 pages. It has 108 recommendations. It has 30-odd chapters. It tries to set things out issue by issue, but it also tries to set out the history of how

the veterans compensation system has got to where it is and the interplay between the various acts. The drafting of a number of those chapters did commence six to nine months ago. Some of them were historical chapters. Some of them were chapters about how the MRCA, the Military Rehabilitation and Compensation Act, interacts with the other two acts—that is, SRCA and the VEA.

Senator RONALDSON—What is the breakdown? What is the way forward and what is historical? How much of the report is historical?

Mr Campbell—When I say ‘historical’, it is not a wooden historical tome; it is saying that, if you want to start to discuss what is happening with regard to compensation claims made under MRCA, you have to understand how compensation claims are handled by it—that is, what happens, and not physically what happens when a claim comes in, but how assessments are made, what assessment tools are used and the relationship between people who are making claims under one or more of the three acts and what happens in the relationship between the three acts.

Senator RONALDSON—When did you commence drafting the substance paragraphs?

Mr Campbell—By ‘substance’ do you mean policy?

Senator RONALDSON—‘Outcome’ is probably a better word.

Mr Campbell—Most of those issues—and I cannot say all, because we were still resolving some in December—were pretty well resolved probably by the end of July, so the meetings in the period of August and September were largely the steering committee working as a drafting committee.

Senator RONALDSON—When was that from?

Mr Campbell—It was, say, the end of July or the beginning of August to probably the end of September. It is a bit hard, I know. When you see the report and subsequent discussions I think what I am saying now will make far more sense.

Senator RONALDSON—I will take that at face value. What has been the cost of the review to date, do we know?

Mr Bayles—The cost is about \$1.9 million over three financial years. I should qualify that. It relates to the direct costs associated with the secretariat of the review. There would have been other costs incurred by the other agencies involved in the review who had representatives on the steering committee, as well as some other costs incurred in the department that were related to staff of the department who assisted the secretariat in its process.

Mr Campbell—I should make it clear that we had a number of people who have quite a degree of expertise and knowledge in this area that we brought in on various consultancies to work on the report as well. That is where a significant part of that cost has gone.

Senator RONALDSON—I appreciate we have two days to go before we find out, but I am sure you are aware, as I have been briefed by some people, that there was a concern that there was an unwritten no-added-cost clause—for want of a better phrase—in the brief to the committee. I assume that is not correct?

Mr Campbell—I am the chair of the committee and I was never given that brief. I can categorically say that brief was not given.

Senator RONALDSON—I presume that it is contemplated by the review that there will be potentially increased compensation rates for both injury and death.

Mr Campbell—Can we please wait until the minister releases it?

Senator RONALDSON—It was worth a try. I now want to turn to the attendance register for meetings of the steering committee. Were there six permanent members?

Mr Campbell—Yes.

Senator RONALDSON—Were there any quorum requirements?

Mr Campbell—No, there was not. You are referring to the answer to question 9 from the last hearings. Out of the 33 meetings that the steering committee held, there were only five meetings where an agency was not represented. In every one of those cases it was only one agency that was not represented.

Senator RONALDSON—I do not know whether I share your emphasis on the ‘only’, I must say, and I will go through that now. There were some matters that concerned me. At the meeting on 23 March, only yourself and Mr Sutherland were recorded as present, with the departments of Treasury, Finance and Workplace Relations represented. There were only two permanent members. Mr Sutherland deserves some recognition for his contribution to this process, because I do not think he has missed a meeting, has he?

Mr Bayles—That is probably right.

Senator RONALDSON—That is quite remarkable. For want of a better word, he was the outsider in relation to this process and I think he deserves a big pat on the back for his contribution. On 20 September, Ms Baxter and Mr Sutherland were in attendance with Mr Campbell and all the others were represented. On 11 October, the very next meeting, held just before the last estimates, only Mr Sutherland attended. Everyone else was represented. Mr Campbell, I need to revisit this. You were not at seven consecutive meetings of the steering committee—on 28 July, 9, 13 and 26 August, 9 and 20 September, and 11 October. I am obliged to ask you, as the chair of that committee, how you could possibly have missed that number of meetings and consecutive meetings?

Mr Campbell—Before I answer that, though, I want to make a point about the other observation you drew out. As the members of the steering committee knew this was going to be a lengthy process and we knew there were going to be lots of meetings, the steering committee members from all agencies were assisted by other officers of their agency. When it says here ‘represented’, that is represented by a person who had been coming along to the meetings of the steering committee. The steering committee was not just a meeting of the six; there were other supporting officers from all agencies.

You asked the question about me. I will make two points. Out of the 33 meetings, I missed nine. You pointed out the seven, but I will point out that I missed two others. The two others that I missed, because I want to address those as well, were both unfortunate and if you wish to know I will tell you the reason why.

Senator RONALDSON—If you tell me they were unfortunate then I will accept that.

Mr Campbell—They were circumstances beyond my control.

Senator RONALDSON—I am happy to accept that.

Mr Campbell—The point being that they were ones that I wanted to be at, but I could not. The meetings that you have referred to in that period were when the committee broke into a drafting committee. Given all of the other things that were going on in the portfolio and in the political processes of elections and post-election periods, I thought that, given Mr Bayles's experience and the fact that he had been running the project team for me, he would manage the drafting periods for me and talk to me before and after every meeting. That was the reason I did not go to those. They were drafting meetings. I went to all of the ones up to that and I went to several after that when we went back to policy issues. There were other things on, other pressures, including the whole issue around that period of the election and what happened after the election.

Senator RONALDSON—If you are telling me that you were not required there because the nuts and bolts of this review had been finished, it begs the question why it has taken eight, nearly nine, months for this report to be drafted. There would be cynics out there who would wonder whether the timing of this was to ensure that it was post a likely election last year.

Mr Campbell—Again, you have raised two points and I will handle both. This again is face value for two or three more days. It is a very complex report, and quite a bit of the drafting requires quite a bit of time amongst people like Peter Sutherland who drew it down into the words. I thought it was an appropriate way to handle the process having Mr Bayles deputise for me during those drafting processes.

Coming to your second point, I know you were not being cynical, you were putting the point that somebody might be cynical. In the same way as I answered your question about any directive to me about costings, there was no directive to me by anybody, and I had never had it in mind, about the timing of the finalisation of the report. Indeed, former minister Alan Griffin's comment to me on several occasions was, 'You take as long as you need to make sure you get it right.'

Senator RONALDSON—I think you have certainly done that. As I say, I think eight months is a very long period. If you are telling me that the recommendations were determined by the committee before the middle of July and that you knew what the outcomes were and that it was only a matter of drafting, then I can do nothing else but take that at face value.

Mr Campbell—Thank you for that. Once the report is released I presume you will want to have a briefing on it. If you do, at that point in time I will explain from some sections of the report as to why that time was taken. The only way I can explain that is when the report is in front of you.

Senator RONALDSON—You still maintain that the recommendations and the agreement in relation to the outcome of this review were determined by the middle of July and since then it has only been a drafting issue?

Mr Campbell—No. You will recall I commented on the meetings about discussing policy. There were two or three very substantial issues that were discussed through and resolved in a

policy sense at the end of October and beginning of November. There were a couple of big issues, and they are the ones that I would draw out with you when I take you through the report when it has been released.

Senator RONALDSON—For the meetings of 11 October and 22 October there was very little representation. With those last two meetings on 27 October, when there seemed to be full attendance—

Mr Campbell—Those three meetings, of 22 October, 27 October and 1 December, were where we did the final wash-up of a number of the policy issues that we had left for people to consider and mull over while we were doing drafting.

Senator RONALDSON—What were the policy issues considered on 22 October?

Mr Campbell—Can I wait until the report comes out, because in telling you that it will get you very close to telling you the recommendations?

Senator RONALDSON—All right. On those figures—and I will go through the whole thing—it was mentioned that the expectation was that all departments would be represented, that at most meetings they have had all of the departments represented. It was said also that there might have been one or two meetings when one of the departments was not there, but certainly at all meetings the Department of Veterans' Affairs and the Department of Defence had been there and the private sector person had been there. Further, it was stated, 'I think it would be very exceptional that the other departments—there might have been one or two during the budget process when one or two of the other departments were not represented, but it is not fair to say that there has not been representation in the main at all meetings by relevant portfolios.' There were only two meetings during that budget process, which was April and 5 May, and Treasury was actually represented at both of those meetings.

Mr Campbell—The budget process is not April-May. The budget process starts well before that. Line departments, such as mine, Treasury, Finance and PM&C, are very heavily involved in budget issues well before April-May.

Senator RONALDSON—On that basis no-one would be at any meetings. I have been informed that the budget process starts the day after the last one is delivered through until the day before the next one. That is the excuse that is often given for a lot of things.

Mr Campbell—It is a fact that if you have staff involved who are experienced and knowledgeable in the process, when those inevitable competing priorities come to all of us, you have someone who can go in for you.

Senator RONALDSON—I just noticed that in the first half of the year before May the attendance was pretty substantial. The budget process was not an issue. Of those 33 meetings, I think that only six were attended by all members of the steering committee. Do you think that is reasonable and appropriate?

Mr Campbell—Again, I will go back to a point that I have made a couple of times. We knew this would be a long process. We decided that we would have more regular meetings rather than drip them out once every three months and in some arrangements we have the steering committee meeting half-a-dozen times in a period. It met 33 times. The consequence

of meeting so regularly, with so many senior people and so many other things that happen in a year in this town, is that there will have to be people who represent.

One of the things the steering committee decided very early on, right at the very beginning, was that members would all the time be accompanied by staff from their department so that when this inevitable period happened, or a meeting happened, the person who represented did not come in cold but actually knew what was being talked about, was part of the process, and indeed part of the process of drafting.

Senator RONALDSON—Was the drafting done by departmental officials from the various departments or was it done by the committee members?

Mr Campbell—It is probably fair to say—and correct me if I am wrong, Mr Bayles—that all of the first drafts were done by the project team within DVA, which was a smallish team, but we have explained there were some contractors on that. The first draft was done by them, but then it was circulated to the members of the steering committee who would then make their changes, sometimes minor, sometimes quite substantial and sometimes after lengthy discussion involving a complete change of direction.

Senator RONALDSON—I have taken a lot at face value tonight, as you accept, and I look forward to our discussions probably next week. If you are asking me whether I want a briefing the answer is an emphatic, yes.

Mr Campbell—That was an informal. I am sure the minister will offer you a full briefing.

Senator RONALDSON—I appreciate that.

Senator FAULKNER—I have a question on a different matter? Is that all right, Senator Ronaldson?

Senator RONALDSON—Yes.

Senator FAULKNER—I wanted to ask about the issue of post-traumatic stress disorder and a new type of treatment that I have been approached about by some people in the community who are both—I think it is fair to say—PTSD sufferers, and some psychiatrists. I have no personal knowledge of the efficacy of this sort of treatment at all. I am not a professional in this area. The only thing I would say about is that the people who have spoken to me about it are very committed to this new approach for both detection or diagnosis of PTSD and also treatment. I can explain it very briefly. As I understand it from an explanation to me, it is some form of very quick and reliable detection methodology through a simple visual test, which is non-invasive and has low or no cost. There is an associated method of treatment. I have written to the Minister for Veterans' Affairs about this matter on 7 December and I was wondering whether you or any member of the executive of the department was aware of these diagnosis and treatment methodologies?

Mr Campbell—I will ask Mr Douglas, who is in charge of the health area of the department, to answer your question.

Mr Douglas—I watched with some interest the same question put this afternoon to Commodore Walker and I am afraid to say that the answer that I would give is exactly the same. By and large, the department is not involved in making diagnoses of conditions but accepting diagnosis proffered by health professionals. The department supports—as does the

Department of Defence—the Australian Centre for Posttraumatic Mental Health, which considers a range of research material on post-traumatic stress disorder, amongst many other post-traumatic mental health conditions. It has published the guidelines for diagnosing PTSD and it is at the forefront of publishing material on evidence based practice in relation to a range of stress related disorders from post-traumatic episodes. In that regard, while the department is familiar with the correspondence to which you refer, it is not really in the business of accrediting or recognising particular tools or techniques, but takes the advice of the health profession in proffering diagnoses.

Senator FAULKNER—What would you suggest when a group of clearly community minded people come along to a member of parliament and provide this information and suggest it does have relevance to either currently serving or former Defence personnel? As you would appreciate, post-traumatic stress disorder is something of concern in both the Defence community and in the veterans community as well. I am sure you would acknowledge that is the case.

Mr Douglas—In that case I would urge them very strongly to establish dialogue with the Australian Centre for Posttraumatic Mental Health based at the University of Melbourne. I would be happy to put them in contact with the Director, Professor Mark Creamer. There are well established practices within various health professions for the consideration and publication of what constitutes evidence based practice for diagnosis and treatment of a range of conditions. The department seeks diagnoses which are based on DSM4, which is the bible for mental conditions, and so we would encourage such an organisation in the community to pursue acceptance of its proposed arrangements through the medical fraternity.

Senator FAULKNER—As far as considering not just this but any new treatment methodology or diagnosis methodology, it would not be a matter that the Department of Veterans' Affairs would look at? Do you suggest these matters be considered elsewhere or would you refer them elsewhere?

Mr Douglas—We would refer them elsewhere. We obviously consider a range of innovative treatment arrangements proffered to us by health professionals and we have arrangements with our own contracted clinical advisers to give advice on the efficacy of those treatments. There are various established practices for the recognition and fee setting arrangements, for example, but essentially we leave that for the technical experts.

Senator FAULKNER—Thank you for that. In relation to the material that I forwarded—and I stress that I am in no position to make professional judgements about its efficacy in any way—has that been forwarded on, do you know?

Mr Douglas—I do not know. I would have to take that on notice.

Senator FAULKNER—You might let me know. I have formally forwarded this to the Minister for Defence, Science and Personnel and the Minister for Veterans' Affairs. Happily, I can do that in one letter because it is the same person—it saves a stamp. I will no doubt hear in the short order from Mr Snowdon what he suggests the next steps might be. I appreciate the information you have provided. That is helpful.

CHAIR—Senator Ronaldson.

Senator RONALDSON—I would like to move on to the discussions that we had at the last estimates about the James and MRCC case. From recollection, I referred to an article that was about to be published in the *Law Journal*, which has now been published. I am wondering whether Mr Bayles has any comments to make in relation to the case itself.

Mr Bayles—The issue that was raised in the James case is about what we discussed at the last committee meeting, which is the issue of compensation that relates to a person who has eligibility across multiple acts. That is one of the issues that is within the ambit of the review of military compensation arrangements, so the issue is covered in the review and is dealt with in the report of the review.

Senator RONALDSON—We referred to it as ‘offsetting’.

Mr Bayles—You may have.

Senator RONALDSON—And that will be addressed in the review?

Mr Bayles—Yes.

Senator RONALDSON—This may or may not be relevant, given the answer that you have just given me. In the answer to question 10 you talked about MRCC determining one method under the act—because it considered that was appropriate—in the answer. Do you remember that?

Mr Bayles—Yes.

Senator RONALDSON—You then went on to discuss four variations of the original method. If the method which was adopted in 2004 was appropriate at the time, when do you think it might be appropriate for that definition to change? Is that likely to be a matter that we will see in the review?

Mr Campbell—It is a matter that is discussed quite extensively in the review, yes.

Senator RONALDSON—As you would be aware, there are four variations in relation to that original methodology.

Mr Bayles—Yes. There is one essential method, but based on that method there are four scenarios that have to be covered, and that is dealt with in the GARP M.

Senator RONALDSON—That is right, but they are fairly narrow. Effectively they are really about bringing across impairment points, are they not?

Mr Bayles—Yes. In the formula or the methodology which appears in GARP M, the authority is section 13 of the consequential and transitions act, as you would be aware. That act serves two purposes. One purpose is to make sure that if people have multiple eligibilities the impairment points are carried across from the VEA or the SRCA to determine eligibility for certain benefits that are available under MRCA.

Senator RONALDSON—I appreciate that, but under the Danna Vale test there is not necessarily a positive outcome, is there? My understanding is that there are two potential outcomes. One is that even with that brought across, you may not actually be deemed to have an increased impairment. But even if you are, you might only move within a certain band and there will be no extra compensation attached to it, anyway. Is that correct? Is that an option?

Mr Bayles—There are two issues that you have raised. One is the question of carrying over impairment points from the VEA and SRCA to determine eligibility for a particular type of benefit under MRCA. There are a couple of matters. For example, a Gold Card under MRCA requires 60 impairment points. You need to have impairment points carried out from the VEA and SRCA. If the MRCA condition has impairment points it can be added with the VEA and SRCA impairment points to determine eligibility for the various threshold tests. The second issue that you have raised is around the net compensation payable after the formula is applied and in some cases there can be nil compensation paid or a lesser amount than might be expected by the client.

Senator RONALDSON—Is that because of that band issue?

Mr Bayles—Because of the way the formula operates as an offsetting arrangement.

Senator RONALDSON—That is right, but within those various disability bands?

Mr Bayles—It has to apply one of those methodologies, yes.

Mr Campbell—As I mentioned earlier, just to make it clear for the record, that issue takes up quite a bit of our part of the report.

Senator RONALDSON—Thank you. I now want to talk to another matter we discussed and that was the VVCS and collocation of offices. From recollection, I think Mr Penniall is the expert in this regard. I thank you for providing me with a very detailed breakdown in that question that you took on notice in relation to the location of VVCS offices throughout Australia and the staffing arrangements for them. I want to remind you of my discussion with Mr Campbell, which went along these lines. I said:

I understand the previous minister undertook that there would be no further collocations because of the concerns expressed by the ex-service organisations and, particularly, the Vietnam Veterans Federation; is that right?

My staff refers to me as Ronaldson and you as Mr Campbell. So you are well ahead of me, Mr Campbell. You stated:

The then minister and I agreed that there would be no further collocations for the time being and we would see what was happening, including we would be doing some data on the attendance of members to, particularly, the Darwin office.

Mr Campbell—I will just add, there were also the same issues in Hobart. We were also doing data collection in Hobart.

Senator RONALDSON—Yes, that is right. I will just double-check that I have my facts right, Mr Penniall. There are seven VVCS offices that are collocated within DVA offices and collocated in the same building; is that right?

Mr Penniall—That is correct.

Senator RONALDSON—That is Albury-Wodonga, Hobart, Lismore, Newcastle, Maroochydore, Southport and Darwin; is that correct?

Mr Carmody—That is correct.

Senator RONALDSON—Do they have separate leases or are they operating under one lease?

Mr Penniall—The majority of those are separate leases. I think the exception is Darwin.

Senator RONALDSON—Except for Darwin. Your advice goes on to state that the lease on facilities in Launceston and Newcastle expired early in March this year and Lismore and Southport's leases expire in June. I assume there will be no extension, particularly for Launceston and Newcastle, in light of the discussions I had with Mr Campbell and his discussions with the previous minister.

Mr Campbell—I do not think that is how you can interpret my comment. My comment would be no more. I was not addressing in my mind when I gave you that answer about the ones that were already in the same physical locations. If that is a confusion between us, I apologise, but certainly the answer I gave you at that time was more in the context of the Darwin and Hobart ones, which have come together. Hobart was last year and Darwin was about three years ago. I was answering that the then minister and I, our view then and my answer to you was based on until we knew what was happening and could see the data for both Darwin and Hobart that there would be no further. I certainly did not have in mind those that were already in existing lease arrangements.

Senator RONALDSON—Do you have that data and has a decision been made in relation to what is going to happen on the back of that data?

Mr Carmody—At the present time we are looking at those leases that are expiring and we are exploring options for them.

Senator RONALDSON—No, that was not my question.

Mr Carmody—Darwin?

Senator RONALDSON—No, the data.

Mr Carmody—Certainly. We have data on the two locations that you are interested in. Is that correct? Are you after Darwin and Hobart?

Senator RONALDSON—No, it is not what I am interested in it, it is what you were interested in. You were looking at the data to see whether the issues concerned about collocation were significant enough to continue the view there should be no further collocation.

Mr Carmody—I am sorry; I misunderstood your question. We have been focussing on data in two particular areas, data in relation to attendance in Darwin and data in relation to attendance in Hobart. Darwin collocated in 2006. We have had increases in clients every year from 2006 through until 2010, in terms of total numbers. We have also had an increase in Darwin in terms of clients to the centre in all years except 2010. I can explain the reason for the aberration in 2010. We only have 2.8 full-time equivalent counsellors in the Darwin office and for the first six months of 2010 we were down by 1.2 counsellors. Therefore, even though the numbers of clients increased in Darwin during 2010, as it did every year since collocation, what we did in 2010 was refer more clients to outreach. The data in Darwin suggests, after collocation, that client numbers have increased.

Senator RONALDSON—Let us cut to the chase. What is the department's view on the back of having looked at this data and on the back of the freeze that was put on? Has the freeze been lifted or is the freeze continuing?

Mr Carmody—I would have to take advice from the secretary on that. I will provide an answer to the first question and that is, from the evidence that I have available to me in the case of Darwin—and, if I might add, the evidence I have available from the collocation in Hobart for the first 12 months, which also shows a growth in attendance—I see no difficulty with collocated offices. Furthermore, the data that we obtained from clients and from interviews with clients and surveys supports that view.

Senator RONALDSON—I take it from that answer that the decision is now that the freeze on collocation has been lifted and that the government is happy with collocation?

Mr Campbell—No. I am very cautious on this issue, because I know the sensitivities that are involved. We have data for one year in Hobart, but I want to see a bit more.

Senator RONALDSON—Are you going to extend—

Mr Campbell—Can I add one other point to explain why.

Senator RONALDSON—Yes.

Mr Campbell—The other issue is that I think we have to examine the Darwin data a bit more closely because, given the increased operational tempo of our troops from Darwin, no matter what the circumstances we might be facing an increase in the use of VVCS resources by serving military. I would like to take that factor into consideration as well. Certainly, I am not rushing into it and at this stage I do not have in front of me and I have no knowledge of anything coming to me that would be putting forward a proposition for further collocations in the near future.

Senator RONALDSON—What are you going to do with Launceston and Newcastle? Have you already triggered the extension?

Mr Campbell—My position on both of those is that, if the existing landlord wants to continue a lease and the price and so on is appropriate, at this stage I have no intention of changing the arrangements for those two offices.

Senator RONALDSON—What terms are these?

Mr Campbell—What terms are the leases?

Senator RONALDSON—Yes.

Mr Campbell—We would have to look at the table. Launceston expires at the end of this month. Obviously we have run out of options there.

Senator RONALDSON—I do not want to get bogged down on this. Are you going to sign a long-term lease or are you going to sign a short-term lease in relation to Launceston?

Mr Campbell—I would have to take that on notice.

Mr Carmody—We have not decided yet.

Senator RONALDSON—You would appreciate that you do not have long to make that decision.

Mr Carmody—I certainly do.

Senator RONALDSON—In relation to Newcastle, what decision has been made there?

Mr Carmody—We have made no decision, although at the present time we are looking at the market, as one would expect, and negotiating with the current owner in terms of conditions if we were to extend at the site.

Senator RONALDSON—Looking potentially to find other premises?

Mr Carmody—It depends on the results of our negotiations. At this stage I have an open mind.

Senator RONALDSON—Presumably you are collocating or moving elsewhere if you thought that it was appropriate to do so, otherwise you would not do it. Is this going to be determined by money as opposed to a decision in relation to collocation?

Mr Carmody—Extending the current facilities is a question that is based on a lot of factors. Firstly, whether or not it is suitable for us, whether or not the conditions of the building remain suitable, and whether we can negotiate any improvements, but at the moment the site is collocated.

Senator RONALDSON—It is. That is why I am talking about it.

Mr Carmody—Therefore, there might or might not be changes in the existing arrangements.

Senator RONALDSON—Will money determine that? Surely you would know whether it was suitable or not in a physical sense. The windows are not broken and it has access to toilets. You would not have signed the lease surely if it were not suitable. Is this a monetary decision or is it a collocation decision?

Mr Carmody—Really it a question on the suitability of the arrangements we can negotiate with the owner. The building has been suitable for us, but we have been there some time. Whether or not we could improve our terms with the owner is one factor, but there have been no questions raised about the location and the suitability of the location by clients.

Mr Campbell—I would like to build on Mr Carmody's last point. We did get concerns, and you are aware because concerns were also raised with your office, about Darwin, where there was a sound insulation issue, and about Hobart. That was because changes were occurring. I cannot recall, in the last 2½ years, getting any representations about the fact that we have a VAN office—and they are small VAN offices—and a VVCS office together in any of these other locations. That is not to say that they have not been made, but I do not recall seeing one.

Senator RONALDSON—You and I know that organisations like the Vietnam Veterans' Federation object to collocation because they view it as a significant potential imposition on their members. In Hobart they had to play music so they could not be heard before some soundproofing was put in, and in Darwin there was a real issue. What they are saying, as you are acutely aware, is that collocation, as a matter of principle, may well be to the detriment of their members. The soundproofing and the playing of music was only an outcome to address some of their immediate concerns, which was that they could be overheard. The objections to the department from the federation—and I am sure they will correct me very quickly if I am wrong and they will correct you if you are wrong—have not just been about the issue of whether there is some soundproofing, it is the principle of the collocation. Their very strong

view expressed to me is they object to the collocations as a matter of principle. The practical aspects of music and soundproofing were only remedial issues to address immediate issues.

Mr Campbell—I agree with most of what you just said and I understand the very strong views and feelings that the Vietnam Veterans' Federation of Australia hold about this. I need to make a couple of points. Hobart was a new office. They have separate entrances. It is, if you like, a V-shape or a U-shape office. The sound issue in the Hobart office was not between the VVCS and the departmental office in Hobart, it was within the VVCS itself. It was to do with the noise that travelled along windows. The issue in Darwin was a different issue. They are far closer and the noise was travelling. That was the first soundproofing that we did. You are quite right; we reacted to those points.

The only other point that I would make—and this is one of the reasons why I am being very cautious about any change of direction at the moment—is that an increasing number of members using the VVCS are serving members or their families. There is a slight change now in dynamics between this group and the Vietnam group. This is one of the reasons why I am very interested in what is happening, particularly in Darwin, because of Robertson Barracks being so close. I am particularly interested in whether or not the serving members are finding it convenient to have the counselling service in a location nearby and being able to also attend to their other business that they are doing with DVA.

I am being very cautious here. I understand the concerns that the VVFA have, but I am also conscious of the fact that we do have a new group of clients coming in, a lot of whom are in uniform. I am trying to balance everybody's requirements here to get the best outcome for everybody.

Senator RONALDSON—That was the next matter that I was going to raise with you. Indeed, I would be very surprised if you or Mr Carmody had not had expressed to you very real concerns from members using the services of the VVCS, or if indeed someone within the Department of Veterans' Affairs is not aware that they are seeking this assistance. There is a very real concern amongst serving members—which has been expressed to me and I would be surprised if it has not been expressed to you—that the issue with co-location is that people who are serving are walking potentially through one door into the next and they are very concerned about the ramifications of someone seeing them on their future employment and promotion prospects if it is identified that they have an issue that requires the services of the VVCS. That is the other point that I was going to raise with you in relation to the co-location, which I am sure has also been put to you by the federation and others. I would like to go back to Mr Carmody. If indeed you can find other premises in Newcastle—and if I am misrepresenting you then tell me—I am taking your comments to be that it will be a financial decision. If there is no financial detriment, would you move the Newcastle service out of its co-located facility and would you similarly move, when these leases come up in June, the Lismore and Southport leases, if on your requirements there were no financial detriment?

Mr Carmody—I would like to deal with a couple of those matters. Firstly, I have just been advised during the discussion that the decision on Newcastle has already been made and that the lease on the VVCS premises is being extended. I was not aware of that.

Senator RONALDSON—How long?

Mr Carmody—I do not know how long that is for, but I can find out for you. That is one. In terms of the other premises—

Senator RONALDSON—I think that is absolutely diabolical. We have heard the secretary say that he still has concerns about these matters. This is still ongoing and you are telling me that the lease has already been signed. I would suspect that, if it is for a period of six months, I owe you a significant apology. If it is for three years, which I suspect it will be, then I think we have a real issue here. I am afraid that I think it is a matter that people who are concerned about this will look at it and say that they talk about co-location concerns; the action does not meet the words.

Mr Carmody—As I think the secretary said, the discussion in terms of co-location, my understanding of it was that it was a moratorium on new co-locations. The existing arrangements in Newcastle are co-located arrangements and continuing those existing arrangements is not a change to the existing arrangements and it is not a new co-location.

Senator RONALDSON—There was no lease. The lease expires in 14 days time. How can you possibly argue that is the situation? There was no lease.

Mr Carmody—If I may respond, it is an existing arrangement. It is not a new co-location. It is an existing co-location.

Senator RONALDSON—There will be no new arrangements because there is an issue with co-location, but you are saying that the excuse for the department to not go and try to implement that policy is there is an existing arrangement, which in this case terminates on 11 March?

Mr Carmody—As I said, my understanding of the policy is, no new co-locations. If I may also address a previous point that you raised, which I think is an important one. We have a number of clients who have come to us and made it very clear, in Hobart for example, that they are extremely happy with the co-located arrangements, because it allows them to avail themselves of the services of VVCS and then to DVA or vice versa. Furthermore, a range of clients very clearly acknowledge the fact that they are in uniform and being treated by VVCS. There are a range of clients who are quite open about that as part of the de-stigmatisation of that sort of treatment.

Senator RONALDSON—It is all very well for you and I to sit here, Mr Carmody, and talk about de-stigmatisation and everything being hunky dory. The simple fact is, as you well know, there is still significant concern amongst serving people seeking this sort of counselling that it will impact on their career and their promotion. What I am saying to you is it is either weasel words to talk about concerns about co-location and it is just to engage people in this matter or you are serious about it. If you are serious about it, why would you get a new lease on a premises when you had the perfect opportunity to start the process of de-co-locating? I cannot, for the life of me, understand why you did not take the opportunity now. I think the words that have been said in the past will be treated, quite frankly, the way they should be. I will move on. I want to turn to the Australian War Memorial.

CHAIR—Before we go there, does that mean you have concluded compensation and support, health and commemoration?

Senator RONALDSON—No. I think, as we did last time by agreement, we went through these without reference to portfolio.

Senator Feeney—I suspect the senator will have some questions for DVA about the War Memorial.

Senator RONALDSON—No.

Senator Feeney—It is not your examination of the War Memorial itself?

Senator RONALDSON—No.

CHAIR—Senator Ronaldson.

Senator RONALDSON—The DVA and the War Memorial. Mr Campbell, can you confirm that under the act the director shall be appointed by the Governor-General?

Mr Campbell—In Executive Council, yes.

Senator RONALDSON—And that is under section 20?

Mr Campbell—I take your word for it, but it certainly is by Executive Council with the Governor-General.

Senator RONALDSON—Indeed, under the act the directors are appointed for a period of seven years and it is silent on the issue of reappointment?

Mr Campbell—That is right.

Senator RONALDSON—It is correct to say that the Council of the War Memorial has no formal responsibility on the recommendation of a director?

Mr Campbell—That is correct.

Senator RONALDSON—Obviously this is with involvement of cabinet and then ultimately on to exco. Is it ultimately the minister's responsibility to make a recommendation to cabinet and exco in relation to the appointment of an individual?

Mr Campbell—That is right.

Senator RONALDSON—In the advice that you gave in the red book to the new minister on his appointment there is a statement that the current Director of the Australian War Memorial was appointed to the position on 1 March 1996. He has presided over a period of development of almost 15 years. The director has been reappointed several times, the last one being 1 March 2009. His term is due to end in March 2011. The minister was responsible for making a recommendation to cabinet to ensure the position of Director of the Australian War Memorial is suitably filled, providing continuity of management for the memorial. The council chairman is available to give advice to the minister on this recommendation. A brief on the expiry of the current director's appointment will be provided in mid-September. Was that advice provided in mid-September?

Mr Campbell—Yes, because, as I think you are aware, under the so-called Senator Faulkner changes, the secretary is required to—

Senator RONALDSON—I think I have called them the Faulkner—

Mr Campbell—Yes, that is what I am saying.

Senator Feeney—We have read them with interest.

Mr Campbell—The secretary in this case—

Senator RONALDSON—That is No. 7, actually. We are on No. 6 at the moment.

Mr Campbell—I am not counting them. The secretary—in this case myself—under those circumstances is required to notify the minister six months before the expiry that the appointment is about to expire. The six-month period for this started on 28 August. On 28 August we had only a caretaker minister, so I provided advice to the new minister on Monday, 13 September—that is, two weeks later, which was two days after the ministry was announced.

Senator RONALDSON—Was that advice actioned by the minister?

Mr Campbell—Yes.

Senator RONALDSON—Has the minister made a recommendation to cabinet about an appointment beyond 1 March?

Mr Campbell—You know that I cannot speak for what the minister might or might not have taken to cabinet.

Senator RONALDSON—What was actioned by the minister back in September?

Mr Campbell—Again, I can take it on notice, but that is something that is not in my purview to be able to speak publicly about.

Senator RONALDSON—I will tell you what you can talk about, and that is the Faulkner protocols, because they are quite clear as to what the requirements are. Perhaps there might be two ways to skin the proverbial cat. You have already indicated that you are aware of the policy and, as you know, I have some sympathy for your colleague Minister Gray, who I think was also a participant in these protocols. We will call them the ‘Faulkner protocols’. I think that is correct.

Senator Feeney—Are you ceasing to call them the ‘Faulkner guidelines’—you are now calling them the ‘Faulkner protocols’?

Senator RONALDSON—The ‘Faulkner protocols’ is a far better description of them. Under the merit and transparency policy announced by Senator Faulkner—in fact, it would not have been Minister Gray in this case—it says:

Under the new arrangements all relevant positions will be advertised, the assessment process will be based on merit, and each process will be overseen by the relevant departmental secretary and the Public Service Commissioner.

In each case the relevant Minister will receive a considered report based on a process that applied merit and openness—but he or she will remain responsible for the appointment decision.

...

The new arrangements will also require that Ministers ensure existing office holders are given reasonable notice as to whether or not they will be reappointed.

For the sake of completeness I should read the next part, which is:

There will be some limited exceptions to these arrangements—a Minister may not wish to advertise a particular position in special circumstances, for instance where there is another office holder at a similar level who could be moved to the position. Any exceptions will require the Prime Minister's approval.

It goes on:

As well, where a board is responsible for appointments, it will have responsibility for the process—which, of course, is not relevant in this case. Of course the Director of the Australian War Memorial comes under the Faulkner protocols as part of the protocols—is that right?

Mr Campbell—Yes.

Senator RONALDSON—Have you actually overseen a policy on the appointment of a director—not as to a particular person but the policy appointment of a director? Have you done that in the context of the September briefing to the minister?

Mr Campbell—Under the so-called Faulkner protocols, where the secretary of the department would chair the panel, no.

Senator RONALDSON—Have you put in place a policy for these sorts of appointments that might be relevant to you—a process, for example?

Mr Campbell—We have had a number of statutory appointments in the portfolio fall due while I have been secretary and that has been the period of the new rules. In each case—those of the Repatriation Commission, the Director of the Office of War Graves and so on—I follow the process set out in the guidelines.

Senator RONALDSON—So you have put in place a policy within DVA in relation to these appointments?

Mr Campbell—Yes, and it is the direct and sole responsibility of the secretary of the department.

Senator RONALDSON—Indeed. Was this at your own initiative or under the direction of the Public Service Commissioner?

Mr Campbell—No, not under the direction of the Public Service Commissioner. This activity is the responsibility of the secretary, but I stress that you have to go back to the beginning, which talks about the decision being made about whether to advertise or to reappoint. In the cases that fell within the Department of Veterans' Affairs portfolio—the three, I think from memory, that I have done in the last 18 months—in one case the incumbent resigned and in the other two the incumbent retired. There was no issue of the incumbent being reappointed, so of course I went through the departmental process of a panel with a representative of the Public Service Commissioner and advertising and going through the process of a recommendation to the minister to cabinet to ExCo.

Senator RONALDSON—As part of that policy, are you responsible for making a recommendation to the minister in relation to an appointment?

Mr Campbell—Where I have been responsible for the process and there has been a selection process, yes, I am the one who makes a recommendation to the minister.

Senator RONALDSON—Because of your overseeing role as the relevant departmental secretary?

Mr Campbell—That is right, yes.

Senator RONALDSON—I take it from that, then, that you have been involved in making a recommendation to the minister regarding the appointment of a director of the Australian War Memorial beyond 1 March, which I think is next Tuesday.

Senator Feeney—This might be an overambitious remark on my part, but we can assure you that obviously advice has been given to the minister. The minister has taken that advice to cabinet. You can be absolutely confident that what will hereinafter be labelled the Faulkner protocols have been assiduously followed and that an announcement will be made in due course.

Senator RONALDSON—Thank you for that.

Senator Feeney—I hope you feel thoroughly reassured on all fronts.

Senator RONALDSON—I do and it means I have only about 50 questions left as opposed to 55. On what date or dates was the position advertised?

Mr Campbell—As I think I indicated a little while ago, it was not advertised.

Senator RONALDSON—I thought you said that you were not involved in the advertising. The position was not advertised?

Mr Campbell—I said both. I was not involved, because it was not advertised.

Senator RONALDSON—What special circumstance was viewed as appropriate for that to occur?

Senator Feeney—It is possible to look at the Faulkner protocols and observe that, if the matter has not been advertised and yet the protocols have been followed, you dramatically narrow the circumstances, but it is not my place or the place of these proceedings to make an announcement about this. That is properly a matter for cabinet deliberation and for the minister. While a process of elimination might enormously assist you, should you embark upon it, and might terminate this discussion, there is not a lot more I can say.

Senator RONALDSON—One of the special circumstances is where there is another office holder at a similar level who could be moved to the position. Are there other circumstances that you are aware of?

Mr Campbell—I am aware of the fact that where an incumbent is being reappointed a selection process is not required.

Senator RONALDSON—Out of interest, where is that in the Faulkner protocol?

Mr Campbell—Do you have the guidelines in front of you?

Senator Feeney—Or protocols, depending on what you wish to call them.

Mr Campbell—Section 2.1 states that the secretary will seek the minister's advice on three issues. Then you have the special circumstances in section 2.5 and 2.6. As Senator Feeney is saying, there are a number of variations here. Another variation, apart from another holder, is that, where the minister has the choice of reappointing the incumbent, a selection process is not required. That is the first sentence under 2.2.

Senator RONALDSON—I presume that this required Prime Ministerial approval, did it, under the protocols? That would be my reading of that—

Mr Campbell—I think you would go probably a slightly different way, but it would have the same outcome. As we have indicated, this is a matter that goes from the minister to cabinet, to the Prime Minister and exco.

Senator Feeney—It goes to the Prime Minister or the cabinet and, on the basis of their approval, the minister recommends that the Governor-General make the appointment through the federal Executive Council.

Senator RONALDSON—Can you advise me what informal or formal representations or discussions there have been with the incumbent director in relation to the memorial's finances over the last two months?

Mr Campbell—There have been discussions by me, the current minister and the former minister with both the current director and the chair of the council—and certainly a lot of this is on the public record—going back to March last year.

Senator RONALDSON—In the last month, for example, has the current director raised concerns with you about funding issues at the memorial?

Mr Campbell—As you know, the Prime Minister on 21 October asked the minister for finance and the Minister for Veterans' Affairs to review the financial position of the War Memorial. As you were told yesterday in the Department of Finance and Deregulation hearings, that has generated work between the Department of Finance and Deregulation, the Australian War Memorial and the Department of Veterans' Affairs. Yes, the director and I have had a number of discussions. Probably the one point that I would want to make at this point in time is that the discussions we have had—indeed this is consistent with what has been said in hearings this week—have been related to the issues of the War Memorial funding for 2011-12, not 2010-11. The concerns that the War Memorial are expressing are in respect of 2011-12 and the out years, not this year.

Senator RONALDSON—I think the concerns expressed by the chairman dating back to May were about the current situation, or your red book referred to the current situation. Your informal discussions with Mr Tune, which I will get to a bit later on, were about the current situation. Your request back in June for an inquiry by Finance was based on the current situation. You are now telling me, are you, that there has been no concern expressed by anyone, from the chairman or the director, about the current level of funding for this year and that it is only in relation to 2011-12?

Mr Campbell—No, Senator—

Senator RONALDSON—I would have been very surprised if you had said that.

Mr Campbell—Perhaps I need to give a little bit of history here. The War Memorial together with a number of agencies, both other cultural agencies in this city, together with smaller agencies has for some time been expressing concerns about the financial position and the impact of the efficiency dividend. You may recall that, I think in 2008, the JCPA held a public inquiry into the impact upon the efficiency dividend upon small agencies. Indeed, at that point in time, the War Memorial put in the submission that indicated they were concerned

about the long-term funding issues. Since then, the director and I speak very regularly. We meet regularly. The War Memorial, like any other agency in this town, is concerned about running costs. That is part of what public service agencies are.

In the period of 2009-10 the director and his colleagues were indicating that they thought they were getting closer to the bone, so to speak, about their funding and they undertook to do some further efficiencies during the period of 2010-11. You will obviously have a chance to ask Major-General Gower about that when he comes to the table later tonight. What happened then in the period leading up to the beginning of this financial year were two letters from General Cosgrove to the then Minister Alan Griffin, one in March and one in May.

Senator RONALDSON—On 22 March and 25 May?

Mr Campbell—That is right. I just want to get the dates right. What then happened is the then minister spoke to me and said: ‘This is an issue. Obviously the budget is set in train now for 2010-11, but this is an issue that I think we need to do something about.’ I will outline the history just so that you get a complete picture. The minister and I spoke and at the end of May—

Senator RONALDSON—As long as history is not rewritten.

Mr Campbell—I am not rewriting history, I am telling history as it comes from my perspective. At the end of May I spoke to the then acting secretary of the department of finance—David Tune was on leave at the time—and said, ‘Look, the minister and I are concerned about this and we would like to have a Finance view on the long-term funding issues surrounding the War Memorial.’ We were assured that there were no immediate issues. It was the long term that was causing concern.

When David Tune came back from leave he agreed to such a process and then there were some meetings in mid-June. I think 16 June was the first meeting. Then there was another meeting in July between staff of the three agencies. What then happened was that timing and the coming together of the new government came together. The new ministry was announced on Saturday, 11 September and I briefed Minister Snowden on Monday the 13th, at which point I gave him the red book that you are aware of.

As you know from yesterday, David Tune wrote to me on 16 September. In the period from then to 11 October I provided subsequent advice to the minister saying, ‘I think that we need to look at this very closely because when we get to 2011-12 the War Memorial is going to have an issue of funding.’

Senator RONALDSON—I will just hold you there for a second. Mr Tune gave evidence in the finance estimates that you had contacted him in early September; is that right?

Mr Campbell—No, because they did not have all the facts in front of them there. The substance of what David Tune said and the substance of what I am saying is exactly the same.

Senator RONALDSON—I do not think it is.

Mr Campbell—It is just that the dates are changed slightly.

Senator RONALDSON—No, you made a request in June. I was acutely aware of that, and according to Mr Tune you contacted him informally and I asked whether or not this was done in writing. I was advised that you contacted him in early June—sorry, early September?

Mr Campbell—No, it was late May, early June. Sometimes these dates slip. The fact is—

Senator RONALDSON—This is not slipping. This is quite clear. In fact, I will have a look at the Senate estimates. I think he might have actually referred to the 22 June one as well. He gave clear evidence to the committee that you had contacted him informally. Your contact with him in June was anything but informal. It was a formal approach.

Mr Campbell—It was a phone call. He was referring to a phone call rather than a letter.

Senator RONALDSON—He gave evidence to the committee that you had contacted him in early September.

Mr Campbell—I had contacted him before that.

Senator RONALDSON—There had been contact made in June—there was no doubt about that—when a process was in place. But he said that you contacted him regarding this matter in September and that his letter to you was in response to that.

Mr Campbell—The contact which gave rise to the letter was in the beginning of June. There were then several meetings between officers of the three agencies in June and mid-July, and then the letter from David Tune was sent to me on 16 September.

Senator RONALDSON—Is Mr Tune is wrong?

Mr Campbell—I think that Mr Tune is missing his months when he said that the contact was in early September, yes. But those sorts of mistakes can be made in, if you like, the hurly-burly of estimates.

Senator RONALDSON—But there had already been discussions, had there not, in June and July? Why would he confuse that, do you think?

Mr Campbell—I said to you earlier on that when I made the initial contact to the Department of Finance it was with Jan Mason, who was acting secretary. David Tune was not here. I do not know where he was, but he was not here. When he came back from leave, Finance agreed to have this informal review, as he described it yesterday, and I agree with that term. Discussions and meetings were held in June, July between the three agencies and he wrote to me—and you have a copy of the letter that has been released—on 16 September.

Senator RONALDSON—So, after four months you are telling me that his response was literally four-and-a-half paragraphs? After all the discussions between the departments that was the final outcome? Are you sure you did not ring him in early September—

Mr Campbell—Yes.

Senator RONALDSON—and say, ‘I need to get this sorted out. I have got the minister coming in. He is going to want some answers to this’?

Mr Campbell—I did not ring him early September. Could I go on then to the next stage about October, because I think this then fills in the picture? I gave Minister Snowden the—

Senator RONALDSON—Before we get on to that, that is a remarkably short letter for four months inquiry, is it not? He basically told you it was your problem. Why would it take him four months? I will read it to you if you like—all the stuff that is not blocked out. I would be fascinated to know what has not been released. I am sure it would not have said the War Memorial has been expressing some very significant concerns for many months now about its dire financial situation. I am sure that was not in there. But I will read the bit that we have got: ‘The AWM has indicated that if additional funding is not provided it will need to introduce serious cost reductions from 2011 in order to remain financially viable.’ It then goes on to say that the responsibility is yours. I go back to Peter Cosgrove, back in March, who said that the money that was required was required immediately. And he said, ‘I reaffirm the need for \$5 million of funding sought in the previous unsuccessful policy proposal.’ He was not talking about the 2011-12 financial year, was he?

Mr Campbell—As I said, you can ask General Gower when he comes to the table.

Senator RONALDSON—No, I am asking you.

Mr Campbell—I am happy with that. But in the letter that you have referred to, from David Tune to me, the third sentence is very telling. It says, ‘The AWM has indicated that if additional funding is not required it will need to introduce serious cost reduction measures from 2011.’

Senator RONALDSON—And I have read that out, because it would have been inappropriate for me not to do so.

Mr Campbell—But my point there is—

Senator RONALDSON—But I am now moving on to what has been put to you, not what Mr Tune said in his letter, which is a complete misrepresentation of the AWM’s views on this. I want to take you back and confirm with you that Minister Griffin received a letter from the chairman on 22 March which made it quite clear that, ‘I am obliged to raise the matter with you and seek a solution to the memorial’s funding constraint. I reaffirm the need for \$5 million of funding sought in the previous unsuccessful new policy proposal.’ That new policy proposal was for 2010-11 financial year, not for the 2011-12 financial year. The chairman was not looking at a budget issue in 2011-12. He wrote to your minister in March and said, ‘Apparently we have missed out on this \$5 million we need. We still need it.’ That was not 2011-12, was it?

Mr Campbell—What I am saying—

Senator RONALDSON—But was it? Please answer the question. The reference to the \$5 million was not in relation to 2011-12, was it?

Mr Campbell—The reference to the \$5 million was not to 2011-12, it was to 2010-11. When the government of the day decided not to give—

Senator RONALDSON—Thank you for acknowledging that. What he said to you then was that it was indeed an issue for 2010-11. What he said to you was—

Senator Feeney—You have to let the officer answer the question.

Senator RONALDSON—Let me finish. What he said to you in that correspondence was—

CHAIR—You keep interrupting him. Let him answer the question.

Senator RONALDSON—I am just asking him a series of questions and—

CHAIR—Yes, but you are not letting him answer.

Senator RONALDSON—I will take your admonishment.

CHAIR—Ask the question and let him answer it.

Mr Campbell—The process that followed was that the War Memorial sought an additional \$5 million in the budget process for budget year 2010-11. You are correct in that and that is what General Cosgrove is saying in his letter. However, when the War Memorial found that they were not getting that \$5 million they then adjusted their priorities, adjusted their direction of funding, so that during the year 2010-11 they would live within their appropriation, which as we all know is about \$38 million. They then made the point quite clearly in discussions that if there was not supplementation coming for 2011-12 some difficult decisions would have to be taken. That is what is in the red book and that is what is implied. General Gower can talk to those when he comes to the table. The point I am trying to get at is that, by the time it came to the discussions between Alan Griffin, me, General Cosgrove and General Gower at the end of May-June 2010, the focus was on 2011-12.

Senator RONALDSON—Of course, because you didn't give them any money.

Mr Campbell—Can I just go through it, because I would like to get the whole process out. As I said, I go back for a little while. David Tunc wrote to me on 16 September and you saw that. There is a very important period of time here. I got that letter three days after I gave the red book to Minister Snowden. I then provided a subsequent brief to Minister Snowden. The date was about 7 or 8 October. It was 24 September, I am sorry—my apologies. The minister then wrote to the Prime Minister on 11 October and as a consequence of that the Prime Minister wrote back to Minister Snowden on 21 October saying, 'I want you and the Minister for Finance to come back with a formal review of the funding issues facing the War Memorial and bring it back in the course of the budget for 2011-12 year.' That is what is happening.

Senator Feeney—I might just point out that, when Mr Campbell referred to the \$38 million, that was of course both the operating and capital budgets. I understand, Senator Ronaldson, that combining those two numbers has been something of a challenge for you in your press releases.

Senator RONALDSON—Do you think it was as big a challenge as you faced today when the Defence department tipped a big bucket on you? I can assure you that I am fully aware of what is happening, and if you and the government had the gumption to acknowledge that equity injections of funding were used to pay salaries, then you might actually revisit that comment that you have made. And if you think that using equity funding to sustain operational costs is an appropriate way to run an organisation such as the Australian War Memorial then I have very, very significant concerns about this government's—

Senator Feeney—I think they are more than happy to have a discussion about accounting standards and the use of particular moneys if that is something you want to do.

Senator RONALDSON—But that is interesting, isn't it? You have no idea what costs were allocated within the Australian War Memorial in relation to that matter.

Senator Feeney—I just think we are encouraging you to strengthen your relationship with the truth in your press releases.

Senator RONALDSON—So was the press release last night from you and Minister Snowdon in relation to whether or not the survivors of the Long Tan Delta Company were or were not invited to Government House a truthful—

Senator Feeney—Why—

Senator RONALDSON—I am happy to take up the cudgel in relation to press releases when I see a press release which was actually completely untrue and when I see the parliamentary secretary sitting at the table for 10 or 15 minutes saying it was untrue and then I see the Department of Defence jump up and come across and say, 'This is getting too hot; I better get out of here', and they have tipped you and the minister in. You put out a press release saying that that is something that occurred and the Department of Defence came in when it was getting too hot and left you right in it. They left you right in it.

Senator Feeney—It is fascinating how you can walk away from that thinking you somehow enjoyed—

CHAIR—Let us move on to the Department of Veterans' Affairs budget measures. Have you finished that line of questioning?

Senator RONALDSON—No, I certainly have not. Why did the Prime Minister intervene in this matter apparently urgently in late October demanding a review of the finance when apparently you and the minister had this thing completely in hand?

Mr Campbell—I think you are probably putting words in my mouth. We are talking about the budget issues for years—

Senator RONALDSON—So it was not in hand?

Mr Campbell—2011-12. There is an issue. I think the Department of Finance and Deregulation and other organisations accept there is an issue with the funding for the War Memorial. I provided advice to the minister at the end of September. As a result of that he wrote to the Prime Minister seeking her agreement and she agreed to have a review. She signed a letter to him on 21 October and I think he announced it on 28 October.

Senator RONALDSON—Why did she feel the need to talk again about another inquiry which you said was underway and in hand following your discussions with the director and the chairman and everyone else?

Mr Campbell—I think you could probably say that those discussions which I raised with Finance in June came to an end with David Tune's letter to me. You have described it very graphically. So as a consequence of that I then went to the minister who then went to the Prime Minister.

Senator RONALDSON—It was totally unrelated, I presume, to negative press about this situation?

Mr Campbell—I would like to think—well, from the bureaucratic—yes, certainly, totally unrelated.

Senator RONALDSON—I think I probably preferred the first and second responses as opposed to the third. However, I will leave well enough alone. I just want to read from this 25 May letter. ‘I believe that the exercise of any other option’—that is in relation to significant staff losses at the War Memorial—‘will only put off temporarily this inescapable trend.’ I will read this in full, ‘Council appreciates the very real constraints in government funding—

Mr Campbell—Could you just tell me: is this the March or the May letter?

Senator RONALDSON—This is the May letter, which states:

I reaffirm the need for \$5 million of funding sought in the previous unsuccessful new policy proposal. I remember the Prime Minister on Anzac Day inquiring about how we were doing under general economic stringencies applied to whole of government and the director and I replied that we were “struggling”. I believe that it would be useful for you and I to see the PM on this matter to plead our case for some necessary relief.

It was not, ‘I would like to have a bit of a chinwag to the Prime Minister perhaps in early January 2011 in preparation for the 2011-12 budget where we would be seeking some extra funding.’

Mr Campbell—It might be helpful here if I make a suggestion. I know that before we end tonight the committee will go to the War Memorial. I was going to stay for that. But I think it would be better if General Gower then spoke because what happened there was the War Memorial knew they were not getting \$5 million. They knew that their level of funding for 2010-11 was, within half a million or thereabouts, the same as it had been the previous year, so the council and the director took some decisions that meant that they lived within their allocation. That said, the discussions that occurred between the three organisations—Finance, DVA and the War Memorial—at the beginning of this financial year convinced me and Minister Snowdon that we needed to raise this issue for 2011-12 and out years.

Senator RONALDSON—When you have got someone of the standing of Peter Cosgrove pleading to see the Prime Minister in relation to their significant and, according to the red book, potentially crippling financial situation back in May, how can your government possibly in light of—and I am happy to go through them—green loans, the school hall program, the insulation program, \$13 million spent on an apparent health agreement that no-one had actually signed up to sit there and say, ‘All is hunky-dory; everyone just knew that we would have to address this possibly in the 2011-12 budget’? Peter Cosgrove does not plead for a meeting with the Prime Minister unless there are some very, very serious issues. Peter Cosgrove does not request a meeting with the Prime Minister to talk about the 2011-12 budget. Peter Cosgrove wanted to speak to the Prime Minister because of the diabolical situation—

CHAIR—Is there a point to this question?—

Senator RONALDSON—yes, there is

CHAIR—What is it?

Senator RONALDSON—facing the memorial. How can you justify putting this organisation under the pressure that it is? How can you justify forcing them to use equity injections for operational purposes? How can you justify not sorting this thing out when it became clearly obvious that there would be significant staff losses, which have occurred, and that this would hold back this organisation's preparation for the commemoration of Anzac Day? How for the sake of \$5 million can you possibly justify the government's actions in relation to this matter?

Senator Feeney—In tackling that kaleidoscope of rhetoric let me talk about two facts that I think might have been hidden in there somewhere. The first is this: notwithstanding the fact that the War Memorial faces challenges and you obviously have an opportunity to examine them in due course, your persistent catastrophising of the situation simply cannot be factually borne out. You have issued press releases asserting that one in five jobs at the War Memorial have been lost—

Senator RONALDSON—Will be lost.

Senator Feeney—Right, and to my delight it is a point that you still insist on making. In fact staff numbers there—

Senator RONALDSON—Yes, well, what is—

Senator Feeney—have gone from 281 to 274—

CHAIR—Let Senator Feeney answer the question.

Senator Feeney—As I said, I am trying to strengthen your relationship with the truth. I think if you want to critique the War Memorial that is well and truly within your purview as a senator and a spokesperson for your party, but you simply cannot wander the community asserting things about the War Memorial that are not true. They are not true. That goes to the funding and to the point I think you were trying to make about the use of capital expenditure. It is perfectly normal for inputs that are part of capital formation to be included in a capital budget. That is a matter of accounting fact. You might see it as some extraordinary socialistic conspiracy; I can assure you we call them accounting standards. I guess I am asking you to rein in your rhetoric, confine yourself to the facts and examine officers of the department on that basis.

Senator RONALDSON—How much do you think you have wasted on a number of the programs that I referred to before? Do you say that there were appropriate financial standards attached to the expenditure?

Senator Feeney—Chair, surely the parliament offers Senator Ronaldson opportunities to make the broader critique. This is estimates.

CHAIR—Senator Feeney, in response to your question, raised issues of accounting standards and you may or may not wish to engage. I would advise you not to—

Senator RONALDSON—Financial standards—

CHAIR—No, ‘accounting standards’ was the phrase he used. I would advise you not to, but that is a matter for you. Nonetheless all of the other issues you have raised are not appropriate for discussion in this committee at this stage.

Senator RONALDSON—You are alleging that my comments about potential workforce losses of 20 per cent, I take it, you are calling it a lie; is that basically what you are saying?

Senator Feeney—I prefer the word ‘fantastic’.

Senator RONALDSON—Can I read to you from the red book comments given to your minister? I will do it very, very slowly for you. It states:

Based on forecast funding levels and the current average cost per employee, a loss of 22 positions is projected for 2011-12 resulting in some core functions no longer being able to be delivered.

I will read this very slowly for you:

Current forecasts reveal that the memorial has no option but to reduce by a total of 53 staff over the next five years, representing around 20 per cent of the current workforce.

Are you going to apologise to me?

Senator Feeney—No, but I look forward to the reverse being the case. You are citing the red book where it is talking about the financial year 2011-12, which goes to Mr Campbell’s earlier assertion—

Senator RONALDSON—I beg your pardon?

Senator Feeney—that these funding issues are about the future rather than the current financial year.

Senator RONALDSON—Look, Parliamentary Secretary—

Senator Feeney—These are matters of fact. They are not matters of debate.

Senator RONALDSON—I think you are a man of some integrity and some intellect. You know full well that my press releases have done no more and no less than repeat what was in the red book that unless this situation is addressed there will potentially be staff losses of 20 per cent over the next five years. You know exactly what was in my press release and you owe me an apology. You should apologise now because I took—

Senator Feeney—I am happy—

Senator RONALDSON—from your red book what the potential crisis was unless there was extra funding. You are not prepared to apologise—

Senator Feeney—Let me quote your remarks in an opinion piece regarding the War Memorial. You said and I quote, ‘Since coming to office in 2007 they’—that of course would be the government—‘have cut operational funding to the memorial by 20 per cent’—

Senator RONALDSON—They have.

Senator Feeney—‘from \$38 million last year to just \$31 million this year’—if I can interpose there, that of course representing your failure to add operating and capital budgets—‘forcing the loss of one in five jobs.’ You speak of it as though it has taken place. Of course, as you well know, it has not. So you will not be getting an apology from me.

Senator RONALDSON—You look at my press release and I have quoted it back to you. If you want to go down that path, that is great. The ordinary operating costs I presume are under appropriation one, the ordinary annual services?

Mr Campbell—I think if we are now getting to these sorts of discussions, these sorts of questions should be held over for when General Gower is present.

Senator RONALDSON—I have no interest in holding it over. I am afraid that he does not prepare this. Your department does.

Mr Campbell—But he is the officer responsible.

Senator RONALDSON—If you do not know the answer, what have we been talking about for the last hour then?

CHAIR—Funding of the War Memorial is to be directed to the War Memorial, not DVA.

Senator RONALDSON—I am sorry, we are here for estimates, aren't we, and I am looking at the AWM budget statement prepared by this department. I am absolutely and totally entitled to ask the secretary about what is in the agency resource statements. This is bizarre—

Mr Campbell—The accounts and statements are prepared by the Australian War Memorial.

Senator RONALDSON—I am asking you if appropriation 1 is normally the operating expenses of this organisation? Mr Rogers, you are shaking your head; you know it is, don't you? That is the operational expenses given by the government to the War Memorial, is it not?

Mr Campbell—And it is the appropriate place for General Gower to speak to.

Senator RONALDSON—Is it not?

Mr Campbell—It is what the parliament pass in respect of the War Memorial.

Senator RONALDSON—Is it not?

Mr Campbell—Is it not what?

Senator RONALDSON—I have to repeat it again. That is the date of the operational budget given by Minister Feeney's government to the War Memorial. Appropriation 1 is the operating cost. Do you think it is funny?

Mr Campbell—No, the senator made an aside about you calling him a minister.

Senator RONALDSON—Well, he probably deserves to be, but not after a performance like this.

Mr Campbell—As I have referred to and as Senator Feeney has referred to and as was referred to by the department finance yesterday, as a result of changes made by the government with regard to the treatment of depreciation, a number of organisations, including the War Memorial but not only the War Memorial, had a circumstance whereby what they were receiving in Appropriation Act No. 1, which everybody sees as operating, was split, the depreciation was split into Appropriation Act No. 1 and Appropriation Act No. 2. So from 2009-10 when that was done, when you look at the funding available to all of these organisations you actually have to look at the sum of the two and not just to Appropriation Act No. 1.

Senator RONALDSON—I am terribly sorry but Mr Tune and his officers made it quite clear the other day that the equity injection you are talking about is actually under

Appropriation Act No. 2. What I am talking about is Appropriation Act No. 1, and that is the operational expenses of the War Memorial. If you are trying to get out of this by indicating to me that the equity injection can be used for normal operational expenditure, I can tell you now that you are absolutely dead wrong. Mr Tune made it quite clear that, if the equity injection was used for normal operational expenses, it would not be allowed and it would be totally improper. Mr Tune made it quite clear yesterday that the only limited circumstance—the only limited circumstance—in which you could use that equity injection funding of, in this sum \$7 million or \$9 million in one of the out years, was in relation to the protection or the purchase of the assets, and only in that situation. I asked him specifically whether that would include staff and he said no. So the equity injection and the use of it for operational expenditure is not, as you have put it, in its very, very limited circumstance. I will ask you the question again. Has there been a reduction in Appropriation Act No. 1 from \$38 million down to \$30 million for this financial year?

CHAIR—You have asked the question. Now Mr Campbell, you will respond to that.

Mr Campbell—Yes, there has been a reduction and there has been a compensating increase in Appropriation Act No. 2. I agree with what David Tune said yesterday, because I have seen his comments, and what I have respectfully suggested is that you ask General Gower and his colleagues when they come to the table how they have utilised the total amount of \$38 million to assure you that he has met with the appropriate accounting standards.

Senator RONALDSON—I am prepared to accept, in light of what the director has said, some comments from finance, whom I presume have run their eye over this, that the War Memorial may well have been using, in a limited context for the preservation of the asset, some of that equity funding. But if you are suggesting to this committee that the Australian War Memorial can use funds received under approp 2 as they can be used in approp 1, which you just did, then I am terribly sorry, sir, but you do not understand what these appropriations are for and how they can be utilised, because I can tell you now they cannot be used the same way, I am sorry.

Mr Campbell—Senator, (a) I never said that. You did not hear what I said. And (b)—

Senator RONALDSON—Have a look at the *Hansard*.

Mr Campbell—I will. And (b) what I am saying and what I think you should seek confirmation of from General Gower is that he and his organisation during the course of 2010-11 have appropriately expended their moneys under both Appropriation Act No. 1 and Appropriation Act No. 2 and they have managed to live within their total appropriation according to the standards during the course of 2010-11. That is all I am saying.

Proceedings suspended from 9.31 pm to 9.44 pm

CHAIR—The committee will come to order. We will continue with our examination of the Department of Veterans' Affairs in respect of supplementary estimates. Senator Ronaldson has indicated he has further questions.

Senator RONALDSON—Mr Campbell, could you please take on notice to provide me with any correspondence between the minister, the department, any other department or the memorial in relation to the question of funding and additional funding for the memorial.

Mr Campbell—Yes, certainly.

Senator RONALDSON—Thank you. Has \$5 million been committed towards the centenary of Gallipoli as part of that celebration?

Mr Campbell—No, there is no commitment as yet by government to funding for any of the activities surrounding the centenary of ANZAC, which includes Gallipoli. My department, as you know, manages and organises the services in Gallipoli every year and so we have money within our funding base for the management of those services, but there has been no additional money given for the commemoration of World War I.

Senator RONALDSON—There has been no commitment of funding that you are aware of?

Mr Campbell—There is no funding commitment as yet for the commemoration of the centenary of World War I.

Senator RONALDSON—Parliamentary Secretary, are you aware that Senator Lundy indicated this afternoon on—

Senator HUMPHRIES—It was this morning.

Senator RONALDSON—This morning. My colleague Senator Humphries will probably have a question about this. Senator Lundy alleged that your government had committed \$5 million towards the centenary of Gallipoli. Are you aware of that?

Senator Feeney—No, I am not aware of the proceedings where she said that.

Senator RONALDSON—She went on to say that that has not been acknowledged in any way by the Leader of the Opposition and, from what we have heard, there is good reason why it has not been. But Senator Humphries might have a question on that.

CHAIR—Senator Humphries?

Senator HUMPHRIES—Is it possible that Senator Lundy was referring to some other sum of money which has been delivered to the memorial for the marking of the First World War or the memorial or monument of some sort?

Mr Campbell—This is the first I have heard of any comment by Senator Lundy. Your description appears to be slightly different to Senator Ronaldson's. I took Senator Ronaldson's to be a broad allocation of \$5 million for the centenary of ANZAC, but you appear to be saying that Senator Lundy—

Senator HUMPHRIES—I am not saying it is anything. I am saying: is it possible that there is some other allocation that Senator Lundy was confusing this \$5 million that Senator Ronaldson was referring to with?

Mr Campbell—I would have to have a look. This is the first I have heard of the statement, so I would have to have a look at it.

Senator Feeney—Let us take it on notice.

Mr Campbell—I am quite happy to take it on notice, but I need to have a look at the statement and then work out what the senator is saying.

Senator HUMPHRIES—If there is any such amount that has been dedicated that might remotely fill the bill that Senator Lundy is referring to, could you table a copy of the announcement of that amount, please?

Mr Campbell—Certainly. We will get to the bottom of it.

Senator RONALDSON—Do that on the back of the clear statement, which was ‘committed \$5 million towards the centenary of Gallipoli as part of that celebration’.

Senator Feeney—We will take a look at it.

Senator HUMPHRIES—Is it possible Senator Lundy was pre-empting a budget announcement?

CHAIR—The officer and the parliamentary secretary said that they have no knowledge of Senator Lundy’s statement, so it is difficult to engage in a conversation when they have no knowledge.

Senator Feeney—That would be speculation.

CHAIR—It is probably a question best directed to Senator Lundy, I would suggest. Senator Ronaldson.

Senator RONALDSON—Just before I finish on this, Parliamentary Secretary, do you acknowledge that the red book—no, it is all right; leave it. I am mindful of the time. I will put some of this on notice, but just in relation to the BEST grants and the review that was released, recommendation 20 concerned possible means-testing of BEST grants. I think the wording, if I am correct, Mr Telford, was:

Investigate the practicalities of a means testing assessment approach in consultation with a financial expert and ESOs.

I have not got the document here. Am I correctly quoting that?

Mr Telford—Yes.

Senator RONALDSON—What steps are we taking to respond to this recommendation?

Mr Telford—As I indicated to an officer from your office last week when we pre-briefed him on the BEST review, we talked about this issue at some length. The intention of this particular recommendation was to do just as it says—that is, to look at some of the issues around what underpins the financial viability of some of these organisations and whether or not we are able to assist them in the best possible way based upon their current financial backings and what they have. There is no intention to means test at all in the context of this recommendation.

These are discussions that we will need to have with ex-service organisations, and they are also discussions we will need to have in order to be able to sort out what is actually meant by some of the complexities around the financing of some ex-service organisations. Indeed, many organisations exist on various bequests given to them by various donors and they operate off the interest from those particular fundings. It would be inappropriate then to count that level of funding as being part of something which is liquid. These are the issues which, as

I said, I discussed with your office and we will continue to explore those in conjunction with ESOs and other interested parties, but I will reiterate, there is no such thing as means testing as part of this particular recommendation. I cannot be clearer.

Senator RONALDSON—No; and I think you acknowledge that I read out the correct quote, which is ‘the practicalities of a means-testing assessment approach’. Is that what the recommendation said? Have you got it there? What does recommendation 20 say? I might be misquoting. If I am misquoting the recommendation, please tell me.

Mr Telford—We have just got to locate it, sorry. Thank you. ‘Investigate the practicalities of a means-testing assessment approach in consultation with financial experts and ESOs.’

Senator RONALDSON—Yes.

Mr Telford—Yes. What I am trying to say is that the point is about the issue around what is meant by ‘financial viability and underpinnings’. This is not in the sense of a means test as one would think of it in an income and assets test application for a pension or benefit. That is the distinction I am trying to make.

Senator RONALDSON—I did not say that, though, did I? Did I not give you the quote? Just to be clear, there will be no forced amalgamations of ex-service welfare work as a result of these reforms, will there?

Mr Telford—No.

Senator RONALDSON—I do have some other questions in relation to this, but what are the steps now to respond to the recommendations?

Mr Telford—The minister has accepted all of the recommendations. He has sought to have some of them further explored; the one we have just spoken about; we need to look more closely at issues around accreditation and how we go about those under the TIP program. We will proceed to implement a range of these recommendations as part of the round 13, which has opened now for applications. Several of those recommendations are indeed incorporated too, and they are somewhat administrative, around issues to do with acquittal of funding and so forth and tightening up some of the reporting mechanisms.

Senator RONALDSON—If you say that a means-testing assessment approach does not mean means testing, what does a means-testing assessment approach mean, then?

Mr Telford—If you are playing with words, I cannot explain any more than what I have said.

Senator RONALDSON—I beg your pardon. I am quoting from the recommendation. I find that quite objectionable and you withdraw that. I am not playing with words; I am quoting the recommendation and I am asking you what the difference is. That is appalling.

CHAIR—Order! It is late at night. Senator Ronaldson has asked a question on the meaning of ‘means testing’. It was asked before and it was answered. You may give the same answer again or you may add something.

Mr Telford—I will try to clarify it again, if I may. The substance of the report in this area is trying to establish what are the financial backings and underpinnings of an organisation in respect of how we go about providing them with funding to supplement their activities with

regard to pension officers and advocates in this particular area. It says what means do they have behind them in order to be able to say, 'Is it appropriate that government funding should be going into an organisation?' When they put in their applications they do indicate how much they are going to put in and whether it be in kind or other forms of assistance. Then we are able to look at that in the totality of what is available to that organisation to draw upon. It is very complex.

Senator RONALDSON—Is it appropriate for a 'government grant', is what you said—is one of those tests whether an organisation has a substantial amount of money in their funds?

CHAIR—What Mr Telford said, Senator Ronaldson—be careful here—was that it was appropriate to look at the asset base of the organisation which made an application for funding to see if it could make an 'in kind' contribution. That was the response.

Senator RONALDSON—How was that—

CHAIR—That is not unusual.

Senator RONALDSON—I actually started this off as a quite innocent question, but I am now beginning to wonder what this does all mean. If you are looking at someone's assets and making a value judgement about whether they can make a more substantial contribution which might reduce the government's contribution or would stop them from getting an increased contribution, how is that not the application of a means test?

Mr Telford—We do not actually know the test that can be applied in these particular areas because we do not necessarily understand, and do not have a range of methodologies to understand, what a certain level of assets means within an organisation—whether that asset can be drawn upon, whether it is something which is used and committed to other purposes, whether this is an organisation that is asset rich but income poor. All of these things we need to talk to financial experts about—how one goes about coming to some general understanding about what is the balance between us and the organisation.

Senator RONALDSON—That is right; and the recommendation says, which I read out, 'Investigate the practicalities of a means-testing assessment approach.'

Mr Telford—We are looking at it; no more than that.

Senator RONALDSON—Then you said it does not mean means testing; then you said someone's assets might be taken into account as to determine whether they should continue to get government funding or whether it should be increased.

Mr Telford—In past—

Senator RONALDSON—I am not entirely sure, I have got to say, that the ESOs are going to be very comfortable with your response tonight. My understanding was that it was not, but I am not entirely sure, given your answer, that indeed that is the situation. Anyway, Mr Telford, when I am quoting one of your recommendations next time I will perhaps table it so that you have got it in front of you.

Parliamentary Secretary, I have not got time tonight unfortunately, but I will put on notice some questions in relation to a couple of articles written by Paul Toohey regarding the treatment of an SAS soldier by Defence and DVA, which was quite serious and I would think

you would view it as such. If I have got time, I will come back; otherwise I will put some questions on notice, or we might have a further discussion about it at next estimates.

Mr Campbell, I just wanted to very quickly get some staffing figures. Can you take on notice to provide me with a full breakdown of the departmental staff, their employment level, the number of FTEs and so on, ahead of the next estimates in May?

Senator Feeney—Can I just ask you to articulate that a little more clearly for us?

Senator RONALDSON—I will just put all that on notice; that is fine.

Senator Feeney—Put them in through the secretary.

Senator RONALDSON—Yes, I will do that on notice. Just on that matter, Mr Brown from the Injured Service Persons Association has contacted me suggesting there was only one person in the military rehabilitation and compensation group in Sydney processing permanent impairment claims; is that correct? I understand that Mr Brown has asked some questions about staffing in these areas; have you responded?

Mr Campbell—It is not correct in the way that Ray articulated that. I actually responded to that letter today, so if you would like I will give you a copy of my response to him.

Senator RONALDSON—I am sure Mr Brown would not be unhappy with that. Whether you want to check with him first, but I think that might be useful.

Mr Campbell—Given that he actually circulated his letter to you and to Minister Stone, but I will check with Ray and I think the letter will answer most of the issues.

Senator RONALDSON—You are providing staffing figures in that response?

Mr Campbell—I did not answer his question in the way he asked it, but I think I answered his question in a sense as to how work is done. I will say that the claim that he was talking about was lodged on, I think, 28 January and it was processed on 30 January or 31 January.

Senator RONALDSON—What aspect of Mr Brown's letter did you not want to respond to?

Mr Campbell—No; what I am saying is I responded to his question in a slightly different way. Perhaps, if I get you the letter, because his premise—when a person is on leave work does not happen—was fundamentally flawed, and that is what the letter says.

Senator RONALDSON—Thank you. Can I now please turn to a letter in relation to the War Widows' Guild of Australia, and I am sure you are acutely aware of the letter sent by DC Collins to the President of the War Widows' Guild regarding change to departmental policy and the provision of information about ex-service organisations.

Senator Feeney—Are you in a position to tender that letter?

Senator RONALDSON—Yes, I am, actually. You will appreciate that the text of the letter will—some commentary will not be. In that letter dated 19 November, Ms Collins wrote to the War Widows' Guild. Basically, what has happened, I understand, is that the department would provide information to new war widows pension recipients about the guild. When a new widow received a pension you would write, Mr Campbell, to them and advise them that

the War Widows' Guild would assist. Ms Collins wrote to the guild advising them that this practice had now discontinued with no consultation, I understand:

There are different state and territory based practices and places for the distribution of ESO information to pension recipients or beneficiaries. These arrangements have often been made on a local, individual basis, and favour some organisations over others. By providing membership details of one organisation, for example, the department could be seen to be endorsing that organisation when no such endorsement exists. To ensure that the department's provision of information about ESO groups is consistent and in line with the responsibilities of government agencies, the Repatriation Commissioner has agreed to put in place measures that advise beneficiaries about all ESO groups equally.

It then went on to say that the following would appear in future correspondence to people in that situation:

There are many ex-service organisations (ESOs) that operate to support and assist veterans, war widows and widowers, serving and former Australian Defence Force members and their families. These organisations may provide assistance and advice with the pension, compensation, rehabilitation and welfare matters, camaraderie, unit associations and other types of help and support. If you feel an ESO may be of assistance to you, they can be found in your local yellow pages telephone directory or on the internet.

That is the Canberra *Yellow Pages*, and can I assure you that there is no listing for ex-service organisations and there is certainly no listing for the War Widows' Guild. The TPI Federation has had the same issue. The letter suggests that this is a decision because of the Australian Public Service Values and Code of Conduct, which on my understanding has been in place for some considerable period of time. This is either a dreadful decision which needs to be immediately reversed or it is a money-saving issue, and I hope that it is not the latter.

For someone in this situation—and you and I can only imagine what it would be like to be in that position—the one thing that would surely be of assistance would be to know that there was someone you could get in touch with. This is bureaucracy gone mad. I have only been in this portfolio a short time—and, in defence of the DVA, I should say that I do not think it is overly bureaucratic, as it is accused of being all the time. But this is bureaucracy, in my view, gone absolutely stark raving mad.

Mr Campbell—Unfortunately, we had a series of very different actions across the country. In hindsight, I and my fellow members on the commission do not think the decision you are referring to was the best decision or smartest decision that could have been taken. Unfortunately, it turns out that we were not giving the advice to all war widows anyway; we were only giving it to some of them. That instruction is going to be countermanded. We were telling some widows about both the guild and Legacy, because Legacy is very important for war widows in Australia, as you would be aware. What we are going to do now for all people who join the DVA family, if you like, and who are getting benefits from us, we are going to have a phrase—a paragraph—in the letter that says, 'Look, there is a number of ex-service organisations that are there to help and you might be interested', and then we are going to attach to each letter the addresses and the contact details of each of the 14 major ex-service organisations—the 14 that are on the roundtable. So the guild and Legacy will be there for the war widows. For an individual—a TPI, for example, which is a good example—a newly granted TPI might be a Vietnam veteran. There are two Vietnam organisations, there is a TPI Federation and there is the RSL. He might be Army or Navy and there is a RAAF

organisation and an RAN. That individual can choose, from any of those, one or more that he can contact.

The War Widows' Guild, I think, was quite right to raise it, and I can assure you that my ears rang when they raised it with me. So that decision has been countermanded, and we are now putting in place the new arrangements.

Senator RONALDSON—Can I thank you that a bit of common sense has prevailed? So, well done; thank you. Can I now—and it is, again, a war widows issue and it, again, relates to an article from Paul Toohey in the *Daily Telegraph* on 13 October last year, headed 'War widows fighting not to be forgotten'. I do not know whether you are aware of that article; it is a special investigation from Paul Toohey.

Mr Campbell—I am aware of a number of the Paul Toohey articles of recent times—you referred to a couple recently about mental health—but this does not immediately come to mind.

Senator RONALDSON—I have only one copy but I am happy to give this to you. I might need to refer to the last paragraph. I think in fairness you should have a copy of it, so I will give you that. I will just go on while that is being done, because I am mindful of the time. In that article, Mr Toohey indicated there are some concerns amongst younger war widows about the way their claims are handled by the department—by Defence—and they are, in a quote from the article, 'fighting not to be forgotten'. I have made some notes in relation to Mr Toohey's report, which I will go through, and I would like some clarification of those as I am doing so.

I will say, in fairness, that this is probably more directed at Defence than it is at DVA. I think, in fairness, that is the situation, but there are some DVA matters. The Toohey article said:

When a Digger dies, distraught widows are dumped with a mountain of paperwork and left to fight their way through a minefield of bureaucratic entanglement.

I am not too sure whether that is a quote from him or from someone else.

A new widow is in no state to fill out long forms or make rational decisions on the multiple choices of available benefits.

In answer to my questions on this last time around—and that was questions 11 and 13—you advised me that the state DVA DCs act as a direct point of contact to support the widow's or widower's need and provide ongoing support. In light of the Toohey analysis, how does that square up with that account?

Mr Campbell—I might just take a couple of minutes here—and I am conscious that you are conscious of time—to say two things. I will not make any comment about your comment about us and Defence. What I would say, though, is that sometimes comments that have been made by people like Paul Toohey—and this is not a criticism—are from people who might have had their services 12 or 18 months before. So, in other words, this might not be a comment made in respect of a widow in the last six or nine months, and it is quite appropriate when you are doing an article like this to do your research. In 2009, we came to the conclusion that we probably were not addressing and dealing and working with the young

widows as well as we might have. To say that, though, I need to go back one step. What happens when there is a death in service is that Defence, through both the unit and DCO, takes immediate responsibility. Because of, obviously, the trauma and all of the issues that the young widow and her family are going through, we, ComSuper and Centrelink do not go knocking on the door. We wait until DCO tells us through the family that they are ready to talk to us; the same goes for ComSuper and Centrelink.

What happens now—and this has been unfolding for us for some little time now, but I think we have now got it quite well done—is that when DCO, the Defence Community Organisation, says the widow and her family now wish to speak to DVA, we go along—and this is what I referred to at the last meeting. The deputy commissioner, together with a relevant officer from that state office, goes along and works through the issues with the young widow or young partner and any of her family members that are there. They are right—there is a paperwork issue and there are issues of identity—but they are the issues that Defence has paperwork on; ComSuper has. I think all three organisations try to diminish the impact and, indeed, as best we can in a legal sense our people then sit down with the young person and try and fill out the forms there on the spot.

Then we very clearly spell out all of the issues and the benefits that DVA will provide immediately and for the rest of her life and, indeed, for any of the children from the union. This is unfortunate, but I would hope that, if they talk to the ladies of a year or two before, some of the young people that we have been dealing with in the last six to 12 months would say, ‘Oh, yes, there is a bit of a change.’ With some of the people that Paul Toohey talks about here, unfortunately, their husbands died several years before this.

The last thing I would say, because it goes to one of the points that you made, is that the Military Rehabilitation and Compensation Act has a provision that the big decision under the Military Rehabilitation and Compensation Act is whether the young widow takes the money—the large amount of money—as a lump sum or as an annuity known as a war widows pension. The act says that has to be done in six months, but the commission has the capacity to extend that. We have been asked to extend several times—and, indeed, in one case we actually offered because we knew what was happening in the individual’s circumstances. We are totally open and we extended the time; we do not want them to be under any pressure. As I said, a couple have accepted that, but in one case we actually said to the advocate who was looking after her case, ‘We think that it would be nice if she got an extension and had a longer period of time.’

So the circumstances that these young ladies—and they are, at this stage, all ladies—are going through and putting up with are horrific, and what they have lost can never be replaced, but I would hope that in the last 12 to 18 months the department has come to a little bit more of an understanding about that and readjusted how we provide our services to them in a way that hopefully does not pick up some of the issues that might have occurred three or four years ago.

Senator RONALDSON—I note—and if you have got the article there you will see that right at the end on page 2; page 3 is a photo, so it is page 2—that it says: ‘The Department of Veterans’ Affairs has overall control of handling of benefits ... working with Defence, other government agencies, ex-service organisations and service providers on better coordination of

the support services provided. The project improved support to younger widows.' I presume that is a legitimate quote from the department. Is that an ongoing coordination project or is this the outcome of the project?

Mr Campbell—It is interesting, because for the people involved the initial contact is a Defence issue, because there is the issue of the notification, the unit and DCO; there is the issue of the repatriation of the body and the issue of the funeral and so on, which is organised by Defence and by the unit. Defence also have, obviously, provisions for such things as payments of leave and payments of moneys—there is a whole set of rules about those—and, indeed, there is the question of the Defence Housing Authority, because often these young people are living in Defence Housing Authority houses. In terms of strict provision of benefits, once that process is finished Defence is, if you like, a caring organisation, because of all the young man's colleagues, but in terms of delivery of benefits its responsibility has finished. Then the responsibility comes for ComSuper, similarly, because at some point of time the individual has to make a choice of ComSuper and then it comes down to us and to Centrelink, because many of these individuals will also be eligible for benefits from Centrelink.

So I do not know where that quote comes from. Certainly we have an exercise where we are trying to—not only for widows but for veterans—break down some of those administrative barriers that they run into across agencies. That might actually be referring to that rather than one particular.

Senator RONALDSON—Okay; I take that at face value. There, obviously, has been hopefully some improvement. I just want to do this quickly because I have got one question afterwards. A quote again from the article:

Some unmarried women have been forced to prove they were in a relationship with the man for whom they are grieving. They have not always succeeded in this.

...

The records of one Digger killed in Afghanistan this year showed he was single even though he was engaged to be married to his girlfriend and had been living with her for two years.

“Defence did not grant her a bereavement payment ...

The irony is that the DVA did recognise the relationship and paid her her other entitlements. I will go on:

Another Digger who was killed in Afghanistan last year had his own bank account, and gave his young wife money each week. The bereavement payment—\$50,000—was paid into the soldier's account, which Defence then closed. The widow was unable to access it. Burrows and his mates moved in, fast, made some calls and got the money sent to the woman.

I do not expect you to comment on the Defence allegations, but I am concerned that there appears to be some inconsistency between Defence and DVA over the treatment of what I will call de facto relationships, if that is the expression that is still used. So the article claims DVA accepted the situation and Defence did not, which seems strange to me. Should you be working closer with Defence on these sorts of issues? Are you comfortable with the DVA process? Is it Defence that actually needs to make some changes? I will ask the question: are you comfortable with your processes in relation to this?

Mr Campbell—Our processes are driven by the entitlement provisions under the act and, yes, we are comfortable with those.

Senator RONALDSON—Yes.

Mr Campbell—It is not only Defence; it is also ComSuper and their legislation, and we are conscious of this and we and Defence are discussing it. To answer your question: yes, I think we have a very practical, very reasonable approach to partnerships under the military act.

Senator RONALDSON—Parliamentary Secretary, there seem to be some issues with Defence in relation to these sorts of matters. Would you, perhaps, take on notice these matters and can I ask, please, when you are taking them on notice, for an overview of Defence's processes in relation to these sorts of issues and whether there is a review underway in relation to those processes. I do not think there is anyone in this room that would not say that we just need to make sure this does not happen; we just cannot afford this sort of stuff. I mean, it is not right, and I am confident in what you are saying, Mr Campbell, that DVA is doing its bit.

Mr Campbell—The other agencies are, I think, applying their legislation; so, in the end, we may have a real legislative problem—as in, the Commonwealth.

Senator RONALDSON—Can you take that on notice, as well, Parliamentary Secretary. If there is an issue with legislation, I would be utterly amazed if between you and me we could not get this resolved very quickly with our respective parties and, I think, in fairness to the Independents and others, I would be utterly amazed if they were not also prepared to fast-track, to avoid this sort of situation, which I think is pretty intolerable, I have got to say.

Can I now turn to the Anzac centenary commemorations and just ask you, Mr Campbell, how those preparations are coming along and what role the department has played in relation to this, given that you chair the IDC, do you not?

Mr Campbell—Yes. There are two processes running in parallel. There is the National Commission on the Commemoration of the Anzac Centenary that the then Prime Minister created in April last year, which then the government added three members to. The six are former Prime Minister Fraser and former Prime Minister Hawke; the President of the RSL, Rear Admiral Ken Doolan; Warren Brown; Kylie Russell and Major Matina Jewell (Retired). That commission called for public submissions and received somewhere around, I think, 1,200 ideas. They are working towards providing a report to the government by, I think—and I do not really want to speak for two former prime ministers—at the end of March, at which point the government will then consider their report.

Senator RONALDSON—Were you close to providing the minister at the time with your report when the commission was announced?

Mr Campbell—There were discussions over a period. There were some discussions in April and again, I think, in June, and, yes, I was a party to some of those discussions, not all.

Senator RONALDSON—When was the IDC established?

Mr Campbell—No; I was talking about the commission.

Senator RONALDSON—Yes, I know the commission, but when was the IDC established?

Mr Campbell—I would have to ask my colleagues but if nobody behind me knows we will have to take it on notice. It would have been either late 2009 or early 2010. I am hearing one of my colleagues come here who might have the actual date.

Senator RONALDSON—It was 2009, was it not?

Mr Evans—I do not have the precise date of the IDC in front of me. Suffice to say that the first meeting was towards the end of 2009. The purpose of that meeting was to alert a range of other government agencies to the fact that the then Prime Minister had commissioned the then Minister for Veterans' Affairs to take the lead in investigating a possible commemorative program and the IDC provided some information back to the Department of Veterans' Affairs which was then conveyed to the then Prime Minister.

Senator RONALDSON—Didn't PM&C, when the IDC process was underway, step in and take control of it, which led to the former Prime Minister's Anzac Day commission announcement?

Mr Campbell—You are using colourful language. But, in response to that, I do not think there was any such stepping in. I chair the IDC. PM&C attend and, like a lot of other things, there are ongoing discussions between agencies. We put some thoughts to the Prime Minister prior to his decision in April last year about the next step in the process and, as a result of what we put to him and other considerations he had from other sources, he came up with the national commission.

Senator RONALDSON—So who has got responsibility; is it PM&C now?

Mr Campbell—No; DVA and Minister Snowdon.

Senator RONALDSON—So PM&C has no involvement, or are they—

Mr Campbell—PM&C are on the IDC.

Senator RONALDSON—Yes.

Mr Campbell—As you would expect, being the Department of the Prime Minister, PM&C have a very significant and strong interest in it, but the IDC is chaired by the Department of Veterans' Affairs, as it always has been, and the responsible minister for the overall Commonwealth approach to celebrating the centenary of World War I is the Minister for Veterans' Affairs, Warren Snowdon.

Senator RONALDSON—So was this commission discussed with PMAC or the round table, prior to its announcement?

Mr Campbell—Not with the round table, and I could not speak for sure, because the then minister had his own conversations with PMAC, so I could not speak for what conversations the minister—

Senator RONALDSON—Just take that on notice for me. Who is formally represented on the commission?

Mr Campbell—As I said, former Prime Minister Malcolm Fraser; former Prime Minister Bob Hawke; Ken Doolan, who is the president of the RSL; Warren Brown, who is a journalist for News Ltd and who has been attending and working with us at Anzac Day services in Turkey for the last five years—and I stress that there is no payment; we pay his travel and accommodation—Matina Jewell, who is a recently retired army major, and Kylie Russell, whose husband, Andrew, was unfortunately the first Australian soldier killed in Afghanistan.

Senator RONALDSON—Is there any departmental representation on the committee?

Mr Campbell—No. I, together with Mr Evans, attend meetings of the commission.

Senator RONALDSON—Like others, including myself, you would be aware of the unease of a large number of organisations who actually want to quite rightly celebrate the centenary. There are large numbers of towns and cities around the country who are keen to do it, including Albany. I had the opportunity to go down there and have a look at their proposal. I am not asking this question on their behalf, but I am asking on behalf of others who have written to me about it. They are concerned about the lead time involved in getting substantial projects up, including the one at Albany—I made the mistake of calling it All-bany, but I will never do that again—and are very anxious to put a substantial program together. When is the commission likely to make final recommendations to the government?

Mr Campbell—As I said, from all indications that I have—and the commission is meeting here tomorrow—they propose to have the report to the minister and the Prime Minister at the end of March or beginning of April. That will depend, a bit, on the availability of individuals.

Senator RONALDSON—Will that make recommendations in relation to an appropriate budget?

Mr Campbell—I should not comment on the possible recommendations of the commission.

Senator RONALDSON—I presume the commission's report must, in some part, have some recommendations about what would be appropriate commemorations. I would have thought that would make complete and utter sense.

Mr Campbell—They were asked to make recommendations along those lines.

Senator RONALDSON—One would assume that, having been asked to make those recommendations, there is a fair chance that they will do so. Having done that, are they going to specify projects for which there would need to be some funding allocated or is it only going to be national, as opposed to the opportunity for some local, celebration?

Mr Campbell—Unfortunately, this is an independent commission to which we provide assistance. I really cannot speak for what they might be drafting in their report.

Senator RONALDSON—Parliamentary Secretary, can I ask you?

CHAIR—You do not get two bites at that.

Senator RONALDSON—It is an entirely different question. If the recommendation in this report from the commission does not specify required and requested funding, how will you allocate funding in this year's budget if the report is not expected to be delivered in the time frame that the secretary has indicated?

Senator Feeney—I feel that it is impossible for me to answer the question because I would be speculating on top of speculation. I do not know what the report is going to say. Perhaps in the aftermath of its release you can posit that question to me at the next estimates.

Senator RONALDSON—I will ask you this question. Is it feasible, not having received the report, for it still to be possible to make an allocation in this year's budget?

Senator Feeney—I do not know what the commission and/or the minister and/or the cabinet have considered in relation to this matter, so I cannot assist you.

Senator RONALDSON—You are the parliamentary secretary representing. You are here in the capacity.

Senator Feeney—I cannot assist you in discussing a report that has not been released.

CHAIR—You know, Senator Ronaldson, that neither the officer nor the minister at the table can comment on budget matters prior to the budget coming down.

Senator RONALDSON—I accept that, but I actually did not ask that question. I asked whether, given the timing of the release of the commission's report, it would still be possible for an allocation of funding in this year's budget? You would appreciate that is an entirely different question.

Senator Feeney—You could call that contingency planning. I cannot answer the question any further than I have done so already. It is impossible for me to comment.

Senator RONALDSON—I accept you cannot because you said that you know nothing about it. I know someone who does and he is sitting on your right. I am asking Mr Campbell whether it is possible, given the timing of this release, for there to be an allocation of funding? I will go back a step. I will make the comment without asking the question. It beggars belief that there will not be some funding attached to the commission's announcement. I think we all accept that. Will there be the opportunity for an allocation of funding in this budget, will it have to wait until the following budget or will it be an off-budget announcement, which obviously would be required to have some offsetting?

Mr Campbell—You are quite right; they are the three options. Which option is taken is a matter for the government. To be helpful, in the spirit of cooperation and time, expenditure decisions are usually taken around the March period of time, but they do run into April, so all your three options are possible, but it is a matter for the government.

Senator RONALDSON—Parliamentary Secretary, would you acknowledge that if there is no budget allocation for 2011-12, there was no special allocation and the first allocation was in the 2012-13 budget, that would make it extraordinarily difficult for a number of organisations to get in place programs to celebrate, given that I assume there will be a process to be gone through where community groups and others can apply for funding, in line with recommendations of the commission?

Senator Feeney—My response to that would be that it does not assist for me to speculate or war game possible scenarios. It serves no purpose.

Senator RONALDSON—Do you understand why there is a level of angst amongst those who want to celebrate it because of the fact that the commission has not reported and there is no identifiable budget at this stage?

Senator Feeney—All I can do is encourage you and I to assure such groups that the report will, hopefully, allay their concerns.

Senator RONALDSON—The trouble is that you and I do not know what is in the report, so how can we allay their concerns?

I am not going to have a chance to go back to those matters that I put on notice. I will do so later on. Despite a couple of matters that occurred tonight, I would like to thank the departmental officers for their assistance.

CHAIR—There are no further questions of the department. I thank you, Mr Campbell, and your officers for attendance this evening. I request General Gower and his officers from the War Memorial to come to the table so we can do some examination of estimates in respect of the War Memorial.

[10.40 pm]

Australian War Memorial

CHAIR—General Gower, I welcome you and your officers to this edition of Senate estimates. I believe you have an opening statement that you wish to make on behalf of the War Memorial; is that correct?

Major Gen. Gower—I think it might be useful for me to make a brief statement to give an overview of our budgetary situation.

CHAIR—If you have an opening statement you are free to address it.

Major Gen. Gower—I think it would be useful to offer some comments about our budgetary arrangements, which are somewhat complex for a small agency. The memorial is funded by two sources: government appropriation and we also get revenue from our own activities, such as the shop, e-business, catering, donations, sponsorships and so on. The appropriation provides for operational costs, which is Appropriation Bill (No. 1), and capital depreciation funds, bill No. 2, for our collection, exhibitions, buildings, software and equipment. It is our operational budget that is under pressure, not our capital budget. If you look at our financial statements, in a real sense we seem to be capital rich, but a lot of that capital is tied up to particular activities.

The business about the 20 per cent decrease in our budget has been covered by Mr Campbell in terms of this new arrangement for collection and depreciation, that being in bill No. 2 as opposed to previously being in bill No. 1. In order to compare funding levels and outcomes between financial years, the government funding provided through bill No. 1 and bill No. 2 must be combined.

I also think that the proposition that the memorial has reduced staff by one in five has been covered. Of course, there is a projection out to 2014-15, but at the moment we lost seven last year and what might happen in the next year is pure speculation at this stage.

There have been some earlier statements that we have been inappropriately paying operating costs from capital funds. Over the years the memorial has undertaken a number of major capital projects and continues to do so in relation to the national collection. For all these projects the budget includes an allowance for appropriate salary costs for the staff directly related to the enhancement, replacement or development of the asset. For quite some time, I have been advised by our chief finance officer, ANAO and other people that this is appropriate and consistent with accounting standards. The cost is added to the value of the asset and I can assure you that any such treatments like that are audited carefully each year. It is not a new funding strategy; it has been in place for most of the last decade, especially in relation to collection assets.

There has been some speculation in the media that we have been using employee superannuation funds to pay salaries. This is an unusual comment, given that employee superannuation funds, once paid, are held and managed by ComSuper. I have no idea how the memorial could access those funds to pay salaries, even if it wished to. We are required to make compulsory employer superannuation contributions and we do so on a fortnightly basis.

Also, in the last few days there has been speculation that expenditure on Anzac Day ceremonies—we regard these ceremonies as tremendously important commemorative events—is going to be cut. I can assure you, this year will be no different in its conduct to the previous year. Indeed, more has been allocated in the financial year 2010-11 budget to this activity. That concludes my opening remarks. They may give some context.

CHAIR—Thank you for that contribution. Senator Humphries.

Senator HUMPHRIES—Thank you for that opening statement. You have described projections or comments about what the memorial's budget will be in a few years time as speculation. I understand that the chairman of the council, General Cosgrove, wrote to the Minister for Veterans' Affairs on 25 May and I think this letter was released under an FOI application obtained by the *Australian* newspaper, in which he says—and, again, I assume this is from his letter directly: 'By financial year 2014-15 staff levels are forecast to reduce by almost 50. This will occur over the very period this institution should be gearing up for what should be a series of demanding and major centenary commemorative activities. The clear outcome of the staff losses is that the memorial will be unable'—note that he does not say 'might be'; he says 'will be unable'—'to make the contribution expected by government and the nation.' Can you understand why there might be speculation about the memorial's capacity to provide the sorts of services expected of it when the chairman himself has written in these terms to the responsible minister?

Major Gen. Gower—Thank you for those remarks. They are forecasts out in that case to 2014-15. That is the sort of thing that one would expect management to look at, draw the attention of council to that so that they can be aware of it during their consideration of the memorial's budgets, and in terms of keeping the minister involved and aware of what is going on. That is the sort of thing that you would pass on to the minister.

I would say it is speculation that is going to happen; it is a forecast. I do not know at this stage what will happen in the next budget. We are not yet at the stage to firm it up. We have only just completed our analysis of what priorities we would like to put forward. We have not

looked at any budget allocation yet, and that will not be until May. In that sense, it is speculation, but it is an attempt, along with other things which you are aware of—and I welcome it being out in the open under FOI—but it shows that management and council are looking at all the trends and all the things which are going to affect the memorial, possibly, over the next five years or so and inform the minister accordingly.

Senator HUMPHRIES—I understand the distinction between statement of fact and what might occur, but I am simply posing the question that speculation about the memorial's budget would be quite justifiably stimulated by these sorts of comments once published. I appreciate that General Cosgrove did not intend to publish them, but nonetheless that would be the case.

Major Gen. Gower—I take your point.

Senator HUMPHRIES—I have one other issue. I was concerned a couple of months ago about reports relating to funding cuts at the memorial and a story that circulated that staff at the memorial were anxious about their jobs, concerned about what might happen with that, and in fact some had decided to forgo pay increments that they were entitled to, presumably as some sort of gesture towards managing the memorial's budgetary position. I took the trouble to write to the Prime Minister about this and I received a response just a couple of days ago from her parliamentary secretary, Senator Lundy, but she has not addressed this issue as to whether that was taking place within the staff. Can you shed any light on this question?

Major Gen. Gower—They are very well motivated staff, but I would never contemplate asking the staff to forgo their appropriate remuneration allowances. In fact, we are just about to go into another round of an enterprise agreement. We have reached a position, which we have advised the minister about, but certainly what you said I have no knowledge of, and I do not think my colleague does, who is the assistant director of corporate services who chairs the workplace relations committee which meets very frequently and has senior management, external union members and internal union membership. I am unaware of that. I hope we are able to confirm that.

Ms Adler—Absolutely.

Major Gen. Gower—In principle I would find that totally unacceptable. I could understand some people might offer it, but it is unacceptable—

Senator HUMPHRIES—I quite agree—

Major Gen. Gower—People are entitled to a fair return—

Senator HUMPHRIES—I am assured that people have not attempted to do that. That is reassuring.

Major Gen. Gower—Thank you for drawing my attention to it.

Senator TROOD—Since we have begun a new year can I ask you whether or not this is the year in which the final volume of the Vietnam history will appear?

Major Gen. Gower—It is indeed a new year and it will be a very pleasurable one for you, Senator Trood, and me. We are both greatly interested in that volume being finished. I have had the reassurance by the author that he has seen a copy of it—

Senator TROOD—Galleys, perhaps?

Major Gen. Gower—It is at the stage it can be published in August of this year. I have read notes from the publisher to the author which are tremendously complimentary about the breadth, content and detail. I think things are looking good for a launch in August of this year and the quality of such a history is what you and I would want.

CHAIR—I might say that Senator Trood will retire from the Senate on 30 June. Considering his longstanding interest in this particular topic it might be appropriate if you raised with perhaps your own organisation sending a complimentary copy to Senator Trood to remind him of his pursuit of this issue over many, many years.

Major Gen. Gower—I do not know about the complimentary copy, given the state of our finances, which we have discussed. However, I will be delighted to send him an invitation and I would be pleased to see him there. I will be pleased to show him to the Allen and Unwin counter, and I will make sure the author autographs it for him.

Senator TROOD—Thank you both for looking after my interests. I am very grateful to you for that. I did have one other matter I wanted to raise, if I may? It actually concerns volume three of the official history. This is a matter I think with which you are very familiar.

Major Gen. Gower—Is volume three the medical one?

Senator TROOD—It deals with the Agent Orange controversy. I think you are very familiar with this issue because members of the veterans' community and others have raised it with you over a period of time. I think you will be aware that the controversy revolves around, among other things, the findings of the royal commission in relation to the activities of the Repatriation Commission, among other matters. A suggestion amongst a wide group of people, including the official historian, Dr Edwards, is that a new study should be undertaken that deals with this matter in what is generally regarded as a more appropriate way than presently exists within the volumes and history. I understand you have been approached about this matter previously. I would seek guidance from you as to your present position in relation to a further academic study in relation to the material covered in volume three?

Major Gen. Gower—I am aware of the matter that Senator Trood raises. In an effort to give some of the people who have held those views a forum, I invited a nominated representative of the Vietnam Veterans' Federation of Australia to present a paper at our recent conference—I think it was on war wounds. The book of the proceedings in fact will be published and launched quite shortly. I gave them a platform.

I seem to recall I wrote to my portfolio department saying that I thought perhaps this question of the effect on veterans of Agent Orange was more something which rightfully belonged in the department. I cannot remember the response. It was not warming, but I will take it on notice and advise you, unless the secretary can recall the correspondence. I know we did exchange correspondence.

Senator TROOD—Did you get a warm response to this request?

Mr Campbell—To my mind this is actually a matter for government, and that is I think in shorthand what my letter back to General Gower said some months ago. I do not have a personal view as to whether or not volume three should be reworked because of the Agent Orange issue. I know the issue very well but I do not see that as being an issue which the department has a strong view on. If it were to be done then I presume we would be asked to be the funding body, but I think that is a separate issue. It is not a question of money; it is a question of who is the appropriate person to take the decision. I do not think it is the department.

Major Gen. Gower—I do not think Dr Edwards's support was overwhelming, to my recollection. He made a statement at the conference and my recollection of it was that he was more supportive of the current volume three than seeing the need to comprehensively rewrite it. I would have to say if indeed there was a need in due course to rewrite it, I would see a higher priority for Dr Edwards to embark on a summary volume of that whole period of the nine volumes, rather like Charles Bean did with *Anzac to Amiens*. I think that would be very useful with reflections as to how we got into those various commitments in South-East Asia and reflecting on it to the 40 years hence. That would be a very good volume which, to my way of thinking, in the distribution of allocated funds would have a higher priority.

Senator TROOD—That may be so, and I am sure Dr Edwards would be delighted to know that you might be prepared to lay out some funds to take that activity.

Major Gen. Gower—I have said this to him in principle, but there is no funding at the moment. I think it is highly desirable and he has had negotiations with publishers already who were excited. But talking about official histories, there is another aspect of course; you are well aware of the official histories of peacekeeping, which I think are tremendously important. We started in 1947 initially in Indonesia or, as it was known then, the Nethlands East Indies. The first volume of that is due for launch next month. That is one you can attend in fact, if the chairman's advice to me is correct.

Senator TROOD—I think my colleague Senator Ronaldson would like a moment to have a word with you. I might take these matters up again in May just by way of clarification of the department's response.

Major Gen. Gower—Certainly.

Senator RONALDSON—I want to congratulate the council on the Hall of Valour redevelopment, which I think was quite magnificent. I was very pleased to be down there.

Major Gen. Gower—I will pass that on. I appreciate that.

Senator RONALDSON—The other thing is I should congratulate you on your reappointment as well. In doing so can I ask you when you were first notified of your reappointment.

Major Gen. Gower—It would be presumptuous of me to accept your congratulations.

Senator RONALDSON—Can I ask whether the date that you were advised of this will be made public after the official announcement is made, presumably after tonight, probably tomorrow morning? Will you take on notice, Parliamentary Secretary, as to when General

Gower was advised of his appointment? Because in the context of this current debate in relation to funding and who said what when, I actually think it is quite important.

Major Gen. Gower—Could I make a comment on that, if I may? My previous appointment followed the same rules.

Senator RONALDSON—I assume that, unlike others at the table, you do not wish to give the committee the indication that you believe that moneys allocated under appropriation two can be dealt with in the same way as moneys under appropriation one?

Major Gen. Gower—I thought I covered that in my opening remarks.

Senator TROOD—You did.

Senator RONALDSON—I am asking you again.

CHAIR—We have come to 11 pm. The time for questioning has now ended. Senator Williams just wants to say some nice things.

Senator WILLIAMS—Your memorial is wonderful. I thank you for the Lancaster display given that my late father and his brother were both rear gunners in the Lancasters. It is a wonderful memorial. Good luck with it in the future.

Major Gen. Gower—Thank you very much.

CHAIR—Thank you, General Gower. I thank you staff for attendance. Thank you also, Mr Campbell, for staying on this evening. This concludes our discussion of the Australian War Memorial.

Committee adjourned at 11.00 pm