



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## **SENATE**

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION  
COMMITTEE

ESTIMATES

**(Budget Estimates)**

MONDAY, 30 MAY 2005

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE**

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

**Monday, 30 May 2005**

**Members:** Senator Sandy Macdonald (*Chair*), Senator Hutchins (*Deputy Chair*), Senators Ferguson, Mackay, Payne and Ridgeway

**Senators in attendance:** Senators Mark Bishop, Chris Evans, Faulkner, Ferguson, Hogg, Hutchins, Ludwig, Sandy Macdonald, Mason and Payne

**Committee met at 9.14 am**

**DEFENCE PORTFOLIO**

**In Attendance**

Senator Hill, Minister for Defence

**Department of Defence**

**Portfolio overview and major corporate issues**

**Portfolio overview**

Mr Ric Smith AO, PSM, Secretary of Defence

General Peter Cosgrove AC, MC, Chief of the Defence Force

**Budget summary (financial statements, capital investment budget and improvement initiatives)**

Mr Ken Moore, Acting Chief Finance Officer

Mr George Veitch, First Assistant Secretary, Budget and Financial Planning

Mr Noel Dobbie, Acting Assistant Secretary, Accounting Policy and Practices

Mr Jon Collings, Assistant Secretary, Planning and Budgeting

**Capability development**

Lieutenant General David Hurley, AO, DSC, Chief, Capability Development Group

Air Vice-Marshal Kerry Clarke, AM, Head, Capability Systems

Dr Ralph Neumann, First Assistant Secretary, Capability Investment and Resources

**Defence Materiel Organisation**

**Outcome 1: Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel**

**Output 1.1: Management of Capability Acquisition (including Major Capital Equipment projects)**

**Output 1.2: Capability Sustainment**

**Output 1.3: Policy Advice and Management Services**

Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation

Dr Ian Williams, Chief Finance Officer, Defence Materiel Organisation

Air Vice-Marshal Clive Rossiter, Head, Aerospace Systems Division

Ms Shireane McKinnie, Head, Electronic and Weapons Systems Division

Mr Peter Croser, Head, Industry Division

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Rear Admiral Trevor Ruting, AM, CSC, RAN, Head, Maritime Systems Division  
Mr Warren King, Program Manager, Air Warfare Destroyer  
Mr Kim Gillis, Program Manager, Amphibious Deployment and Sustainment  
Ms Gillian Marks, General Counsel  
Mr Colin Sharp, AM, CSC, Head, Land Systems  
Brigadier David McGahey, Director-General, Materiel Information Systems  
Mr Mark Jenkin, Director-General, Materiel Budget and Treasury  
Mr Tony Halberg, Director of Contracting Policy  
Major Capital Facilities projects  
Mr Alan Henderson, Deputy Secretary, Corporate Services  
Mr Geoffrey Beck, Head, Infrastructure Division  
Mr Lindsay Kranz, Acting Head, National Operations Division  
Ms Chris Bee, Assistant Secretary, Strategic Planning and Estate Development  
Brigadier Peter Hutchinson, Director-General, Infrastructure Asset Development

**Defence Outcomes****Outcome 1: Command of operations in defence of Australia and its interests****Output 1.1: Command of operations****Output 1.2: Defence Force military operations and exercises****Output 1.3: Contribution to national support tasks**

Vice Admiral Russ Shalders, AO, CSC, RAN, Vice-Chief of the Defence Force/Chief of Joint Operations

Major General Mark Evans, DSC, AM, Deputy Chief of Joint Operations

Air Vice-Marshal Christopher Spence, AO, Commander, Joint Logistics

Air Commodore Kevin Paule, Director-General, Joint Operations and Plans

**Outcome 2: Navy capability for the defence of Australia and its interests****Output 2.1: Capability for major surface combatant operations****Output 2.2: Capability for naval aviation operations****Output 2.3: Capability for patrol boat operations****Output 2.4: Capability for submarine operations****Output 2.5: Capability for afloat support****Output 2.6: Capability for mine warfare****Output 2.7: Capability for amphibious lift****Output 2.8: Capability for hydrographic, meteorological and oceanographic operations**

Rear Admiral Max Hancock, RAN, Acting Chief of Navy

Mr Stephen Wearn, Director-General, Navy Business Management

**Outcome 3: Army capability for the defence of Australia and its interests****Output 3.1: Capability for special operations****Output 3.2: Capability for medium combined arms operations****Output 3.3: Capability for light combined arms operations****Output 3.4: Capability for army aviation operations****Output 3.5: Capability for ground based air defence****Output 3.6: Capability for combat support operations****Output 3.7: Capability for regional surveillance****Output 3.8: Capability for operational logistic support to land forces****Output 3.9: Capability for motorised combined arms operations****Output 3.10: Capability for protective operations**

Lieutenant General Peter Leahy, AO, Chief of Army

Mr Lance Williamson, Director-General, Corporate Management and Planning—Army

**Outcome 4: Air Force capability for the defence of Australia and its interests****Output 4.1: Capability for air combat operations****Output 4.2: Capability for combat support of air operations****Output 4.3: Capability for surveillance and response operations****Output 4.4: Capability for airlift operations**

Air Marshal Angus Houston, AO, AFC, Chief of Air Force

Ms Grace Carlisle, Assistant Secretary, Resources Planning—Air Force

Air Commodore John Harvey, Director-General, New Air Combat Capability

Mr Steven Grzeskowiak, Director-General, Occupational Health and Safety

**Outcome 5: Strategic policy for the defence of Australia and its interests****Output 5.1: International policy, activities and engagement****Output 5.2: Strategic policy and military strategy**

Mr Shane Carmody, Deputy Secretary, Strategy

**Outcome 6: Intelligence for the defence of Australia and its interests****Output 6.1: Intelligence**

Mr Ron Bonighton, AM, Deputy Secretary, Intelligence and Security

Mr Ross Bain, Head, Defence Security Authority

Brigadier Steve Meekin, Director-General, Scientific and Technical Analysis

**Outcome 7: Superannuation and housing support services for current and retired defence personnel****Output 7.1: Superannuation support services for current and retired defence personnel****Output 7.2: Housing assistance for current defence personnel****Output 7.3: Other administered expenses and revenue**

Mr Ken Moore, Acting Chief Finance Officer

Mr George Veitch, First Assistant Secretary, Budgets and Financial Planning

Mr Jon Collings, Assistant Secretary, Planning and Budgeting

**Business processes****Defence Science**

Dr Roger Lough, Chief Defence Scientist

Dr Ken Anderson, First Assistant Secretary, Science Policy

**Inspector General**

Mr Claude Neumann, Inspector-General

**Chief Information Officer**

Air Vice-Marshal John Monaghan, AM, Chief Information Officer

Brigadier Robert Moffatt, AM, Director-General, Information Services Branch

**Corporate Services**

Mr Alan Henderson, Deputy Secretary, Corporate Services

Mr Geoffrey Beck, Head, Infrastructure

Mr Lindsay Kranz, Acting Head, National Operations Division

Mr Mark Cunliffe, Head, Defence Legal

Air Commodore Simon Harvey, Director-General, Australian Defence Force Legal Services

Dr David Lloyd, General Counsel, Defence Legal

Brigadier Jeff Davie, Director-General, Regions and Bases

Mr John Diercks, Assistant Secretary, Technical Facilities Services

**Coordination and Public Affairs**

Mr Michael Pezzullo, Head, Coordination and Public Affairs

**People****Defence Personnel**

Mr Peter Sharp, Acting Head, Defence Personnel Executive

Air Commodore Lee Roberts, Acting First Assistant Secretary, Personnel

Air Vice-Marshal Tony Austin, Head, Defence Health Services

Mr Steve Grzeskowiak, Director-General, Occupational Health and Safety

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

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

**1.1: Means tested income support, pension and allowances**

**1.2: Compensation pensions, allowances etc**

**1.3: Veterans' Review Board**

**1.4: Defence Home Loans Scheme**

**1.5: Incapacity payments, non-economic lump sums through MCRS**

**1.6: Individual merit reviews of MCRS decisions**

**1.7: Incapacity payments, non-economic lump sums through MRCA**

**1.8: Individual merit reviews of MRCA decisions**

Mr Mark Sullivan, Secretary

Mr Ian Campbell, Deputy President

Mr Ken Douglas, Division Head, Health

Mr Barry Telford, Division Head, Compensation and Support

Ms Peta Stevenson, Branch Head, Defence Links, Compensation and Support

Dr Keith Horsley, Director, Research Studies

Ms Carolyn Spiers, Branch Head, Veterans' Compensation, Compensation and Support

Mr Mark Johnson, Branch Head, Military Compensation, Compensation and Support

Mr John Stevens, Acting Branch Head, Income Support, Compensation and Support

Mr Wayne Penniall, Branch Head, Aged and Community Care, Health

Mr Paul Pirani, Branch Head, Legal Service, Compensation and Support

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

**2.1: Arrangement for delivery of services**

**2.2: Counselling and referral services**

**2.3: Deliver medical, rehabilitation ... under MCRS**

**2.4: Deliver medical, rehabilitation ... under MRCA**

Mr Mark Sullivan, Secretary

Mr Ian Campbell, Deputy President

Mr Ken Douglas, Division Head, Health

Mr Roger Winzenberg, Branch Head, Health Services, Health

Mr Pablo Carpay, Branch Head, Younger Veterans, Health

Mr David Morton, Branch Head, VVCS, Health

Mr Richard Barlett, Director, Hospitals and Business Development, Health

Ms Jo Schumann, Branch Head, Health Infrastructure, Health

Mr Wayne Penniall, Branch Head, Aged and Community Care, Health

Mr Barry Telford, Division Head, Compensation and Support

Dr Keith Horsley, Director, Research Studies

Dr Graeme Killer, Principal Medical Adviser

**Outcome 3: The service and sacrifice of the men and women who served Australia and its allies in wars, conflicts and peace operations are acknowledged and commemorated**

**3.1: Commemorative activities**

**3.2: War cemeteries, memorials and post-war commemorations**

Mr Mark Sullivan, Secretary

Mr Ian Campbell, Deputy President

Ms Kerry Blackburn, Division Head, Corporate

Mr Ian Kelly, Branch Head, Commemorations, Corporate

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

Ms Katherine Upton, Deputy Director, Office of Australian War Graves

**Outcome 4: The veteran and defence communities have access to advice and information about benefits, entitlements and services**

**4.1: Communication, community support ... to the veteran community and providers, including veterans' local support groups**

**4.2: Advice and information to members of the defence force community ... under the MCRS**

**4.2: Advice and information to members of the defence force community ... under the MRCA**

Mr Mark Sullivan, Secretary

Mr Ian Campbell, Deputy President

Mr Ken Douglas, Division Head, Health  
Ms Kerry Blackburn, Division Head, Corporate  
Ms Carol Bates, Branch Head, Strategic Support, Corporate  
Mr Wayne Penniall, Branch Head, Housing and Aged Care, Health  
Mr Barry Telford, Division Head, Compensation and Support  
Mr Mark Johnson, Branch Head, Military Compensation

**Outcome 5: Serving and former defence force members and dependents have access to support services provides through joint arrangements between DVA and Defence**

**5.1: Joint Defence/DVA projects**

Mr Mark Sullivan, Secretary  
Mr Ian Campbell, Deputy President  
Mr Barry Telford, Division Head, Compensation and Support  
Ms Carolyn Spiers, Branch Head, Veterans' Compensation, Compensation and Support  
Mr Mark Johnson, Branch Head, Military Compensation, Compensation and Support  
Ms Peta Stevenson, Branch Head, Defence Links, Compensation and Support  
Dr Keith Horsley, Director, Research Studies

**Output group 6: Provision of services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcomes 1 to 4**

Mr Mark Sullivan, Secretary  
Mr Ian Campbell, Deputy President  
Ms Kerry Blackburn, Division Head, Corporate  
Mr Barry Telford, Division Head, Compensation and Support  
Mr Russell McLaughlan, Branch Head, People Services, Corporate  
Mr Neil Bayles, Chief Finance Officer, Resources, Corporate  
Ms Gail Urbanski, Branch Head, Parliamentary and Corporate Affairs, Corporate  
Mr Paul Pirani, Branch Head, Legal Service, Compensation and Support  
Mr Bob Hay, Chief Information Officer, Corporate  
Ms Karin Malmberg, Director, Resources, Corporate

**CHAIR (Senator Sandy Macdonald)**—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I welcome Senator Robert Hill, the Minister for Defence, General Cosgrove, Chief of the Defence Force, and Mr Ric Smith, the secretary of the department. I also welcome officers of the Defence organisation. The committee has before it the particulars of proposed budget expenditure for the year ending 30 June 2006 and the portfolio budget statements for the Defence portfolio. The committee will first consider the estimates for the Department of Defence, beginning with the portfolio overview and major corporate issues. We will then move on to outputs, business processes and people. Please note that the Department of Veterans' Affairs will be heard today from 3.30 pm until the dinner break at 6.30 pm this evening. We will then return to Defence at 7.30 pm.

When written questions on notice are received, the committee will state for the record the name of the senator who submitted the questions and the questions will be forwarded to the department for an answer. The committee has resolved that Thursday, 21 July 2005 shall be the return date for the answers to questions taken on notice at these hearings. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may

constitute a contempt of the Senate. Minister, do you or either of your senior officers wish to make an opening statement?

**Senator Hill**—I do not. I think General Cosgrove has an operations overview.

**Gen. Cosgrove**—The practice in the last several estimates has been for me to give a brief operational overview to launch proceedings, and I propose to do that today. The ADF has approximately 1,700 people deployed on its three major operations overseas: operations Catalyst, Anode and Spire. These, as well as six other operations, involve border protection, United Nations operations, coalition operations and third-country deployments.

I will go first to Operation Spire. I am delighted to report to the committee that, at the end of five years, Operation Spire, which is the major troop operation in East Timor, is about to draw to a close. On 28 April the UN Security Council adopted resolution 1599 establishing a special political mission to replace UNMISSET. The new mission is to be known as the United Nations Office in Timor-Leste, UNOTIL. That resolution included provision for 45 civilian advisers, 40 police advisers, 35 additional advisers—up to 15 of which may be military—and 10 human rights officers. The ADF has been requested to nominate two lieutenant colonels and one major as military advisers for UNOTIL. This request is currently being staffed.

DPKO in New York requested that the ADF extend the deployment of two of our existing military liaison officers in the rank of major or equivalent to remain in East Timor during the transition from UNMISSET to UNOTIL. On 19 May approval was granted by the minister for an extension of these officers up to 20 July 2005. The upshot of that is that we will be bringing our peacekeeping operation troops home. They will be home soon. They were there in the number of about 100 or a bit over 100. They will be returning as the last of our committed troops to the UN peacekeeping operation. We are very proud of what the ADF achieved in that respect and we are ready to welcome these troops home with great approbation for the way they have performed.

I move on to Operation Azure. This is the Australian support for the United Nations Mission in Sudan, UNMIS. This mission was established by the UN Security Council in resolution 1590 on 24 March 2005 and is mandated to support the implementation of the comprehensive peace agreement between the government of Sudan and the Sudan People's Liberation Movement/Army, SPLM/A. The UN has requested an ADF contribution of 15 personnel to be deployed, nine as headquarters staff. The remaining six will be UN military observers. The deployment of these personnel into Sudan is staggered over approximately six months. We started to deploy people on 5 May, with the first of our headquarters folk arriving in Sudan on 8 May. To date, we have one UNMO and three headquarters staff in Sudan, with five UNMOs due in Khartoum by 4 June to commence mission induction training prior to deploying to the field.

I remind the committee that we recently concluded Operation Sumatra Assist, which became Operation Sumatra Assist II. Operation Sumatra Assist II was the ADF contribution to the whole-of-government effort to provide assistance to Indonesia in the aftermath of the Boxing Day tsunami, followed, of course, on 28 March 2005 when a further major earthquake, centered on the island of Nias on the west coast of Sumatra, resulted in severe

damage to Nias and surrounding islands. ADF achievements in Operation Sumatra Assist included the delivery of 1,200 tonnes of humanitarian aid distributed by air; 70 aeromedical evacuations; 2,530 people transported by air; 3,700 Indonesian people received medical treatment; 4.7 million litres of clean water were produced; 9,000 cubic metres of debris cleared; 1,000 metres of road cleared; 1,700 large drains cleared; and six large fishing boats salvaged.

The second operation, Sumatra Assist II, included: 133 tonnes of rice delivered; 5,000 litres of water provided; 570 patients treated offshore by medical staff; 13 surgical and further treatments conducted on board HMAS *Kanimbla*; seven Sea King aeromedical evacuations; the town water pump and generator repaired in the town of Lahewa; and over 138 tonnes of stores moved by C130 Hercules.

The committee and all Australians will remember that on Saturday, 2 April, a Navy Sea King helicopter from HMAS *Kanimbla* crashed on a playing field in the vicinity of Amandraya village, Nias island, on the west coast of Sumatra. The helicopter was conveying a medical party to the area in support of Operation Sumatra Assist II. Tragically, nine ADF members of the 11 on board were killed. The two survivors are recovering well from their injuries. There may be further interest in this within the committee, and I will leave further discussion of the aftermath of this very tragic accident to later questioning perhaps or to reference during CJOPS's testimony or perhaps during the Navy group testimony. No personnel remain deployed on Operation Sumatra Assist II. The last of these folk returned to Australia on 12 May 2005. These personnel who had worked mainly in the vicinity of Amandraya on Nias island comprise members of the air accident investigation team, Sea King recovery personnel, site remediation team members and other supporting personnel.

I will name the other operations before moving on to some the committee might find of keener contemporary interest: the Northern Australia and sea air approaches operation, Operation Cranberry; the continuing Australia border protection operation, Relex II; the Southern Ocean operations, Operation Mistral; an ongoing operation in the Middle East called Mazurka, which is the multinational force and observers group in the Sinai—we have had people there for many years; the Middle East UN operation, Operation Paladin; and the UN Truce Supervision Organisation, UNTSO, established in 1948, where we have 12 people. In the period, we have trained Republic of Fiji military forces who contributed to the United Nations Assistance Mission for Iraq and provided equipment and training in November 2004.

We have two ongoing surveillance operations over our maritime areas that are of interest. Operation Solania looks at assistance to countries in the south-west Pacific through airborne surveillance of their exclusive economic zones. Generally, the Solania priority patrols are the inner islands exclusive economic zones of Fiji, Tuvalu, West Samoa and Tonga; while the second priority patrols are of the outer islands EEZs of PNG, Vanuatu, Nauru, Federated States of Micronesia, Kiribati, Solomons, Palau and Micronesia. Operation Gateway, similarly, is a maritime surveillance exercise of the Malacca Straits and the east and west approaches thereto.

I will go now to Operation Anode, the Solomon Islands operation. This is our contribution to the Regional Assistance Mission to the Solomon Islands. The military contingent of RAMSI is supporting the participating police force. Operation Anode includes a military

adviser to the special coordinator, Mr James Batley. That military adviser is also the commander of the small military task force there. He has a headquarters that performs a command and control function for the military contingent. An Australian also commands the headquarters and has a New Zealander permanently appointed as the 2IC. The headquarters is predominantly manned by the Australian Defence Force; however, it has representation in the form of liaison officers from all of the troop-contributing nations—New Zealand, Papua New Guinea, Fiji and Tonga. That headquarters staff also assists the police in the planning and conduct of combined operations. The military component consists of five rifle sections that provide support to the participating police force, and they also provide quick reaction duties.

The total military component supporting RAMSI currently consists of 70 personnel, of which approximately 40 are Australian Defence Force. I remind the committee that under the DCP—the Defence Cooperation Program—Australia has gifted 22 Pacific class patrol boats throughout the south-west Pacific. Two of these, the RSIP *Auki* and the RSIP *Lata*, are located in the Solomon Islands. In 2004, the government agreed to refit the *Auki*, which is now operational and is performing surveillance and border protection duties in the Solomon Islands. A second boat should also be made operational within the next 18 months.

Moving lastly to our most significant operation, Operation Catalyst, we currently have about 1,400 Australian Defence Force personnel committed to Operation Catalyst. It includes a national headquarters, presently commanded by Commodore Geoff Ledger, and a logistics support element. There is a security detachment which is responsible for protecting the Australian Embassy staff in Baghdad and the work happening at the site of the new embassy to be located in the international zone. It also supports Joint Task Force 633, AusAID staff when they are deployed, and the Australian Army Training Team Iraq. HMAS *Darwin* is our ship on duty there at the moment. It is supported by a small command and logistics element ashore, and it is conducting maritime interdiction operations in the Northern Arabian Gulf. On 23 May, HMAS *Newcastle* left to relieve *Darwin* in the MEAO—the Middle East area of operations.

We have two AP3C Orion maritime patrol aircraft conducting intelligence, reconnaissance and surveillance missions in the Northern Arabian Gulf, the Gulf of Oman and over land in Iraq. We have the Australian Army Training Team Iraq, consisting of approximately 50 personnel, and they are training logistics elements of the Iraqi army. Recently, on 18 April, they graduated 151 Iraqi army students, all training in logistics specialities. Their next course began on 2 May.

We have about 40 people embedded in the headquarters of Multinational Force Iraq and the Multinational Corps Iraq to provide ongoing support to the coalition for transitional and rehabilitation efforts in Iraq. A small number of ADF people are embedded within the UK Multinational Division (South East) headquarters. We have a team of approximately 20 people, including specialists, working at a coalition medical facility at Balad air base north of Baghdad, and that commitment is presently authorised to extend to 30 June.

We have the military adviser to the UN Special Representative to the Secretary-General. We have a small Air Force air traffic control element deployed at Balad air base supporting US air traffic controllers. We have two RAAF C130 aircraft providing national and coalition

support. Of course, we have the Al Muthanna Task Group, comprising 450 personnel and 40 light armoured vehicles. They are there to support the Japanese Iraq reconstruction and support group operations and to provide training to the Al Muthanna provincial Iraq security forces. The Al Muthanna Task Group operations will support the security of Japanese reconstruction elements and provide support for the development of the Iraqi security forces as part of our Operation Catalyst commitment. On 17 April, Commodore Steve Gilmore of the Royal Australian Navy assumed responsibilities as commander of Task Force 58, which is the US-led coalition naval task force on those constabulary duties in the northern gulf. The commodore and his RAN staff are embarked on USS *Antietam*.

Operation Slipper, which is our catch-all name for the ADF's contribution to the global war on terror, currently has a contribution of a mine action officer attached to the US headquarters in Afghanistan. The Operation Catalyst AP3C detachment and the major fleet unit assigned to the maritime interception force operations in the northern Persian Gulf are dual assigned for Operation Slipper and Operation Catalyst, as is the headquarters in Baghdad. Thank you, Chair. That is a quick run-through—a gallop through, perhaps—of our operational commitments. I remind you that more detail on that will be available later, if you wish, during the Chief of Joint Operations' session with you.

**CHAIR**—Thank you, General Cosgrove. Mr Smith, did you want to add to that?

**Mr Smith**—No thanks.

[9.31 am]

**CHAIR**—We will start with the portfolio overview.

**Senator MARK BISHOP**—General, do you think you would be able to table a copy of the statement you just read out?

**Gen. Cosgrove**—I selectively quoted from a long list of information. I did not read it verbatim. Perhaps *Hansard* would be a better source.

**Senator MARK BISHOP**—Understood. Thank you, General. Mr Smith, I first want to turn to budget measures, starting on pages 35, 36 and 37 of the PBS. I turn to table 2.3 on page 36, the heading being 'absorbed and offset budget measures by Defence'. I take it at the outset that the 10, 12 or so items in table 2.3 are all unfunded budget items that have to be implemented over the life of the forthcoming financial year and the out years—is that correct?

**Mr Smith**—That is correct.

**Senator MARK BISHOP**—What I intend to do is walk you through each of the headings and ask you a few questions about this series of measures. Firstly, on the establishment of the Australian Defence Medal, my memory is that that is a commitment the government made shortly prior to the last election. There was a bit of an inquiry set up in May-June under Mr Brough which made some recommendations and became part of the government's policy for the establishment of a new medal. Is that bit of background correct?

**Mr Smith**—I cannot recall precisely the background. I think that is right, though.

**Senator MARK BISHOP**—I think that is pretty accurate.

**Mr Smith**—Yes, I think that is right.

**Senator Hill**—But with some of the details still to be developed.

**Senator MARK BISHOP**—Who is going to receive the Defence Medal first up?

**Mr Veitch**—The new medal is a medal that will recognise volunteer service in the ADF for those who have served a total of six years in the regular or reserve forces since World War II.

**Senator MARK BISHOP**—How do you get the medal?

**Mr Smith**—Mr Peter Sharp can take further questions on that. He is across the detail of it.

**Mr P. Sharp**—As has been stated, the medal is for members who have served six years. There will also be some provision for members who have served fewer than six years—for example, who have been discharged medically or where their arrangements for enlistment would not allow them to serve six years. There is a third category: those who die in service would also be eligible—their relatives would be eligible—for the medal.

**Senator MARK BISHOP**—Unit cost per medal?

**Mr P. Sharp**—That has not yet been worked out. We are still addressing just how we are going to do it. But, as you will see from the budget papers, there is a small civilian staffing increase to assist us with this exercise.

**Senator MARK BISHOP**—Is it going to be handled in house or contracted out?

**Mr Smith**—It will be handled in house.

**Mr P. Sharp**—In house, although, as at present with some medals, we do have the minting and, if you like, the production of the ribbons done outside the department.

**Senator MARK BISHOP**—How many people will be involved in the receipt of applications and distribution of the medals?

**Mr P. Sharp**—We have yet to work that out. I would guess six to 10.

**Senator MARK BISHOP**—Are applications open yet?

**Mr P. Sharp**—We are receiving applications, although we have not yet quite nailed down the full details of who will get them.

**Senator MARK BISHOP**—Are applications being received via offices of members of parliament or is it straight to ADF?

**Mr P. Sharp**—I do not think we have had any from ministers' offices, but we may have.

**Senator MARK BISHOP**—No, applications being received via offices of members of parliament—or is application direct by applicants to the defence forces?

**Mr P. Sharp**—We have not yet published the various avenues for applications, but we are expecting them from a range of sources.

**Senator MARK BISHOP**—When will the medals start to be issued?

**Mr P. Sharp**—This year.

**Senator MARK BISHOP**—When?

**Mr P. Sharp**—I do not have a date for you yet, because we have not yet settled on the plan to go forward.

**Senator MARK BISHOP**—When you say ‘this year’, do you mean this financial year or this calendar year?

**Mr P. Sharp**—Calendar year.

**Senator MARK BISHOP**—What I am hearing you say is that you have increased the number of staff involved; some of the work will be done in house and some will be contracted out; the form of application has not yet been decided; the guidelines have not yet been decided; and some medals might be issued this year but the unit price per medal has not yet been determined. Is that the net of your evidence?

**Mr P. Sharp**—That is correct.

**Senator MARK BISHOP**—How many do you anticipate issuing this year?

**Mr P. Sharp**—We believe the total number of eligible people for this medal will be of the order of 400,000. Until a plan is developed, it is hard to judge just how many we will issue in any one year. We will be trying to get through these in four to six years.

**Senator MARK BISHOP**—Do you think that or do you know that?

**Mr P. Sharp**—That is my judgment.

**Senator MARK BISHOP**—What do you base that judgment upon?

**Mr P. Sharp**—Once we get the system up and running with the staff we have allocated, this particular medal is fairly straightforward for most recipients. There are no campaign checks, for example; we have to determine that they have served six years, but that sort of information is fairly readily available.

**Senator MARK BISHOP**—I see that in year 4 of the budget estimates, the amount to be spent is \$2.09 million and at the beginning of year 1, some time after now until the end of this year, it is \$3.6 million. So it is decreasing over time. Is that four-year period going to be sufficient to allocate all of the medals?

**Mr P. Sharp**—That is our best estimate at this time.

**Senator MARK BISHOP**—So you are talking about the best part of at least 100,000 a year.

**Mr P. Sharp**—That is our best estimate at this time.

**Senator MARK BISHOP**—Have you done any work to determine the best estimate or is that just experience in the past for the issuing of medals?

**Mr P. Sharp**—Our people are working on this as we speak. We do have experience of medals. Until we have a more definitive plan together, I am loath to speculate precisely how long this will take.

**Senator MARK BISHOP**—When do you think your plan will be concluded and ready? Who does it go to for sign off? Mr Smith or the minister?

**Mr P. Sharp**—The minister assisting is still finalising the details of eligibility, but the plan is to do it within the department.

**Senator MARK BISHOP**—When do you think the plan will be ready to go to the minister assisting for sign off?

**Mr P. Sharp**—I think we will have it done in a month.

**Senator MARK BISHOP**—So by the end of June—and start implementing in July-August.

**Mr P. Sharp**—Starting the process of determining eligibility and issuing, yes.

**Senator MARK BISHOP**—Thank you.

**Mr Smith**—I should just clarify that, once the government has agreed on the design of the medal, the design, regulations and letters patent and so on all have to go to Her Majesty the Queen for formal approval. There is another step in there.

**Senator MARK BISHOP**—In your experience, that takes some months to occur, doesn't it?

**Mr Smith**—I do not have experience of that. The only dealings I had in this matter were pretty expeditious.

**Mr P. Sharp**—I am not aware of it taking months.

**Senator MARK BISHOP**—My observation in the past has been that it has taken three or four months after design for the regulations to be drafted and gazetted, for the correspondence to go off to Her Majesty, for the response to be received and then for the implementation phase to start. I do not regard three or four months as being necessarily slacking.

**Mr P. Sharp**—I believe we are some way up the track of preparing that sort of necessary documentation. We are not starting de novo today.

**Senator MARK BISHOP**—When do you think the first medal will be issued?

**Mr P. Sharp**—In the light of your experience, Senator, perhaps we will go for September-October.

**Senator MARK BISHOP**—What about in the light of your experience and your knowledge? That would be better.

**Mr P. Sharp**—I believe we will have most of this ready, but subject to the necessary clearances, within three or four months.

**Senator HUTCHINS**—Can I go to eligibility again? You said six years service and you made a comment about people who have passed away. Are their families eligible for this medal after less than six years service?

**Mr P. Sharp**—That is the intention, yes.

**Senator HUTCHINS**—So, irrespective of how they passed away, they would still get the medal, would they, even if they served less than six years?

**Mr P. Sharp**—Yes.

**Senator HUTCHINS**—And anybody who has served less than six years and is still alive will not be eligible for the medal?

**Mr Smith**—It is anybody who has passed away during the six years or within six years of beginning the service—not that they served three years some years ago and have since passed away.

**Mr P. Sharp**—People who died in service.

**Senator FAULKNER**—How far back does that posthumous award go?

**Mr Smith**—Starting from the end of the Second World War.

**Senator HUTCHINS**—It just seems a little confusing; that is all. If you have done six years service and you are alive, you are eligible for the medal; if you have done less than six years and you are alive, you are not eligible for the medal. Is that correct?

**Mr P. Sharp**—Yes.

**Senator HUTCHINS**—But if you have done less than six years service and you have passed away, your family is eligible.

**Mr P. Sharp**—Passed away during your service.

**Senator HUTCHINS**—While you are in uniform.

**Mr P. Sharp**—Yes.

**Senator MARK BISHOP**—So for every person who signed up after 1950, did their service and then passed on—are their families eligible to apply for a medal?

**Mr Smith**—Only if the member died during service—in uniform.

**Senator MARK BISHOP**—What if he or she went into the reserves.

**Mr Smith**—Reserves count.

**Senator FAULKNER**—Mr Smith, I assume that means that it will be quite a considerable administrative task internally in the department to identify all those who have died but who, under these provisions, are entitled to a posthumous award. I am not critical of that, but I imagine this will be quite a substantial job.

**Mr Smith**—Yes, it will.

**Senator FAULKNER**—Do you have any idea what sort of staff hours and time will be involved in that work?

**Mr Smith**—It would be considerable. Mr Sharp has done some work on that. With 400,000 people stretching back to 1945-46 and verifying them, yes, it will be a lot of work. What was our assessment of it? We are seeking internally six to 10 more staff, but if it takes more than that, we will find them.

**Mr P. Sharp**—To this point in the budget, we have 10 people set aside for this task.

**Senator MARK BISHOP**—Ten additional people?

**Mr P. Sharp**—Yes.

**Senator FAULKNER**—How long will it take them?

**Mr P. Sharp**—We are back to the discussion we were having with Senator Bishop. We think in four years we will make a significant inroad into this task. Many of these are not going to be that difficult. For example, with serving members, on their serving six years we will be able to automatically produce their Defence Medal. And our records of people who have served six years are fairly good. There are those who died within service, and there may be some difficulties in locating people which we have yet to—

**Senator HUTCHINS**—What about people who died as a result of their service and no longer were in the armed forces? I am sure MPs are going to find this difficulty come up all the time. There are going to be these grey areas. What is the view of the RSL about the proposal for posthumous medals?

**Mr Smith**—We are receiving many submissions. The criteria have not been finalised in all of their detail, and we are receiving many submissions from service organisations and individuals and trying to take them into account in finetuning the criteria. The essence of the criteria is clear—six years service and so on—but in finetuning that there are a lot of issues that we hope to resolve in the very near future.

**Senator FAULKNER**—Are the decisions on finetuning decisions for government? They will be ministerial decisions, won't they?

**Mr Smith**—Absolutely.

**Senator FAULKNER**—You have said to the committee, and it is helpful for us to know it, that the 10 extra staff will work for four years. It sounds as though you are suggesting that a substantial amount of the work will be done with those resources. Is that right?

**Mr P. Sharp**—Yes.

**Senator FAULKNER**—What do we mean by 'substantial'?

**Mr P. Sharp**—As I said, we are still developing the plan. The 10 staff are additional staff. We may draw on some existing resources within the honours and awards area.

**Senator FAULKNER**—So it is 10 additional staff plus certain existing staff?

**Mr Smith**—Yes.

**Mr P. Sharp**—Our existing staff are fairly heavily committed, which is why we were seeking additional staff for this task.

**Senator MARK BISHOP**—You are still issuing medals from the government's 2001 election commitments, aren't you?

**Mr P. Sharp**—We are still issuing national service medals, yes.

**Senator MARK BISHOP**—How many of those have been issued?

**Mr P. Sharp**—I will have to take that on notice.

**Senator MARK BISHOP**—Do you have a ballpark figure?

**Mr P. Sharp**—No, but I will get it for you before the end of the day.

**Senator MARK BISHOP**—Excluding these extra 10 bodies you are talking about, how many people are currently employed or working in the section that is responsible for the issuing of medals?

**Mr P. Sharp**—From memory, the directorate is 40 to 50.

**Mr Smith**—It is 53, I think. I think that is a figure I have seen recently.

**Senator FAULKNER**—Thanks for that, Mr Smith. We should be able to get a precise figure.

**Mr Smith**—We can do that, can't we?

**Senator FAULKNER**—Are you able to indicate what the budget is over the forward estimates period, over the next four financial years, for this particular exercise?

**Mr P. Sharp**—I will take that on notice and get back to you, unless you have got it, George.

**Mr Veitch**—Senator Faulkner, were you referring to this medal or to the directorate as a whole?

**Senator FAULKNER**—I assume, given that it is effectively a new policy proposal—you can correct me if I am wrong, Mr Smith—that it might be something that could be easily disaggregated. Would that be fair?

**Mr Smith**—The work is done on that and the figures across the four years, as you know, are there. If you would like some disaggregation of the figures and how they were calculated, we can get that.

**Senator FAULKNER**—I assumed that it would be comparatively easy, given that it is a newly identified policy proposal.

**Mr Veitch**—We can get some detail on that and get back to you today sometime.

**Senator FAULKNER**—Thank you very much.

**Mr Smith**—Bear in mind, that they are very much estimates until the final detail is resolved.

**Senator FAULKNER**—I appreciate that and I appreciate that some of the figures that we have been given in relation to numbers and the like are also best estimates. I think everyone would understand that in these sorts of circumstances it is probably the best we can do.

**Senator HUTCHINS**—When will these guidelines be available to us?

**Mr Smith**—I guess it is a bit trite to say when the minister has agreed them, but that is exactly the point. The criteria are being finalised and finetuned now. That is correct, isn't it, Mr Sharp?

**Mr P. Sharp**—Yes.

**Senator HOGG**—On the additional expenditure each year, does that purely and simply cover the cost of staffing? Does it cover the cost of staffing and the medals? What does it cover? Can you give us some assessment.

**Mr Veitch**—It covers the cost of the staff and their overheads but it also covers the cost of the minting of the medal.

**Senator MARK BISHOP**—And the distribution?

**Mr Veitch**—Postage and distribution.

**Senator HOGG**—For example, I would imagine the up-front cost for minting would be borne mostly in the first year and reduce in the subsequent years. Are you able to give us some idea of how the costs will be apportioned over the four years? Will there be an increase in staff, for example, in years 2 and 3? And, if the staff is currently set at 10 additional staff, will it balloon out in those forward years?

**Mr Veitch**—Certainly the cost of minting the medal comes in the early years, hence the rundown in the numbers that you see in the table, but it goes back to the question that Senator Faulkner asked. I have asked for the detail to be sent over and I can give you the precise detail when it comes to hand.

**Mr P. Sharp**—The minting of the medal is one thing. Subsequent to that is the engraving, the ribbon and the distribution, so there is an up-front cost which I think is reflected in the numbers.

**Senator FAULKNER**—But you are up to the design stage now, aren't you? Is that right? Medal design.

**Mr P. Sharp**—Yes, the design is under consideration.

**Senator FAULKNER**—So who is doing that for you?

**Mr P. Sharp**—Design is something that we usually work from in-house and work with other Commonwealth areas in relation to standards and the like.

**Senator FAULKNER**—So it is an in-house design?

**Mr P. Sharp**—We will be putting suggestions on design to the government and then to Her Majesty.

**Senator MARK BISHOP**—So the design work has not actually started yet?

**Mr P. Sharp**—We have done some preliminary work on it.

**Senator MARK BISHOP**—What preliminary work have you done?

**Mr P. Sharp**—We have given some consideration as to the sorts of things that might be on this medal.

**Senator MARK BISHOP**—Some consideration. Have you got a sketch?

**Mr P. Sharp**—It would be improper for me to indicate that we have got any conclusion on this yet.

**Senator MARK BISHOP**—Have you got anything more than an idea?

**Mr P. Sharp**—No.

**Senator HOGG**—There is no sketch at this stage?

**Mr P. Sharp**—No, Senator.

**Senator MARK BISHOP**—And there are no finalised guidelines for the sketching artist yet?

**Mr P. Sharp**—Not yet.

**Senator MARK BISHOP**—But you are thinking about it.

**Mr P. Sharp**—Yes, Senator.

**Senator HOGG**—Can I ask about the distribution. How do you expect the medal will be distributed?

**Mr P. Sharp**—I think we would like to see these presented.

**Senator HOGG**—By whom?

**Mr P. Sharp**—That is a matter that we will need to address.

**Senator HOGG**—It is an important issue.

**Mr P. Sharp**—It is an important issue; I agree.

**Senator HOGG**—That has already arisen with other medals and their distribution, and it means a lot to the people who are the recipients.

**Mr P. Sharp**—Correct.

**Senator HOGG**—When will there be a decision on the basis—

**Mr P. Sharp**—I think that is part of our plan. As you allude, perhaps to avoid these medals just appearing in the post, we are prepared to have some means of issuing them in an appropriate fashion.

**Senator HOGG**—The allocation in the budget is purely and simply for the Australian Defence Medal. Is that correct?

**Mr P. Sharp**—Correct.

**Senator HOGG**—What other medals are in the pipeline for being struck by Defence and are they covered elsewhere in the PBS?

**Mr P. Sharp**—As Mr Veitch suggested, we will try and give you the fuller picture.

**Senator HOGG**—I understand there is an Afghanistan campaign medal, for example, and an Iraq campaign medal.

**Mr P. Sharp**—There are campaign medals. There is the completion of the National Service Medal.

**Senator HOGG**—So none of these additional staff we are talking about are for anything other than the Australian Defence Medal.

**Mr Veitch**—The figures you see in table 2.3 relate exclusively to the new medal, the new policy measure that was announced by the government. In terms of the directorate of honours and awards and the other medals that they are responsible for distributing, they would be part of the Defence Personnel Executive's normal budget and you would not see it in these papers in that it is not a new measure, it is part of the normal ongoing activity of that section.

**Mr P. Sharp**—The other work we are engaged in is that the Malaysian government has announced a Pingat Jasa Malaysia medal for people who served in Malaysia between 1957 and 1966. Our involvement there is confined to receiving applications and verifying service and eligibility.

**Senator MARK BISHOP**—Can I pin down this death in service and death of service? Are you saying that for a person who is a member of the armed forces anytime after 1945 who qualifies in terms of the time periods, and who dies in service, his family could apply?

**Mr P. Sharp**—That is correct.

**Senator MARK BISHOP**—If I were a member of the armed forces between 1950 and 1958 and I then died some years afterwards, would my family, my wife or my children, be able to apply?

**Mr P. Sharp**—Yes, Senator.

**Senator MARK BISHOP**—So essentially it is every person who has the six years and who was a member of the ADF after 1945 who has died.

**Mr P. Sharp**—Yes.

**Mr Smith**—Provided they served six years, and a good number would not have.

**Senator HUTCHINS**—Does that include national service as well?

**Mr Veitch**—No, Senator.

**Senator MARK BISHOP**—If you had two years nasho and four years regular, six years—

**Gen. Cosgrove**—Your two years was recognised, so your four years would then need to go to six.

**Senator MARK BISHOP**—Right. I can already imagine the letters coming in on this.

**Senator HOGG**—I hope you have a lengthy number of permutation and combination explanations for us at the time that this hits the deck.

**Senator MARK BISHOP**—What about CMF service back in the 1950s?

**Gen. Cosgrove**—Effective service in any given year will count as a year's service.

**Senator MARK BISHOP**—Effective service in any given year will count as service, excepting national service, where the person has already received the National Service Medal.

**Gen. Cosgrove**—Correct.

**Senator MARK BISHOP**—Cadets?

**Gen. Cosgrove**—No.

**Senator MARK BISHOP**—Emergency?

**Gen. Cosgrove**—It is only military.

**Senator MARK BISHOP**—All right. I can see the letters coming now.

**Senator HUTCHINS**—Mr Smith, these guidelines have been presented to the minister at some stage. Is that right?

**Mr Smith**—The minister assisting the minister.

**Senator HUTCHINS**—And when do you believe these guidelines may be completed?

**Mr Sharp**—Shortly.

**Senator HUTCHINS**—You weren't going to say longly, were you?

**Mr Sharp**—I would say within a couple of weeks.

**Senator MARK BISHOP**—I will turn now to the Capability and Technology Demonstrator Program in table 2.3. I see that this program is only going to have funding for three years—this year and two of the three out years. Why is that?

**Lt Gen. Hurley**—I think it will extend beyond that. This is just showing the forward estimates period. It has been intended to double the amount of money we spend on the CTD.

**Senator MARK BISHOP**—Each of the years has roughly got \$13 million—in the current year, \$13.3 million, next year \$13.6 million and the year after \$13.9 million. There is a decline in real dollar terms over the three years. Why do you say that there is going to be a doubling of the amount in the 2008-09 year when there is no allocation?

**Mr Veitch**—I can help you with that question. The government's policy announcement in the last election was to double the size of the program from \$13 million, which covers a three-year period. The numbers you see in that table represent the additional \$13 million but price outturned in those years. So, in today's dollars, they are actually \$13 million in constant prices.

**Senator MARK BISHOP**—In real terms, it is a decline.

**Mr Veitch**—In real terms, those three numbers represent \$13 million in today's dollars.

**Senator MARK BISHOP**—Yes. So it is a three-year program. You say there is \$13 million allocated in real dollars—

**Mr Veitch**—There is \$13 million allocated in the existing Defence budget over that time. This adds another \$13 million. So, in constant prices, you have a program of about \$26 million.

**Senator MARK BISHOP**—So where do I find the other \$13 million?

**Mr Veitch**—Again, it is one of those baseline issues. You will not see it specifically mentioned in the document because it is embedded in the normal baseline. As part of the Defence Capability Plan, there is \$13 million being recurrent for this program. This represents the additional \$13 million for three years.

**Senator MARK BISHOP**—So, elsewhere in the budget, the government has allocated \$13 million each year under the Capability and Technology Demonstrator Program, although it not sufficiently disaggregated to identify it.

**Mr Veitch**—That is right.

**Senator MARK BISHOP**—The second point: this meets the government's electoral commitment to double that over a three-year period.

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—But that \$13 million, the doubling which is identified in table 2.3, is coming out of absorbed costs.

**Mr Veitch**—That is right.

**Senator MARK BISHOP**—It is not an actual allocation.

**Mr Veitch**—It is not an additional allocation. We have absorbed that within the Defence Capability Plan.

**Senator MARK BISHOP**—So there are going to be savings from elsewhere to pay for that. Looking at the 2008-09 year, there is no allocation there in terms of an additional \$13 million.

**Mr Veitch**—There is no additional allocation but there would be \$13 million—

**Senator MARK BISHOP**—In 2007-08, there will be \$26 million or \$27 million spent.

**Mr Veitch**—That is correct.

**Senator MARK BISHOP**—That would be 13 from here, plus 13 from elsewhere.

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—Then in 2008-09 there will be a scaling back to \$13 million or \$14 million.

**Mr Veitch**—That is correct.

**Senator MARK BISHOP**—Unless there is an additional allocation of funds—

**Mr Veitch**—Unless there is another policy announcement, yes.

**Senator MARK BISHOP**—So essentially, by the end of financial year 2008-09, the bulk of the work will need to have been done and there will be a scaling down of work in terms of this particular program unless there is an additional allocation of funds.

**Mr Veitch**—I guess I would characterise it slightly differently in that there is an ongoing allocation of \$13 million and what this policy measure represents is an increase on that for three years, so it is an increase to what would be a normal base activity.

**Senator MARK BISHOP**—We can call it narrow then. There is a scaling up of the funding allocation for three years, and one presumes a scaling up of work for three years, and then in the fourth year we are coming down the slope because the funding allocation, unless supplemented, is going to be half.

**Mr Veitch**—That is right.

**Senator MARK BISHOP**—Defence health, creation of a new leadership position, \$268,000—what is that? Is that a new senior person?

**Mr Veitch**—As part of the government's election commitment, it announced the creation of a new two-star position to head Defence Health Services. This budget measure is the cost of the salaries and overheads in the creation of that office.

**Senator MARK BISHOP**—Who will be employed in that office—a two-star plus one or two support staff?

**Mr Veitch**—Probably one or two, yes. For those allocations, we will absorb that within the normal defence work force and people plan.

**Senator MARK BISHOP**—What is that position for? It is not a chief medical officer type position, is it?

**Mr Veitch**—It might be best if I got Mr Sharp to come and talk about the specifics of the position.

**Mr P Sharp**—I think the creation of the position at the two-star level reflects the increasing importance and attention we have had to give to health, given the very wide operational deployments of the ADF and important issues in the OH&S and military rehabilitation and compensation arena.

**Senator MARK BISHOP**—Is it going to be an additional position or is it simply a regrading—a different priority given to that work?

**Mr P Sharp**—It is an additional position. Although the arrangements underneath it have yet to be resolved, it is expected that there will be another one-star position to support it.

**Senator MARK BISHOP**—Who will the two-star report to?

**Mr P Sharp**—The two-star is part of the defence personnel executive, but they report principally to the CDF.

**Senator MARK BISHOP**—Let us turn now to the joint combined training centre implementation. You are absorbing \$10.2 million in the first year, \$11.5 million in the second year and a little bit thereafter. Tell us about that, General.

**Lt Gen. Hurley**—The joint combined training centre initiative was announced during the last Australia-US ministerial discussions in 2004. The intention is to prepare, through an exercise called Talisman Sabre in 2007, an enhanced capability to conduct joint training with the United States across their services and the marine corps. It essentially gives us access to some of their higher end virtual training facilities in the United States and the ability to conduct command post exercises and so forth to a high degree in Australia.

**Senator MARK BISHOP**—This is a new centre and new positions?

**Lt Gen. Hurley**—Yes, it is a new initiative.

**Senator MARK BISHOP**—And it is concentrating on virtual training, integrating our people at that level with the US forces?

**Lt Gen. Hurley**—There are a number of facets to it. There is the virtual side of the house. There will be some improvements done to the Shoalwater Bay training area to allow some of the activities to occur. We will probably need some sort of simulation centre constructed there for that exercise and some communications infrastructure put in place to support some of the simulation activities.

**Senator MARK BISHOP**—So is it basically a capital investment?

**Lt Gen. Hurley**—There is a mixture. There is some capital investment and there is some purchase of equipment—capital investment in terms of infrastructure and purchase of equipment to allow it to occur.

**Senator MARK BISHOP**—But from what you are saying it sounds like 80 or 90 per cent of the expenditure is going to be on infrastructure and capital investment.

**Lt Gen. Hurley**—No, I do not think it is going to be that high. We are looking at improvements to amphibious exit points, to some facilities to house the virtual end of the capability—the command posts and so forth—and also to exercise-control capabilities. They would be the major facilities.

**Senator MARK BISHOP**—That is all capital expenditure.

**Lt Gen. Hurley**—Yes.

**Senator MARK BISHOP**—That is building, equipment, facilities, infrastructure.

**Lt Gen. Hurley**—Yes, I am just distinguishing between building facilities and purchasing some equipment, that is all.

**Senator MARK BISHOP**—I am sorry—yes, all right, then. Similarly under the heading ‘Providing for Australia’s security’, the government has allocated about \$20 million in year 1, \$22 million or \$23 million in year 2 and then declining amounts in years 3 and 4. Is that again for infrastructure, improvement of bases, capital purchase and the like?

**Mr Veitch**—Are you referring to the top of page 37 of the PBS?

**Senator MARK BISHOP**—Yes.

**Mr Veitch**—The funding there actually covers four separate initiatives. There is \$3 million in year 1 for the continuity of government plan. Then I think the main area that you are looking at is the government’s announcement of the North West Shelf surveillance initiative. That takes up the lion’s share of that money there.

**Senator MARK BISHOP**—Correct.

**Mr Smith**—The second and fourth sub-items there are matters following on from the report by Mr Phillip Flood.

**Senator MARK BISHOP**—Is that the upgrade of business and information systems?

**Mr Smith**—Yes.

**Senator MARK BISHOP**—And the improved intelligence coordination analysis?

**Mr Smith**—Yes.

**Senator MARK BISHOP**—Understood. Basically, under that heading ‘Providing for Australia’s security’, there is about \$22 million in the first year and about \$25 million in the second year—in ball park figures—and then only minor amounts in years 3 and 4, and that is essentially for capital equipment purchases, infrastructure upgrades or intelligence related purchases. Is that correct?

**Mr Smith**—That is correct.

**Mr Veitch**—Yes. The main part of that expenditure is on the North West Shelf project, and the money for the North West Shelf was provided in two separate ways. First of all, the government provided us with an additional \$101.2 million as a new budget measure, and,

second, we were asked to absorb the remaining costs of \$38.1 million, which is the number you see in that table. What that money relates to principally is the costs of doing a UAV trial as part of that initiative and some of the costs in the early years of the infrastructure requirements for maintaining the patrol boats.

**Senator MARK BISHOP**—Now that you have explained table 2.3, it strikes me that a number of points can be made: firstly, there is significant expenditure in years 1 and 2; secondly, the bulk of the expenditure appears to relate to infrastructure upgrades or alterations; and, thirdly, there seems to be significant purchasing of what I would categorise as capital items or capital equipment. So Defence is going to be spending significant moneys in these areas, but it is not going into soft areas; it is going into hard areas. It is a serious amount of money, \$217 million over four years, the bulk of it coming in year 1 and year 2. What savings have you targeted elsewhere to provide for this different form of capital expenditure?

**Mr Veitch**—We have done a range of things. Over the last month or so we have looked at reprioritising our expenditure in some areas to be able to fit these initiatives in. For example, going back to the medal, we run a 10-year work force and people plan. As part of the people plan, we have provided the funds through some reordering of the priorities in there to absorb the costs of the medal.

**Senator MARK BISHOP**—This is quite important. Instead of having a general discussion, I might ask you to go through and identify line by line the \$217 million that you are cutting out of expenditure elsewhere to pay for the matters that you have identified in table 2.3. I think that is probably the briefest way we can do it for all of us.

**Mr Veitch**—As we have said, with regard to the medal, we have looked at reordering the priorities in the Defence people plan. Within our work force budget—

**Senator MARK BISHOP**—What does ‘reordering the priorities in the Defence people plan’ mean?

**Mr Veitch**—In our work force budget and people budget, we are currently funded for about two per cent real growth in work force costs over and above our normal price increase we get each year. That allows us to do a number of new things in terms of attracting and recruiting people and remunerating our people. It comes down to a matter of choices about what we can and cannot do within that envelope of money. We look at different choices there. This being a government policy announcement, quite obviously we needed to look at funding that within that allocation.

**Senator MARK BISHOP**—Are you eliminating that two per cent real growth that you did have in the forward figures in that Defence people plan?

**Mr Veitch**—Not so much eliminating it. We use that as a funding source to fund new initiatives as they emerge in the people budget.

**Senator MARK BISHOP**—Is that two per cent paying for the Australian Defence Medal?

**Mr Veitch**—It pays for that and a whole range of other things, like our remuneration increases as they come through, certain recruitment and retention initiatives. So we have a process, which I believe is a very worthwhile and robust process. We go through and look at our priorities and what we can afford in the personnel budget each year and we make choices.

Obviously in making the choices, the commitments of the government of the day are things that we look at funding in the first place.

**Senator MARK BISHOP**—So some choices that you were going to implement in the next three years are either not going to be implemented or implemented at a different time—

**Mr Veitch**—Or in a different time frame, yes.

**Senator MARK BISHOP**—or implemented in a cheaper way. In the Defence people plan, how much are you not going to be implementing? How much are you saving there?

**Mr Veitch**—If you asked me if we have had to defer or put anything off, I do not think I could be specific and say, ‘Yes, we have’. We look at funding our essential items first and then we look at choices that might be made.

**Senator MARK BISHOP**—Tell me about the choices. I want to know where you are saving money from the programs that you have identified. Do not tell me you have got priority in choices. I understand that, but I want to understand what the result of the priority in choices is.

**Mr Veitch**—We have not stopped or cancelled anything. I am saying that as we look at our new budget each year and as things emerge we obviously fund the things the government have asked us to look at first. We fund the things that are of highest priority in terms of recruitment and retention. If, after we have funded those things, different issues and different things emerge, we deal with those problems at the time. Once we have fully allocated our personnel budget, the things that we cannot then do but that we would like to do are just put off until another day. We would look at it in the next budget. I could not say to you that this measure has caused us to specifically not do something. The way I would characterise it is that we would probably like to do some other things but it is a matter of choices. We obviously cannot do everything we would like to do. It is a very dynamic process.

**Senator MARK BISHOP**—I understand that answer. That is the defence people plan. Where else are you saving?

**Mr Veitch**—There is the capability demonstrator program that we talked about. I think General Hurley mentioned that we looked at that as part of reviewing the Defence Capability Plan. We have funded that from within the program. The health services—

**Senator MARK BISHOP**—Wait a minute; I did not follow that. General Hurley told us that it was \$13 million elsewhere and that you were supplementing that by another \$13 million in each of the three years identified in table 2.3—

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—giving effect to the government’s commitment to double. What I am asking you is where that extra \$13 million is coming from.

**Mr Veitch**—Again, I think it is the same sort of issue that I described before. As part of the Defence Capability Plan, which is a plan that adds \$20 billion in capital funds to the defence investment budget over a 10-year period, what we looked at doing in reviewing the capability plan was to actually fit that additional \$13 million for the three years inside that plan.

**Senator MARK BISHOP**—So you did have a defence capability plan that involved spending X amount of dollars in the current year and the out years. You still have a defence capability plan. You now have a capability and technology demonstrator program—

**Mr Veitch**—That is within that plan.

**Senator MARK BISHOP**—So it is just a reallocation of funds from the previous plan into the same plan.

**Mr Veitch**—But, if you think about it in another way, what the program—

**Senator MARK BISHOP**—Let us think about the way I have identified. It is a reallocation of funds, in the out years, within the same plan into the same program. How is that either extra expense or a saving of expense?

**Mr Veitch**—I guess the way I would think about it is in terms of the purpose of the program itself. The purpose of the program is to look at avenues for new technologies and being able to exploit new technologies in terms of shaping future development. So, if we can put some early investment into what might turn out to be some winners in the investment program, that obviously has benefits for the program as a whole as we go downstream.

**Senator MARK BISHOP**—What happens if you put money into areas that are losers?

**Mr Veitch**—I think that is part and parcel of the trade that we are in. There will always be winners and there will always be losers, but I guess that this program allows you to try to look at picking the winners rather than picking the losers, right from the outset.

**Senator MARK BISHOP**—I did not know it was government policy to pick winners; thank you for telling us that.

**Mr Veitch**—I think that is what science and technology as all about.

**Lt Gen. Hurley**—What we are trying to do with the concept technology demonstrator is to identify advanced military technologies, most of which are resident in Australian industry and Australian companies, and try to link those to future projects that we are going to deliver through the DCP and give them the opportunity to develop those and give us a better understanding of the capability.

**Senator MARK BISHOP**—I do not quarrel with that purpose or that intent. That is fine; that is the decision of the government that the department implements; that is the government's business. What I am trying to find out is where the savings which you identify in the PBS are coming from elsewhere. You are telling me that it is an extra \$13 million per year, honouring a government electoral commitment, with a total of \$217 million in savings. I am trying to find out where the savings are coming from, and you are telling me that you are reallocating within the same program. What aren't you going to do?

**Lt Gen. Hurley**—We have absorbed the costs of those additional programs for the next three years within the DCP.

**Senator MARK BISHOP**—What does it mean when you say you have absorbed the costs? What aren't you going to do that you were otherwise going to do? That is the question.

**Lt Gen. Hurley**—In terms of delivering against projects and so forth, at the present time there is nothing that we plan not to do.

**Senator MARK BISHOP**—If there is nothing you plan not to do against the current projects, how can you have a saving?

**Lt Gen. Hurley**—I am absorbing them; I am not actually asked to make savings in the DCP specifically against that amount of money.

**Senator MARK BISHOP**—So you are absorbing \$13 million per year, but that is not a saving—is that what you are telling me? What is it?

**Mr Veitch**—As I described with the people plan, we make choices, and sometimes that might cause us to defer or reprogram some items, but within an investment program approaching \$5 billion a year we can program an extra \$13 million by slightly reordering the timing of some projects. Some projects of their own accord will create opportunities to rebalance from year to year, and that is part and parcel of our trade. Every year we have to look at the program.

**Senator MARK BISHOP**—But that would happen anyway. Sometimes programs are more successful than you thought they would be, they finish earlier than you thought they would or you have a breakthrough earlier than you thought you would. That always happens; that is part of normal planning and costing. You have identified \$217 million of absorption and you will not tell me, apart from relooking at programs, where the savings are.

**Mr Veitch**—I am telling you precisely how we have done it.

**Senator MARK BISHOP**—By reordering priorities?

**Mr Veitch**—Yes. I have told you about that in reference to the medal. We were talking about the technology demonstrator. I can go through all of them. That is how we do it and it is part of the way we have to manage the budget every year. We have to make choices about priorities. We would love to do more things, but we do not have enough money to do everything we would like so it becomes a matter of choices, and in making choices we obviously take into account the government's priorities. That is part and parcel of our business.

**Senator HOGG**—But you must make the savings somehow. Is the reallocation coming through holding back a wage increase, reducing staffing or holding staff in a certain area for a certain period of time?

**Mr Veitch**—Absolutely not. The way we do it, as I have described, is to look at reordering or rephasing activities. Some things we may not be able to do as quickly as we would like. But we are faced with those choices every budget. Every budget we have to look at reordering priorities. What we have done here is fit the priorities of the government into our program by either slowing, deferring or reprogramming other things that are not quite as important.

**Senator HOGG**—What actually are the reordering and the rephasing? Can you give us a specific example of how you are going to reorder or rephrase something to save a not insubstantial amount of money?

**Senator Hill**—I think what the officials are saying is they cannot give you that information at this time. Those decisions have not been made.

**Senator HOGG**—The officials should at least be able to give us some indication as to the areas in which those decisions are going to be made.

**Senator Hill**—They have given some indication of areas. General Hurley, for example, talks about decisions made within the scope of the DCP. The DCP, although there is some pressure on it now, is still a very large sum of money. Bear in mind that the ultimate objective of this program is to boost capability and, in particular, to give the chance to small and medium Australian companies to be competitive in the defence industry marketplace, which is very important for the ADF but also very important in terms of the national economy.

**Senator MARK BISHOP**—I understand the point you are making. The net of this discussion is that the department is in the process of reordering the government's priorities. Some items of infrastructure alteration, capital purchase and supporting work have been identified and will be carried out in the programs you mentioned in 2.3. Some \$217 million of savings over the four years is going to be absorbed. You are unable yet to identify that \$217 million in practical terms because that is ongoing work and has not yet been either commenced or concluded.

**Senator Hill**—That is correct. That is the decision that government has taken—that these programs should be supported in the expenditure that is in the papers without additional funding. The internal challenge of defence is now to work out how that can be done.

**Senator MARK BISHOP**—I understand that point too.

**Senator Hill**—It is not easy, because there are additional burdens that you might get in terms of efficiency dividends and the like that are now expected of defence to make it more consistent with other portfolios.

**Senator MARK BISHOP**—That of course means, by definition, that if we were having this discussion, say, three years ago and we were discussing items of likely government expenditure and capital allocation or development or whatever, they would change almost on an annual basis depending on what the priorities might be. Three or four years ago you would have identified in the PBS large sums of money for particular items to be implemented three or four years out. They are not now being implemented three or four years out because there are now a different set of priorities—for example, as you identified in *Providing for Australia's Security*.

**Mr Veitch**—There is an element of that in it, but if we were to trace back three years ago and look at what we were saying then, other than the rephrasing of the DCP that we talked about probably at the last hearing, the government has made good its commitment to everything it outlined in the white paper. Over and above that, it has actually voted money for five or six fairly substantial policy initiatives around single accommodation, around upkeep of the estate, around extra logistics and what have you. I guess the way I view this, being the budget manager of the organisation, is that the government has actually given us a lot more money than it said it would three years ago. If you look at the figures in the table and the \$65 million this year that we have to absorb, if you view that against the additional money that the government has made available, which is something of the order of \$800 million, I think that puts it in some context. There are always choices to be made. The government has given us more money for the things that it thought were very important. I think it has asked us to make

a contribution to the budget by doing some of these things and that is what we are about doing. That is part and parcel of my everyday job: trying to fit everything in that is of the highest priority and that involves making choices—sometimes they are hard choices.

**CHAIR**—I think we might take a short break.

**Proceedings suspended from 10.32 am to 10.50 am**

**Senator MARK BISHOP**—Mr Smith, can I take you back to table 2.3. Under the heading, ‘Former HMAS Platypus, Neutral Bay—site remediation’ there is a series of five dashes over the period of the estimates. What does that mean?

**Mr Smith**—That means that, until we have determined precisely the extent of the remediation that will be needed, we have not put a cost on it. Obviously, the degree of remediation for a site like that depends on two things: firstly, a very detailed assessment of the nature of any contamination or clean-up and, secondly, a decision on its future use. In the absence of those decisions, it is barely worth putting in a speculative figure.

**Senator MARK BISHOP**—I understand that. If you are not going to do it, why speculate about the cost. Has the assessment of the remediation of the site begun and concluded, or is that yet to commence?

**Mr Smith**—I will take advice on whether it has begun.

**Senator Hill**—There have been various assessments over the years, but the outcomes depend upon the intended use. Earlier assessments principally were to a background of intending to use the site for residential purposes. Now a decision has been made to transfer it to the Sydney Harbour Federation Trust for heritage purposes. We would need a determination of the Sydney trust as to their intended future use in order to base a new environmental assessment.

**Senator HOGG**—When will that happen, Minister? Is there any program?

**Senator Hill**—The process of discussion with the trust is underway. Associated with that will therefore be the level of remediation. It is a complicated site. But one of the complications also is that some of the problems arise from adjoining sites that some might say were not properly remediated. Yet the New South Wales state government and local councils allowed a multi-storey residential development, so we now have the pollutants flowing down onto the *Platypus* site. So there is a debate now about who should be responsible for that remediation.

**Senator MARK BISHOP**—So ADF or the department is engaged in negotiations with the Sydney trust? Or is it simply a matter for the Sydney trust to decide what they want to do with the site?

**Senator Hill**—No. It is going to have to be a process of negotiation. Our intentions in relation to a contribution towards remediation have to be with limit. Whilst we may not specify that limit to the last dollar, it must not get too unrealistic. Look at the issue of Cockatoo Island, for example. I remember when the government looked at the remediation issues there. There were significant pollutants in Sydney Harbour as a result of the use. Part of the debate was how to address that particular issue. The bottom line to that is that there is

really no practical way to effectively remediate all the consequences of that industrial use. It is going to require a sensible negotiation with the trust. I think it will take some time and it will require a sensible remediation outcome.

**Senator MARK BISHOP**—I take it from that that you do not think there is going to be much progress inside the next five years.

**Senator Hill**—I would not say that. The trust has made good progress with its other sites. It is now more experienced with this challenge. This is a difficult site; it is obviously in the national interest that it be remediated, and we obviously think it is a good decision that it be conserved for heritage purposes. But I would not want to prejudge the negotiation that is to be had.

**Senator MARK BISHOP**—You want to go through the negotiation phase.

**Senator Hill**—Yes.

**Senator MARK BISHOP**—The next line down, ‘Implementation of the Defence Integrated Distribution System in Darwin’: there is only allocation of funds in this year and next year. Does that mean the project is being concluded at the end of next financial year?

**Mr Smith**—We expect that aspect of the work to be concluded in 2006-07.

**Senator HOGG**—On page 37, ‘Fast Tracking Lavarack Barracks Redevelopment Stage 4’, it appears here, but there does not seem to be any allocation in terms of funds in the budget. Can you help me out?

**Mr Beck**—We have brought that project forward by reprioritising the major capital facilities program. That has meant that two projects have had to slip by a year, I believe.

**Senator HOGG**—What are the two projects that had to slip?

**Mr Beck**—One was the Enoggera redevelopment project. It will not appear there. I would need to take the other one on notice.

**Senator HOGG**—I cannot see the slippage in the PBS anywhere, but where do I find the allocation for the fast-tracking of Lavarack Barracks?

**Mr Smith**—I should say: there is no detail of that in there, because the work on exactly what will be slipped and over what period is not completed. We as officials will finish it and then put recommendations to the minister. The decisions, in the final event, will be his.

**Senator HOGG**—I accept that, Mr Smith, but we have before us the PBS that outlines the government program for 2005-06. I would have thought that if this was in its very infancy, and was not able to be tagged in terms of expenditure and so on, you would have let it drop for this year and included a full explanation either in the PAES at the end of the year or in next year’s budget statement. By putting it there, it raises the question of where the funds are coming from. Are they allocated? Are they in some other program within the PBS this year? And it is a decision of the government—as announced on 5 October according to this—to fast-track the program. When will you be able to give us some assistance on where the slippage is and what the expenditures in the out year for 2007-08—and I presume it will go beyond 2007-08—will be?

**Senator Hill**—The so-called green book gives guidance. It sets out, in effect, an order of priority but it is not locked in until government makes decisions. In this instance, you might say that the government meddled in the process by lifting up the priority of Lavarack Barracks. We did that largely because of our desire to particularly focus on what we are calling the megabases, because we think that will lead to a more efficient ADF in the longer term and will provide, furthermore, a better environment for ADF families, in that the ultimate goal is that there will be less movement between postings. They will get more continuity for family life and so forth.

That was the decision to continue to develop the Lavarack Barracks into one of these megabases. It has been very successful so far. It is strongly supported by the Townsville community. In our view, in terms of longer term defence planning, it was a wise thing to do. It means that that money cannot be used in the same time frame for some of the other projects in the green book. Officials have suggested some areas of slippage. One of those suggestions was mentioned a minute ago, but decisions have not been taken by government on that.

**Senator HOGG**—I accept that the decisions on slippage might not have been taken.

**Senator Hill**—One reason is that Enoggera is also intended to be one of our megabases.

**Senator HOGG**—I am not arguing against the principle of what is being espoused here. The fast-tracking of Lavarack is commendable indeed. I am looking to find out what the expended expenditure will be in the PBS. We need to be able to relate to this in the future—as to what is happening.

**Mr Veitch**—Perhaps I can help there. You would be aware that customarily we do not disclose in our PBS the level of expenditure that we have prepared and that we have estimated for in terms of new projects yet to be approved, both in the capital program and in the capital facilities program, because that information is commercial in confidence.

**Senator HOGG**—I accept that.

**Mr Veitch**—What we do is this: as projects are approved, we disclose the information and the estimates at the following budget milestone. Then they become apparent at that time. Sitting in the underlying program for the green book that the minister talked about, we have an allocation for that project, and that will be disclosed once the project is approved.

**Senator HOGG**—When will the approval of the project happen? Do we know?

**Mr Beck**—We are working on the development of a business case at the moment. We anticipate bringing that to government in September 2006 for final approval.

**Senator HOGG**—One could assume, then, that, if you are getting the final approval for the allocation in September 2006, by then we should also know where the slippage is going to occur that would allow that fast-tracking to take place. Is that correct?

**Mr Beck**—Yes. That would be put to the government for approval at that stage too.

**Senator MARK BISHOP**—We might turn to the pages beginning on page 57, the program of administrative savings. Can we go to table 2.16. Correct me if I am wrong, but I

understand that this table is different from the 2.3 that we were discussing in that the heading identifies this as 'administrative savings programmed'.

**Mr Smith**—Yes.

**Senator MARK BISHOP**—So these administrative savings have been identified and costed and will be implemented subject to change later on, and the figures identify that in table 2.16. Is my understanding correct?

**Mr Smith**—That is broadly correct. I should say that, of course, within those particular subheadings, the exact details of how to get there have not been worked through in all cases. They are targets that we know we have to achieve.

**Senator MARK BISHOP**—We will go through them line by line.

**Mr Veitch**—Just as a general comment first, can I just give a bit of background to the program. This program was agreed as part of the 2003-04 budget. We took a range of cost pressures to government. Government asked us to enter into a savings program to free up costs to address some of those cost pressures. What you see in this budget is the third tranche of that program that we were asked to achieve in five tranches—50, 50, 50 and then two lots of 25, with mature savings of \$200 million after five years. The budget papers there before you show that we are on track to achieve the third tranche of \$150 million. As Mr Smith said, we have other proposals that have been disclosed there that we believe, if implemented, will take us up to about \$173 million by next budget, which means that we are broadly on track to achieve the government's savings intentions.

**Senator MARK BISHOP**—Does that mean that that final figure in 2.15—ongoing \$200 million—means that you are going to save \$200 million thereafter each financial year?

**Mr Veitch**—These savings, once we put them in place, are recurrent in nature. They are saved for ever, yes.

**Senator MARK BISHOP**—Don't they become non-expenditure in the future then?

**Mr Veitch**—They will, yes.

**Senator MARK BISHOP**—When your outlays occur?

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—If you are not spending this year on moneys that have been appropriated, that is properly called a saving, but in three or four years time they are non-items: they are not savings any more.

**Mr Veitch**—That is right, and the way I characterise that is this: the \$150 million that we put measures in place to achieve by the end of this coming budget year will have enabled us to redirect that amount of cash towards cost pressures that ordinarily we would have had to come back to government for. We are starting to pay for some of those cost pressures ourselves. That is what the design of this program was.

**Senator MARK BISHOP**—I understand where you are heading. I turn to reductions in the civilian work force. You have already saved \$38 million-odd; you are going to save \$46 million this year. Where are those savings coming from—that reduction in the civilian work force?

**Mr Veitch**—We took a reduction in the civilian work force of three lots of 1½ per cent, starting three years ago. This coming budget sees the end of that program. If you look at chapter 5, maybe later on when we get to deal with people issues—or I could go through it now with you.

**Senator MARK BISHOP**—Do it now.

**Mr Veitch**—If we turn to chapter 5, page 189 is the best reference point—table 5.3. You will see that, when we implemented the program, the baseline allocation for the civilian work force across the organisation was 18,385. We are on track in this year's budget to have reduced the civilian work force to 17,137. That is after you take account of budget measures that have provided new staff and also some conversion of more costly PSP positions. In other words, the underlying reduction in civilian staffing is well in excess of what you see in that table.

**Senator MARK BISHOP**—That table suggests a figure of about 7½ per cent on body count.

**Mr Veitch**—That is right, yes. After some initial delays in being able to put those savings in place, we now, in this budget, are well on track to achieve that saving on a recurrent basis.

**Senator MARK BISHOP**—If your new baseline figure at the end of this financial year, 2005-06, becomes 17,137, does that mean that in 2006-07 and 2007-08, if that is the new baseline figure, there are not going to be any further civilian body savings?

**Mr Veitch**—That is our current plan. Those numbers that you see there represent the conclusion of the savings program, which has been a significant saving that we have made. It also accounts for the extra personnel for new budget measures like the 10 people we talked about for the medals, for example. At this stage, that is our current plan. But, as I alluded to before, each budget brings its own set of new measures and new priorities. We would deal with that again through the work force plan next year.

**Senator MARK BISHOP**—Understood, but, subject to your current understanding of government policy, the new civilian body count at the end of this financial year in Defence will be 17,137 and, subject to further change or redirection from the government, will remain at that figure in the outgoing two years?

**Mr Veitch**—That is correct, and that will have delivered those savings that you saw back in the earlier table that we talked about. We will have fully saved those—hence my comment that these savings, once they are saved, are saved for ever.

**Senator MARK BISHOP**—If that is the case—I understand you have shifted from a baseline of 18.3 down to 17.1 and the savings have already occurred—why do you cost in further savings in 2007-08 of \$46½ million each year when it is simply non-outlay of expenses because you have a new baseline civilian body staffing figure?

**Mr Veitch**—Table 2.6 represents the saving of those numbers over three years that I have talked about—the three lots of 1½ per cent reductions. Once you have saved them—in other words, the full 4½ per cent—you have saved them forever, unless we were to increase the numbers, and at this stage we are not planning to increase them. You bring your work force

down, it is costed and resourced at that level, and it stays at that level forever so those savings become recurrent.

**Senator HUTCHINS**—Are the savings always recurrent?

**Mr Veitch**—The savings are unless we chose to increase the work force numbers again.

**Senator MARK BISHOP**—That is a wonderful approach to accounting, Mr Veitch; I could never get away with that sort of thing when I was running a couple of organisations. You are telling me that you made savings between 2004 and 2006, over three financial years, and that you do not plan to have any further reductions in your civilian work force—and table 5.3 demonstrates that—but in the two out years, 2007 and 2008, you are claiming \$47 million in savings from moneys that you never intended to spend and for which you never had an appropriation.

**Mr Veitch**—No, that is not right.

**Senator MARK BISHOP**—If I am wrong, look at table 2.16 on page 59. For 2007-08 on the top line there are figures of \$46.5 million and \$46.5 million.

**Mr Veitch**—That is right.

**Senator MARK BISHOP**—and the administrative savings are programmed.

**Mr Veitch**—Yes. If you turn the table around, you can do it another way. This is the way I think of it in my accounting sense. If we did not do anything to the work force and it was still at 18,300, it would be costing us \$46½ million more at least in those years. Once you have saved the people, you have saved them forever and the saving is recurrent. That table is not saying that we are saving an extra \$46 million every year; it is saying that we saved the people once over a three-year program and they are saved forever in terms of paying their salaries and wages, unless we choose to increase the work force at a later stage.

**Senator MARK BISHOP**—Okay, let us follow the path of your argument. Does that mean that in six or seven years time, in the financial year ending 2012-13, if you still have a baseline figure of 17,137 you would be entitled to claim those programmed savings in those years?

**Mr Veitch**—That is just recording that they are there and they are ongoing. Yes, I would argue that that is very definitely the case, otherwise it would be costing the government, in 2012-13 prices, the extra money for those people. If you have fewer people on your pay roll, it follows that you are paying less money. It is only if you employ those extra people that the savings would not be recurrent.

**Senator MARK BISHOP**—Sooner or later that line of argument comes to an end, does it not?

**Mr Veitch**—I do not think so. Absolutely not.

**Senator HOGG**—Where is the baseline?

**Mr Veitch**—The baseline is the 17,137.

**Senator MARK BISHOP**—We first got that figure in 2005-06. Are you telling me that for the next five, 10, 20 or 30 years, you can count the savings from 2004-05?

**Mr Veitch**—Relative to the 2002-03 baseline, yes. It just follows.

**Senator MARK BISHOP**—When does the baseline shift and become the new baseline?

**Mr Veitch**—The new baseline would shift if the government chose to move it down further or to increase it. It is just logical to me; I cannot see your line of argument.

**Senator HOGG**—Why is it not the baseline back in 1935 or something like that? I am stretching the argument. Is it because there was an allocation in the forward estimates sometime ago for these, that you are now claiming that there are savings?

**Mr Veitch**—Absolutely.

**Senator HOGG**—Right. Once that allocation from the forward estimates period runs out, then that no longer can surely be shown as saving because you have now shifted to a new baseline. I understand your argument.

**Mr Veitch**—That is exactly what is happening. I think I described the issue of redirection, which is one of the things the government is looking for us to do all the time: to make the defence dollar go further. Reducing the civilian work force from 18,385 to 17,100 and maintaining it at that level allows us to pay the costs of other things that ordinarily we would have to have a call on the budget for.

**Senator HOGG**—Right, which would have been in a previous PBS—

**Mr Veitch**—Absolutely.

**Senator HOGG**—and I understand that; but there must be an end to the time at which that is reported, surely?

**Mr Veitch**—There will come a time when we will not report it anymore, but there will not come a time when those savings do not endure, unless you do something to change them. So, yes, if I am still sitting here in two years time—

**Senator HOGG**—Now there's a quote!

**Mr Veitch**—and we are having a discussion about the program of admin savings, I hope I will be in a position to say, 'Senator Hogg, this successfully brings to a conclusion this part of the program and we won't see it in the documentation anymore.'

**Senator HOGG**—All right. Can I ask you this question—it is not something to be hung up on. When the original forward estimates were done, going back two or three years, to run down the civilian staff baseline of 18,385, how far forward did they go?

**Mr Veitch**—We publish our forward estimates three years in advance, so if you went back three years you would be seeing a work force number for our civilian staff that was significantly higher than 17,137.

**Senator HOGG**—It would have been based on the 18,385?

**Mr Veitch**—Or thereabouts, yes.

**Senator HOGG**—Or thereabouts?

**Mr Veitch**—Yes. And there would have been money allocated in the program—

**Senator HOGG**—There would have been money allocated for the next three years. At that stage you would have thought that your budget for civilian staff would have been a certain quantum?

**Mr Veitch**—Absolutely.

**Senator HOGG**—In the intervening period, a decision has been taken to reduce the staff by a certain number?

**Mr Veitch**—Yes.

**Senator HOGG**—And the new baseline now is 17,137?

**Mr Veitch**—Yes.

**Senator HOGG**—Which you will achieve in this year?

**Mr Veitch**—Yes.

**Senator HOGG**—But your allocation in 2003-04, say, would have only gone out to 2006. So why it is a saving in 2007-08—unless in 2004-05 you made a subsequent allocation?

**Mr Veitch**—We were talking about table 2.16. The best way to describe it to you is to flip over to page 60, table 2.17. What that table is showing you is that, as we make these savings, we are progressively allocating the money to the cost pressures that are shown on that table. So what we are doing is changing the colour of the money, if you will, from civilian employee expenses to the costs that flow from those items listed in table 2.17. What you will find is a redirection of money from the work force to those items, such that we did not have to go back for a call on the budget. The way I like to think of this program is as another one of our successes in terms of our program of microeconomic reform.

**Senator HUTCHINS**—With the reduction in the civilian work force in table 2.16, clearly that work would have to be done by someone else, and you say in chapter 5 that it is warehousing. Who will now do what was done by Defence direct personnel—outsourced personnel? Is that in table 2.17?

**Mr Veitch**—There are two elements to that. Of the reduction by the 1,200-odd people that we have just been talking about, about 638 relate to the outsourcing of the DIDS contract, which we talked about a while ago. So the reduction there is really a transfer of a function out to industry. The real admin savings part of it that we talked about, which is the \$46.5 million in table 2.16, was about a reduction in absolute numbers. In other words, we are doing the business of government in Defence—

**Senator HUTCHINS**—With lower numbers.

**Mr Veitch**—with a reduced number of people. We have gone through our work force planning process, we have allocated our work force to the highest priority areas and we have looked at stopping doing some functions.

**Senator HUTCHINS**—So, Mr Veitch, is information available in these documents as to where those 638 jobs came from? I assume it was predominantly from warehousing.

**Mr Veitch**—Yes, that is correct.

**Senator HUTCHINS**—I presume that they were predominantly what might be called blue-collar or pink-collar jobs?

**Mr Veitch**—Yes.

**Senator HUTCHINS**—So they were not skilled analysts or whatever else?

**Mr Veitch**—That is for the 638, but the other 600 or 700 were certainly white-collar workers, but again—

**Senator HUTCHINS**—I am sorry; I could not hear you.

**Mr Veitch**—The other 600 to 700 people, to make up the 1,200, were not of that nature; they were white-collar workers in the department, in the administrative areas. What we have done is cut our cloth in the administrative area. So there are two elements to that program.

**Senator HUTCHINS**—Right. Thank you.

**Mr Veitch**—In terms of the savings that are disclosed in table 2.16, the \$46.5 million is only in respect of the administrative savings—the second 700 I talked about, not the 638 for the DIDS outsourcing.

**Senator HUTCHINS**—That job will have to be done by someone else, clearly.

**Mr Veitch**—It will be done by industry and we will pay for that under a contract arrangement. Again there is a change in the colour of the money from an employee expense to a supplier expense.

**Senator HUTCHINS**—So that \$46.5 million represents the savings from privatising these—

**Mr Veitch**—No.

**Senator HUTCHINS**—No?

**Mr Veitch**—That is from the reduction in our administrative staff, not the change in the warehousing arrangement.

**Senator HUTCHINS**—So is how much you are projecting it is going to cost you for this warehousing work to be done by outside work now in the documents here? Is that in here?

**Mr Veitch**—It would not be shown as a specific line item. Probably one or two committees ago we went through all the costs of the DIDS contract. Essentially we have taken money away from the civilian employees budget and we now have a contract line for the warehousing arrangements. We pay that under a fee for service arrangement.

**Senator LUDWIG**—Turning to the savings measures, there is \$439 million over four years, which comprises the unfunded budget measures, the reduced administrative overheads and the efficiency dividend. They add up to the 439. Is there a projection of, effectively, the efficiency dividend for the out years? It is going to be phased in at 0.25 per cent per annum starting with 2005-06. There have been some existing program efficiencies through internal efficiency programs. How much has that been accruing since 2001-02? Could you express the difference and also whether that internal efficiency program was only centred on the civilian and non-operational areas of Defence or whether it was more broad? If it was the latter, could

you express the narrower savings that you have saved there? It is a rather lengthy question. This may make it make more sense: the end product is to determine exactly the amount of efficiency dividend in the out years that you expect to accrue.

**Mr Veitch**—The best reference point for that is at the bottom of page 35. The first thing to explain is that the efficiency dividend itself is a new measure for Defence this year. It has not applied in previous years. It has applied to other government agencies but up until this year we had an exemption. The government decided that this year it would introduce it for the first time for Defence. Rather than introducing it at 1¼ per cent, which is the rate it applies to other agencies—

**Senator LUDWIG**—I am aware of that.

**Mr Veitch**—it is being phased in at a quarter of a per cent a year. In making that decision, the government was very conscious of the sorts of areas that you talked about that the dividend would not apply to. In fact, it has been limited essentially to what I would call the administrative or the Public Service side of Defence.

**Senator LUDWIG**—I understand that.

**Mr Veitch**—So it applies to about eight or nine per cent of our budget, which is essentially the civilian work force and its overheads and a couple of other areas in the supplies area.

**Senator LUDWIG**—Will you be able to take on notice those figures that I asked for?

**Mr Veitch**—The figures are published in that table.

**Senator LUDWIG**—No, the ones in the internal efficiency programs.

**Mr Veitch**—That is \$3.4 million in 2005-06—

**Senator LUDWIG**—They apply to just the eight per cent—

**Mr Veitch**—To the eight per cent of the budget. It is \$11.9 million in 2006-07, \$25 million in 2007-08—

**Senator LUDWIG**—No; your existing internal efficiency programs from 2001-02. As I understand it—you can confirm this for me—you had already put in place internal efficiency programs prior to 2004. That is right, isn't it?

**Mr Veitch**—Yes. There have been two programs up until this one here. The first one was a program of \$200 million per annum in savings that was announced as part of the white paper back in 2000. That program was completed in 2003-04 and the results of that were published in one of our annual reports at that time.

**Senator LUDWIG**—Yes, I am aware of that.

**Mr Veitch**—Then there was the second \$200 million that we have just spent some time on. The third is the one that we are talking about now, which starts from the new budget year, from 2005-06.

**Senator LUDWIG**—Are you able to say, in terms of the civilian and non-operational areas, how much of those internal efficiency programs related to that?

**Mr Veitch**—Related to the previous programs?

**Senator LUDWIG**—Yes.

**Mr Veitch**—There is no relationship at all.

**Senator LUDWIG**—That is what I was trying to establish—whether there were any efficiency programs going on prior to 2004 which related to the civilian and non-operational areas.

**Mr Veitch**—It would be fair to say that the savings programs obviously were targeting the same sorts of areas, but they are separate measures. It means that from now on, and going forward, it will be harder for us to find those savings as we go forward because the area which we are targeting is smaller by virtue of the nature of the microeconomic reforms we have made to this point.

**Senator LUDWIG**—I understand that; that was the point of the question regarding whether small agencies suffer the same fate.

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—Under the two headings ‘overseas travel’ and ‘domestic travel’, you identified savings of \$7.4 million and \$11.5 million per year, starting in year 1. What was the nature of the savings?

**Mr Veitch**—We looked at the travel and we took out what we call the essential operational related travel, training related travel and those sorts of things. We applied a percentage reduction—each of our service chiefs and group heads took a reduction in their travel vote of 20 per cent in overseas travel and 10 per cent in domestic travel.

**Senator MARK BISHOP**—Twenty per cent overseas and 10 per cent domestic?

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—What is your normal overseas travel expenditure?

**Mr Veitch**—I do not have those figures with me. I could find those out for you.

**Senator MARK BISHOP**—Can you take that on notice?

**Mr Veitch**—I will get back to you today. I think we published it in the annual report last year. But it is of that order—all up, about \$200 million in domestic and overseas travel of an administrative nature.

**Senator MARK BISHOP**—That is your total travel budget?

**Mr Veitch**—Of that order, yes.

**Senator MARK BISHOP**—And you are saving in the order of \$20 million per year.

**Mr Veitch**—Yes.

**Senator HOGG**—Can I ask about the Diners Club rebate.

**Mr Veitch**—What page are we looking at, Senator?

**Senator HOGG**—Page 59. I know it is not a significant amount of money. It says it was not reported in last year’s annual report.

**Mr Veitch**—As part of getting these savings, we have looked at trying to minimise the use of blunt instruments as much as we can, if I can say that. We have looked at trying to do things smarter and better. One of the initiatives we have introduced is a defence purchasing card. We are in the process of introducing a defence travel card. That rebate represents some money back from the people we are doing business with in terms of administration—for the business they get in, the number of transactions, they have given us a rebate and we have counted that towards our savings program.

**Senator HOGG**—It seems to have grown from 2003-04 to 2005-06 and then it remains static.

**Mr Veitch**—It is a transitional thing. It was a rebate we got for introducing the card at the time. You do not continue to get the rebates at higher levels; you get it once. So there were some transition issues associated with it.

**Senator LUDWIG**—Is that the only card that you currently use?

**Mr Veitch**—No, we are using two cards. One is the purchasing card and the other, which we are in the process of introducing, is the defence travel card.

**Senator LUDWIG**—So you don't use a Bankcard or any of those types of cards for local administrative expenses?

**Mr Veitch**—The purchasing card is, for all intents and purposes, the same thing.

**Senator LUDWIG**—Is that now in operation?

**Mr Veitch**—Yes, it is. The way that we do our procurement is that, if items cost \$5,000 or more, we generally use a purchase order or contract for those purchases but, for ease of administrative efficiency and also to be able to pay our claims to suppliers in a timely fashion, we have found it more efficient to use a purchasing card for transactions under \$5,000.

**Senator LUDWIG**—And they come with late fees and the like, do they?

**Mr Veitch**—Those sorts of things, yes.

**Senator LUDWIG**—Have you accrued any late fees?

**Mr Veitch**—We probably have, but, if we have, they would only be at the margin. We find, with experience, that this is proving to be a most efficient way of paying our claims. When you combine it with another reform that we are introducing, which is the claims payment imaging system, where we are using imaging technology to pay out claims to suppliers quickly, that has enabled us to improve the turnaround time. I think our stats are right up there with best practice in the Commonwealth. I think we are paying somewhere around 90 per cent higher of our claims on time, which is a fairly good record.

**Senator LUDWIG**—Perhaps you could take it on notice or get back to us some time today and tell us what the late fees have been. How far back do you go—a couple of years?

**Mr Veitch**—Yes, we would have introduced it about two-odd years ago. I would have to take it on notice.

**Senator LUDWIG**—It would be helpful if you could tell us the late fees that you have accumulated for the last two years since introduction.

**Senator FAULKNER**—I want to ask about the general issue of stocktake.

**Mr Smith**—That is not specifically Mr Veitch's area. I can take some questions but there are other officers present who can certainly assist in that. Would you like to turn to that now?

**Senator FAULKNER**—Yes. I thought it was; I thought it might have fallen to Mr Veitch.

**Mr Smith**—Mr Veitch is responsible for cash budgeting.

**Senator FAULKNER**—I wondered about the process of stocktakes and how often stocktakes take place in the department.

**Mr Smith**—I will ask the chief of the joint logistics organisation, Air Vice Marshal Spence and his colleagues to come forward.

**Senator FAULKNER**—Air Vice Marshal, I just asked a general question about how often stocktakes were conducted within Defence.

**Air Vice Marshal Spence**—We have a rolling program of stocktaking at all of the units: a 100 per cent stocktake over two years—although presently, as you would be aware, with the remediation projects we have additional stocktaking activities under way.

**Senator FAULKNER**—Are all the stocktakes conducted internally or do you have situations where you have external advice or assistance in the conduct of the stocktakes?

**Air Vice Marshal Spence**—In the normal course of events, the stocktaking activity is undertaken by our personnel—by that I mean, in the case where we might have uniformed personnel in the warehouse, by them or, in the case of a defence integrated distribution contract, by TenixToll. However, as part of the remediation projects that are currently under way into stocktaking, for example at the major warehouse at Moorebank and in addition at Bandiana, we have actually contracted in external stocktaking personnel in order to assist us in the 100 per cent stocktakes that we are undertaking there. In terms of advice—

**Senator FAULKNER**—Sorry, did you give a number of stocktakes then?

**Air Vice Marshal Spence**—We have just completed a 100 per cent stocktake at Moorebank. That involved contracted personnel assisting in that. We presently have another 100 per cent stocktake being undertaken at Bandiana. That is a contracted activity as well. In terms of assistance, we would gain some advice from our own management audit branch and also from ANAO.

**Senator FAULKNER**—Are ANAO really just external advisers or do they get a bit more involved in the stocktake? If they establish, for example, a discrepancy, which they have in audit reports, as you are aware, does that come from information provided by Defence to them on the basis of their own review or assessments of stocktake inventories and the like?

**Air Vice Marshal Spence**—They undertake their own stocktaking activity program within Defence—as does our own management audit branch, for that matter. They come in and undertake a stocktake at a particular warehouse or location; they identify a range of stock codes that they wish to stocktake; they complete that stocktaking activity; they advise us of the discrepancies; we have an opportunity to investigate those discrepancies and resolve them.

In recent times, perhaps over the last six or seven months, we have improved the process in terms of briefing in and briefing out when the ANAO come to our establishments.

**Senator FAULKNER**—In the last two-year period, let us say, are you able to say where the ANAO has involved itself in that activity—what locations?

**Air Vice Marshal Spence**—I will look through my notes in a moment, but certainly the ANAO has been at Moorebank, Williamstown, Richmond, Amberley and a number of other bases which I could perhaps get to you in a moment.

**Senator FAULKNER**—Thank you for that. I appreciate that. Are you able to explain to the committee why Moorebank and Bandiana were chosen for the 100 per cent stocktakes—why those particular locations were chosen?

**Air Vice Marshal Spence**—The stock holdings that we have in those two locations represent in the order of 40 per cent of our stock. Consequently, it seemed a sensible approach to undertake 100 per cent stocktakes there.

**Senator FAULKNER**—Was there any interface with the ANAO? Was it a result of any of the ANAO's work that Moorebank, for example, was chosen—because they had been there?

**Air Vice Marshal Spence**—Certainly, over 12 months ago, when ANAO completed its stocktaking activities and reported, Moorebank was one facility that did not demonstrate a good outcome. Our view therefore was that it would be one that it would be wise to benchmark again in order to maximise the performance that we would gain through our remediation project.

**Senator FAULKNER**—Let us look at the positives first. Are you able to identify, with the ANAO's work over the last two years, any areas or facilities where a good outcome was established?

**Air Vice Marshal Spence**—I think two areas. Certainly at Amberley, and subsequently we have had reasonable performances at Williamstown and Richmond.

**Senator FAULKNER**—Are you able to indicate those areas where less than satisfactory outcomes were identified?

**Air Vice Marshal Spence**—Moorebank was one of those locations.

**Senator FAULKNER**—Were there others?

**Air Vice Marshal Spence**—Perhaps I could take that on notice and get back to you today on the others.

**Senator FAULKNER**—If you could, I would appreciate it. Do you know when the ANAO did its own work at Moorebank?

**Air Vice Marshal Spence**—May-June 2004.

**Senator FAULKNER**—And your 100 per cent stocktake at Moorebank has just been completed, has it?

**Air Vice Marshal Spence**—Yes, it commenced in October last year and was concluded at the end of March.

**Senator FAULKNER**—So it went from October 2004 to March 2005. What were the outcomes of your own work? Obviously, the ANAO has reported in the broad about its own findings. What about Defence's own stocktake and outcomes? What can you say to the committee about that?

**Air Vice Marshal Spence**—In the case of Moorebank, the stocktaking concluded that, by value, the error was in the order of three per cent. In terms of the actual stock codes themselves—in other words, the items—it was in the order of 10 per cent.

**Senator FAULKNER**—This stocktake is dealing with warehoused items only—is that right?

**Air Vice Marshal Spence**—That is correct.

**Senator FAULKNER**—When you say three per cent of the value of items in the warehouse, what terminology should we use here? Is 'unlocated' the best—

**Air Vice Marshal Spence**—Could you repeat that?

**Senator FAULKNER**—Are you saying that, by value, three per cent of items that were warehoused at Moorebank were unlocated?

**Air Vice Marshal Spence**—There was a discrepancy between what was indicated should be there and what could be located in that location.

**Senator FAULKNER**—So 'unlocated' is fair language to use, isn't it?

**Air Vice Marshal Spence**—Not located at the time, yes.

**Senator FAULKNER**—Not located.

**Mr Smith**—Not located where the available computer generated record said they were.

**Senator FAULKNER**—It was not located in the warehouse where it was supposed to be, where your records showed—

**Mr Smith**—Or in the bin or on the shelf where it was supposed to be.

**Senator FAULKNER**—Sure.

**Mr Smith**—It might have been in the warehouse.

**Senator FAULKNER**—So that is three per cent by value of items. What is the total value of items in the warehouse?

**Air Vice Marshal Spence**—In the order of \$2.4 billion.

**Senator FAULKNER**—No doubt you have done the maths for us, so can you tell me what three per cent of \$2.4 billion is?

**Air Vice Marshal Spence**—1.4 per cent.

**Senator FAULKNER**—No, you said by value. I am sorry; I don't know what you mean by 1.4 per cent.

**Air Vice Marshal Spence**—The deficiency was \$28 million out of that.

**Senator FAULKNER**—So the deficiency was \$28 million; thank you very much.

**Brig. Edwards**—Air Vice Marshal Spence has indicated that the final error rate was 3.46 per cent. The error rate includes deficiencies and surpluses, so it includes where there is more on the shelf than what the record says. So there are both pluses and minuses. The deficiencies are at \$28.5 million and the surpluses are at \$56.3 million, giving a figure of \$80-and-a-bit million, which is the 3.4 per cent figure.

**Senator FAULKNER**—But in terms of non-located or missing items, is it fair to say that the dollar value of non-located or missing items is \$28 million?

**Brig. Edwards**—Yes, where the record and the stock on hand do not agree, the total is \$28.5 million and \$56.3 million, being both deficiencies and surpluses. But in the deficiencies, \$28.5 million is the figure.

**Senator FAULKNER**—So there is \$28 million worth of items missing?

**Brig. Edwards**—Yes.

**Senator FAULKNER**—Let us go then to—

**Brig. Edwards**—I am sorry; I am not saying ‘missing’. There are discrepancies in the record.

**Senator FAULKNER**—They are not located. They may not be missing but they are certainly not found.

**Brig. Edwards**—But they could equally be a transactional discrepancy as opposed to a physical discrepancy.

**Senator FAULKNER**—All right. Let us use the language: \$28 million worth of items not located, not found. That is by value. What proportion of items in the warehouse is that? It is obviously a higher proportion than three per cent. You indicated it was 10 per cent of items. This seems to indicate that a lot of the items that are missing are, if you like, of lesser value. I assume they are smaller and lesser value items. That is a layman’s assumption. Air Vice Marshal Spence, you will tell me if that assumption is a reasonable one or not.

**Air Vice Marshal Spence**—That is certainly an assumption I would make from it. I do not have the detail exactly. But, given those costs and the number of items there, it is an assumption I would make.

**Brig. Edwards**—There are over 300,000 separate types of line items at the Moorebank site.

**Senator FAULKNER**—That is types of items.

**Brig. Edwards**—Yes. So eight types of bolts.

**Senator FAULKNER**—I appreciate that.

**Brig. Edwards**—So there is a large number of types of items. And errors can be caused by items being stored in multiple locations.

**Senator FAULKNER**—And items that are contained in this warehouse would range from, as you say, bolts to how substantial a piece of equipment?

**Brig. Edwards**—To a complete piece of equipment—a vehicle or an aircraft wing.

**Senator MARK BISHOP**—Bullets?

**Brig. Edwards**—No. Moorebank is not an ammunition storage site.

**Senator FAULKNER**—So if it is \$28 million worth of items not located or missing, how many items is that by number? What number of items was not located or missing?

**Brig. Edwards**—I will have to take that on notice.

**Air Vice Marshal Spence**—We do not have that sort of information.

**Senator FAULKNER**—You know it is \$28 million worth of items but you do not know how many items there are.

**Senator Hill**—The number of items? They don't have a clue. Widgets?

**Senator FAULKNER**—They might, Minister, because you have not been following the evidence.

**Senator Hill**—I have, actually.

**Senator FAULKNER**—We know that it is 10 per cent of the items in the warehouse. That figure has been provided in evidence to the committee when you were half asleep.

**Senator Hill**—I heard the good news that we had more than what we thought we had.

**Senator FAULKNER**—The figure is 10 per cent of items in the warehouse. Can you confirm that figure, Air Vice Marshal Spence, that you gave the committee when Senator Hill was not listening?

**Air Vice Marshal Spence**—The figure was 10.19 per cent.

**Senator FAULKNER**—Thank you. That is why I asked the follow-on question—if you knew what the complete inventory was in the warehouse; hence it would be pretty easy to make a calculation as to what the 10 per cent was.

**Senator Hill**—How many nuts and bolts.

**Senator FAULKNER**—Even someone with your and my mathematical ability could do that, Senator Hill. I wondered if you had that total inventory number so we could work out what 10 per cent was.

**Mr Smith**—The total number of inventory items that were not where the computer generated record said they were. Is that your question? I know, for instance, Senator, there are 92 O rings that were not where they were supposed to be.

**Senator FAULKNER**—That is not going to get us a long way in our battle to find \$28 million, is it, Mr Smith? In fact it is going to be an awful long way short of \$28 million, unless they are very expensive O rings.

**Mr Smith**—But we would be here for a very long time if we simply counted the number of items missing.

**Senator FAULKNER**—With respect, your officers helpfully indicated that there were 10 per cent of items and 3 per cent by value. A dollar figure has been provided for the value figure. I am just asking if there is a figure available in relation to what 10 per cent of items not

located in or missing from the warehouse means. How many items? It could be millions for all I know.

**Mr Smith**—If we start counting O rings and washers and nuts, it will be.

**Senator FAULKNER**—If you do not know, it is fine. How do you know it is 10 per cent that is missing if you do not know how many it is?

**Mr Smith**—Because of the way discrepancies are counted.

**Senator FAULKNER**—So we do not know how many items.

**Air Vice Marshal Spence**—I think I can answer the question. The final error rate by stock code was 10.19 per cent. The number of stock codes with a balance in the warehouse is 385,000. So it is in the order of 38,000 would be the stock—

**Senator FAULKNER**—So 38,000 items. Thank you, Air Vice Marshal Spence. I appreciate your efforts to provide as full a picture as you can.

**Senator HILL**—You just said 38,000 items; that is not what he said.

**Senator FAULKNER**—Yes, he did. What did he say?

**Senator HILL**—He said the items under 38,000 stock codes.

**Senator FAULKNER**—Can we have the figures again, please, Air Vice-Marshal.

**Air Vice Marshal Spence**—The final error rate by stock code—

**Senator HILL**—because we have not counted every bolt and every nut.

**Senator FAULKNER**—No. We know that, and I do not think anyone would have expected you to.

**Senator Hill**—You wanted that.

**Senator FAULKNER**—No, I asked if those figures were available given that your own officials at the table indicated that 10.1 per cent of items were missing. I asked if there was any indication of how many items that was, and the Air Vice Marshal is going to tell us.

**Air Vice Marshal Spence**—I can give you the stock code which says it is this type of widget, and it is 38,000—that is the percentage—but within that stock code there might be a large number or a small number. So we are just talking stock code—that is, identifying what the item actually is.

**Senator FAULKNER**—If we use an accurate figure of 10.1 per cent of items either not located or missing, we can work on the basis that that is an accurate figure for the committee.

**Air Vice Marshal Spence**—Deficient or surplus.

**Senator FAULKNER**—Do you have any indication about—

**Senator Hill**—That is misleading.

**Senator FAULKNER**—What is misleading?

**Senator Hill**—To say they were missing. There was a discrepancy between the record and the repository indicated in the record.

**Senator FAULKNER**—They were not found—

**Senator Hill**—When it turned out—

**Senator FAULKNER**—and they were not located.

**Senator Hill**—looking at it on a value basis, it seems that we ended up having more than what we thought we had.

**Senator FAULKNER**—If you want to look at it on a value basis, not located items is \$28 million. Is that too high, Minister, or you are satisfied with that?

**Senator Hill**—The Auditor-General said he was dissatisfied with the record keeping, and that is why we undertook a full stocktake, which has cost a lot of money and taken a lot of effort. The outcome of that stocktake, I assume, is being evaluated and will be evaluated by the Auditor-General and he will report on it.

**Senator FAULKNER**—How much is the—

**Senator Hill**—What was it—\$2.4 billion of stock; and how many line items in Moorebank?

**Air Vice Marshal Spence**—There are 385,000 stock codes and over 600,000 locations.

**Senator Hill**—I do not know what the Auditor-General says is an acceptable error rate but what I would be absolutely certain of is that there must be a figure, whether it is Telstra, state utilities or the other bodies around the country that have very large stock holdings. We probably have more than anyone else in the country in terms of individual stock codes. I assume that the auditors have an allowable error rate, because it will never be shown to be perfect.

**Senator FAULKNER**—I am assuming—but you can tell me if I am wrong—there is a level of dissatisfaction or you would not have undertaken the 100 per cent stocktake at Moorebank. Isn't that right?

**Senator Hill**—That is right. This was last year's estimates, but the Auditor-General found that the error level that his investigation produced was an unacceptable level. That is why—

**Senator FAULKNER**—Do you find it an unacceptable level?

**Senator Hill**—If he says it was unacceptable, I accept it is unacceptable. That is why we have auditors and that is why a 100 per cent stocktake was taken. I thought the previous practice was a total audit over three years, not two years. Am I wrong in that?

**Air Vice Marshal Spence**—No, it was introduced in 2002, the current stocktaking process, which is 100 per cent over two years.

**Senator FAULKNER**—How much did the stocktake at Moorebank cost Defence?

**Air Vice Marshal Spence**—The cost of the Moorebank stocktake was \$3.6 million, which included \$2.3 million for the contractors and their support requirements, and an estimate of Defence staff contribution of \$1.3 million to undertake that.

**Senator FAULKNER**—Who did you contract to undertake this task on your behalf?

**Air Vice Marshal Spence**—A company by the name of ASSS.

**Senator FAULKNER**—You have used the terminology ‘remediation projects’. Can you explain very briefly to the committee what remediation projects are? We are talking about stocktaking remediation projects here, of course.

**Mr Smith**—We could refer you as a basis for this discussion to page 199 of the PBS.

**Senator FAULKNER**—Thank you for that. This obviously will be a matter that we are going to deal with later in the estimates. Which particular output do we deal with it in?

**Mr Smith**—It comes under resource management. It is an enabling function but we have devoted a separate chapter to it in this report.

**Senator FAULKNER**—I appreciate that, but which outcome will we be able to go into this under? I wanted to ask some general questions now and come back with more detail in the appropriate outcome. I was wondering which outcome it is. I thought you would have that at your fingertips, Mr Smith.

**Mr Smith**—I have constructed my own index.

**Senator FAULKNER**—I am not critical at all. Anyone who can work their way through these outcomes deserves another medal being struck by Defence! But someone has to come up with the answer; that is all.

**Mr Smith**—It is not under any specific outcome—

**Senator FAULKNER**—That means that we cannot ask any questions.

**Mr Smith**—but you could deal with it under the budget summary, some of which we have done, or business processes. Really you could deal with it at any point, frankly.

**Senator FAULKNER**—I appreciate your versatility. My colleagues and I have been wondering which output it is, so I thought we might ask a few questions in general questions. Is that clear to you now, Senator Bishop, that it is in no output at all?

**Senator MARK BISHOP**—Thank you.

**Senator FAULKNER**—I hope that is helpful for you.

**Mr Smith**—I hope that it is clear enough in chapter 6. I found these chapters not too difficult to work through and I think this is set out pretty lucidly there.

**Senator FAULKNER**—I think the PBS is well set out. Congratulations to the officers who were responsible for doing it.

**Mr Smith**—We set out the plans in the PBS in the form I think originally requested by Senators Hogg and Bishop.

**Senator FAULKNER**—Informally my colleagues have acknowledged the efforts, and I would too, that those who have been responsible for it have undertaken. I am sure this committee and many others who delve into the PBS would want to say that they appreciate those efforts. But back to the ranch, as they say.

**Senator CHRIS EVANS**—Thank you, Chair—

**Senator FAULKNER**—Hang on. I meant back to the remediation ranch. Unfortunately, we have not yet discovered an outcome where we can ask these questions. As soon as Mr

Smith can supply that information to us, we will leave off the general questions and come back to it in more detail.

**Air Vice Marshal Spence**—You would like me to go through the remediation for stocktaking.

**Senator FAULKNER**—How many stocktaking remediation projects are there? There are the two 100 per cent ones; are there any others?

**Air Vice Marshal Spence**—That is probably not quite the way to characterise it. There is a remediation project which encompasses a range of initiatives. The S1 project, which is the one that the brigadier runs on my behalf, deals with stocktake remediation. Within that remediation project, there are a range of endeavours that we are presently undertaking, and I could briefly run through them.

**Senator FAULKNER**—Thank you. That is helpful.

**Air Vice Marshal Spence**—We have undertaken and completed a 100 per cent stocktake at Moorebank. We are in the process of undertaking a 100 per cent stocktake at Bandiana. We have revised the Defence instruction on stocktaking to better align ourselves with the expectations of ANAO and to ensure that our processes reflect the advice that ANAO provided through their report. That Defence instruction is about to be promulgated. We have also increased the corporate governance arrangements that we have within my command, Joint Logistics Command, and we have introduced a logistics compliance and assurance team. That team goes out from my command to all of my business units, and I have seven of them. They are co-located with the warehouses that we have within Defence. Their job is to go out and to ensure that, from our perspective within the business units, we are approaching the stocktaking—and, in fact, the entire activity within warehousing—according to our guidelines, and also to work with TenixToll in the case of the majority of our warehouses, or Tenix in the case of Bandiana, to ensure that they, too, are aligned with the manner in which the processes ought to be undertaken.

In addition to that, I have sought some additional resources, through the chief finance officer, to increase, in a small way—ones and twos—personnel that I have at the business units to actually provide some additional horsepower on the corporate governance site. Clearly, much of this is not about necessarily the location of items but the housekeeping that allows us to confirm that items are in one place or another. In addition to that, you would be aware of SDSS—the standard defence supply system. That has gone through a Get Well program, and that has been quite successful. My visits to the business units have confirmed that my people are quite comfortable with SDSS as it stands at the moment—accepting that there are improvements that are in train. To assist in how the personnel—both contractor and uniform—use SDSS, we are introducing new radiofrequency technology items, which will allow, for example, a portable data entry terminal to be carried by store people when they actually pick or return items to locations. They can enter items as they stand there and, in effect, do a mini stocktake at the time, so that we know, right there and then, whether there is a discrepancy between what should be in that location and what is in that location. That is a range of the initiatives that we have in train.

I would have to make the point that those initiatives are not something that will deliver an immediate improvement, because clearly we are talking about people, and people have to conform to the better guidelines. I am expecting it will take in the order of this coming financial year to deliver the sorts of outcomes that we would wish to see.

**Mr Smith**—I want to make the additional point, if I may, that the 100 per cent stocktakes are not an end in themselves. They will provide a snapshot as at that time and a very useful baseline for building forward. The question of whether or not our discrepancy rate is acceptable will still not be judged until the end of the financial year, and that will depend on the effectiveness of the controls that we have in place, some of which we are still building and still maturing. I think the issue for us in the next year is to ensure not just that the baseline stocktake was right but that our controls are working. That is what will be tested at the end of this financial year.

**Air Vice Marshal Spence**—If I could just add a couple of points, in addition to those two 100 per cent stocktakes there is in effect a 100 per cent stocktake of all of the warehouses that form part of the DIDS contract being undertaken between when we initially moved into that in the middle of last year and towards the end of this year. The contractor is required to do a 100 per cent stocktake of all regulated and non-regulated items in their warehouses within the first year of the contract. By that means, we are effectively covering virtually our entire stock in a stocktake program.

**Senator FAULKNER**—Does this include explosive ordnance?

**Air Vice Marshal Spence**—We have separate arrangements with explosive ordnance through ADI, but the same principles of stocktaking and the same scrutiny are undertaken.

**Senator FAULKNER**—Sure. There are separate arrangements for ordnance. What about for heavy equipment and the like? Are there separate arrangements for that or does that get picked up in the processes that you have outlined to the committee?

**Air Vice Marshal Spence**—The equipment that we hold, which in the main are large items that might be warehoused or vehicles of various types for Army, are covered off there. Assets I think are a different issue that the DMO might deal with—aircraft and that type of thing.

**Senator FAULKNER**—Chair, I think the thing to do is to get a very broad picture here, and in the break we might just have a private discussion with Mr Smith or others and work out an appropriate outcome for us to perhaps deal with this in more detail. If we could just get the broad picture.

**Air Vice Marshal Spence**—If I could answer an earlier question of yours, ANAO undertook their auditing activity at the Defence National Storage and Distribution Centre, which is Moorebank; the Air Force bases at Amberley, Townsville, Pearce in Western Australia; and HMAS *Stirling* in Western Australia as well.

**Senator FAULKNER**—Thanks very much for that. What about the more major assets? Where does responsibility lie for inventory and stocktaking of those major assets? We have heard about ordnance. We have heard about, effectively, warehouse items—I think we understand it is reasonable terminology to use—and the more major assets, if you like.

**Mr Smith**—We classify under general stores inventory and ordnance. General stores inventory covers a very wide range of our items.

**Brig. Edwards**—If the items are in the hands of a user—say, not in the warehouse—then the user has a stocktaking obligation. That is covered in the Defence policy on stocktaking. It does not matter whether it is in a warehouse or an Army unit, it is still subject to the Defence stocktaking policy.

**Senator FAULKNER**—You have indicated that this stocktaking assessment includes vehicles, for example. Are there other assets that are not included?

**Mr Smith**—Specialised military equipment.

**Senator FAULKNER**—Yes.

**Brig. Edwards**—The items that are being stocktaked through the 100 per cent stocktake program include any item at the DNSDC Moorebank site. There will be vehicles there—they are major items. The vehicles can also be in the hands of the user. An Air Force or Army unit will have the same sorts of vehicles. The 100 per cent stocktake is focused on the DNSDC Moorebank site, not on vehicles nationally.

**Senator FAULKNER**—So that we can receive the broad picture before we look at this in closer detail at a later stage, are you able to provide, for the benefit of the committee, similar statistics to those you provided in relation to the stocktake at Moorebank more broadly throughout Defence—in other words, value and percentage, proportion or number of items that have not been located? Do you have those statistics? Where else do you have those statistics for? We have them for Moorebank; do we have them for other facilities or more broadly in Defence?

**Air Vice Marshal Spence**—Up until relatively recently—and I think it might be around 2002, but I would have to confirm that—there has not actually been a requirement to retain that sort of information, excepting the information that the stocktaking activity has been undertaken. But the information itself has not been retained. Since about that time, we have had a remit to report to the Defence audit committee, in line with a greater focus on our stocktaking activities, the outcomes of our stocktaking activities. That reporting has not been in terms of percentage of value or percentage of stock codes but rather in write-on and write-off figures that represent the final result of the investigation into the discrepancies that might have appeared in stocktaking. Those results in that form have been provided to the Defence audit committee since 2002—I think I am right in saying that. That information is available. In terms of a 100 per cent stocktake outcome, the only one that we have completed—certainly in recent times—is the Moorebank one. The Bandiana one is under way and we would expect to have that result in October this year.

**Senator FAULKNER**—So that means that you actually do only have the full picture for one facility, effectively—at Moorebank, which is a major one, obviously.

**Senator Hill**—By far the biggest.

**Air Vice Marshal Spence**—Exactly, one of the biggest. Presently, that is the case although, as I said, through the introduction of the DIDS contract, within the first year of that

contract—and the first year concludes in November of this year—all those warehouses will have undertaken a 100 per cent stocktake of both regulated items, which are the more visible items that we need to specifically be conscious of, and the non-regulated items. That will be done in each of those DIDS locations by the end of November.

**Senator HOGG**—How many of those DIDS stocktakes will be performed prior to 30 June—do you know? Obviously that will be material to the signing off of the accounts.

**Brig. Edwards**—The majority will be completed by 30 June. One of the reasons we did a 100 per cent stocktake at Moorebank was because Moorebank was later in the DIDS transition cycle and so its transition stocktake would not have been finished by 30 June. One of the additional reasons to do the 100 per cent stocktake at Moorebank was so that it would be finished by 30 June, because it is such a significant site.

**Senator HOGG**—How many will not be ready by 30 June? Can you detail which stocktakes will not be ready as a result of the DIDS process by 30 June?

**Brig. Edwards**—I can provide that answer on notice about which sites, noting that they are in transition and so they will have been partially through their stocktake but it will not have been completed 100 per cent. So there will be a couple of sites that have not finished by 30 June. There will be a number of sites that will have finished by 30 June.

**Air Vice Marshal Spence**—We can provide that to you.

**Senator HOGG**—I would appreciate that. Thanks.

**Senator MARK BISHOP**—We might turn to the Defence remediation plan in the PBS and go through it in some detail now. I think it was always intended to do it in the overview, wasn't it?

**Senator FAULKNER**—There was no alternative, I suspect.

**Senator HOGG**—I take it the hand signal means yes, General?

**Gen. Cosgrove**—I am going to defer to the secretary. I think he is about to make a contribution.

**Senator MARK BISHOP**—That is not a hospital pass!

**Mr Smith**—On the matter of outcomes, Senator, this is not new. Our outcomes simply do not have a specific provision for the financial statements issues, including stocktaking. That is regarded as an enabling service. I think that in the past we have tackled it at just some convenient point, often at the beginning when we do the portfolio overview.

**Senator FAULKNER**—Don't interpret my comments as critical comments or as specifically directed at this department or this issue more broadly. Anyone who has managed to get a handle on outcomes, outputs and whatever else has been required through all the definitional issues involved—we are yet to find such a person, Mr Smith.

**Mr Smith**—I am reassured. Thank you!

**Senator MARK BISHOP**—Mr Moore, could you turn to page 198 of the PBS, the outcomes for G1, the financial reporting framework. You have identified the major outcomes you want for the current financial year and next financial year. Looking at paragraph a, have

you gained the Financial Statements Project Board's agreement to the proposed work breakdown structure?

**Mr Smith**—Could I just preface what Mr Moore will say by saying that this is the crucial part of our remediation work. In fact, it is more than remediation. This is a change management framework. It is a very big project that in a sense underpins all the remediation action. We could fix all these other problems one at a time and then next year they would be back again if we do not get this financial reporting framework in place. It is a project in itself that will take a couple of years, but it is crucial—and, as I say, I am representing it in our organisation as a very significant change management program, because it is not what we have had in the past.

**Senator MARK BISHOP**—G1 is the key to the future; G2 and G3 are the implementation aspects of G1; and S1 through S12 are the line implementation responsibilities of fixing up the mess of the past?

**Mr Smith**—Quite right. And of course G1 will not stand up, again, without plenty of G3—that is, the management systems training and so on.

**Senator MARK BISHOP**—So if we go to G1, we are almost at the end of the current financial year. Have you got a tick-off yet from the project board for the work breakdown structure?

**Mr Moore**—Yes, we do.

**Senator MARK BISHOP**—When did you get that?

**Mr Moore**—From memory, at the meeting in April. It meets monthly.

**Mr Smith**—But I would make the point that we did not wait until April to start work on this. The final plan was ticked off, but the work was under way well before that.

**Senator MARK BISHOP**—Yes. When we were discussing this in February you were fairly well advanced in your planning and you gave the nod that there would be much more detail provided when we came back, as we have now.

**Mr Smith**—Yes, and then Mr Moore came along into the job and he wanted to do some more tweaking of it, and I am very happy with that.

**Senator MARK BISHOP**—Understood. And you have a fully costed project plan?

**Mr Moore**—Not yet. That is due to go back to the Financial Statements Project Board in July or August, but we are developing it now.

**Senator MARK BISHOP**—So, in terms of the major outcomes for 2004-05, you are already behind on paragraph b of two paragraphs?

**Mr Moore**—In terms of b, yes, we are about a month or so behind what we would have liked.

**Senator MARK BISHOP**—No, this says it was going to be done—

**Mr Moore**—By 30 June.

**Senator MARK BISHOP**—by 30 June 2005. You have just told me that the fully costed project plan goes back to the board in August of 2005.

**Mr Moore**—Hopefully, July.

**Senator MARK BISHOP**—So it is now July?

**Mr Moore**—July or August, depending on where we get to.

**Senator MARK BISHOP**—What happens if they ask you to do further work?

**Mr Moore**—We keep going. As Mr Smith said, we have got an outline of the plan. There are plenty of things we can do—this is a fully costed project plan. You have to appreciate that this is a major change initiative that will go right across the Defence organisation, so I have pulled together a project team within the CFO group to drive that process. That is what we have started doing, but a lot of the work has to take place out in the other groups. That is where we need to engage those other groups to ensure that they are all fitting into this overall plan.

**Senator MARK BISHOP**—You have not got a signed fully costed project plan from the board yet, and it has to go back in July or August. What sort of ballpark figure are we talking about for the costings?

**Mr Moore**—I could not even give you that at this stage. In terms of the project, we are talking about a staff of up to 20 civilians and they will need some support staff, technical support out of industry.

**Senator HOGG**—Are those 20 all internal?

**Mr Moore**—Yes. I think it is very important that they are internal. This is a major change management initiative, and it is really good to have Defence people drive that sort of change through the organisation.

**Senator MARK BISHOP**—So up to 20, then you will need technical support people and admin people as well?

**Mr Moore**—No, that is included in the number.

**Senator MARK BISHOP**—Technical support people—are they computer people, accounts people or what?

**Mr Moore**—They are mainly accounting people but some IT people as we go through the upgrade of our major corporate systems linking the financial information requirement to building that into our system specifications. We may also have to buy in some accounting help.

**Senator MARK BISHOP**—What are we thinking about here? Are we thinking a three- to five-year implementation phase?

**Mr Moore**—I would hope we could have it fully implemented within three years, but it will be incremental. We can certainly do things a lot quicker than that.

**Senator MARK BISHOP**—I think three years is a fair assessment at the outset. The general thrust of where you want to go in terms of your objectives and the plans to get there is now firm in your mind. What is the job of the projects board in July or August?

**Mr Moore**—To sign off on the costed plan. It is always good to have a plan but unless it is costed and funded—I just do not have the resources available.

**Senator MARK BISHOP**—Who is on the financial statements project board?

**Mr Moore**—It is chaired by the secretary.

**Mr Smith**—It is chaired by me. It includes the Vice Chief of the Defence Force, the three service chiefs and other group heads including Mr Moore and Mr Henderson, the deputy secretary of corporate services and the head of the Defence personnel executive. In addition, there is a representative of the department of finance and a private sector representative from the accounting community, Mr Bruce Meehan of Ernst and Young.

**Senator MARK BISHOP**—Why do you have a rep from the private sector? What is their interest?

**Mr Smith**—Firstly, they have the sort of depth of experience of wrestling with these modern accounting issues which is not necessarily being represented so well in the public sector. Secondly, we want to know how the private sector has coped with this or that problem. I have to say that Mr Meehan has been very helpful in that regard.

**Senator MARK BISHOP**—Are Ernst and Young on a retainer? Are they consultants to Defence on this issue?

**Mr Smith**—They are consultants. They have a contract and that is part of the total cost of this remediation. Just how Mr Moore will allocate their cost to that plan as opposed to other plans is for him to advise me on.

**Senator HOGG**—So what is the basis of that contract? What is the length of it?

**Mr Moore**—The contract was put in place back in February, from memory, and the initial focus of the contract was on two things: one, to provide an independent quality assurance of the remediation plans as they were developed; and, two, to provide some high-level technical advice to the chief finance officer on accounting concepts and technical issues.

**Senator HOGG**—Is it a 12-month contract?

**Mr Moore**—The contract is basically running up to 30 June. It was really to get these audit remediation plans in place, and there will be some work in the new year as well.

**Senator HOGG**—This year? There is no extension for the contract beyond 30 June?

**Mr Smith**—I expect to extend it.

**Senator HOGG**—How much is the contract worth?

**Mr Moore**—The total allocated to remediation was about \$6 million, and it was not solely for Ernst and Young; we have been using several other companies.

**Senator HOGG**—What proportion is going to Ernst and Young?

**Mr Moore**—Ernst and Young would have the majority of that expenditure.

**Senator MARK BISHOP**—When you say \$6 million, is that the figure for all of the work to be done in table 6.1?

**Mr Moore**—No, this is just the independent advice to the chief finance officer. The other costs associated with stocktaking are outside that.

**Senator HOGG**—I presume that, for that amount of money—\$6 million—given that it is not all attributed to Ernst and Young but the majority is, that would mean that there would be a fair team of people from Ernst and Young working in cooperation with the department. Is that a correct assumption?

**Mr Moore**—There were for a number of months as we developed these plans and they went through a quality assurance process. That is true, but most of that work has been completed because these plans have now been approved and are in place, so the number of Ernst and Young people allocated to this task has dropped off.

**Senator HOGG**—Can I assume also that, if the contract runs out on 30 June, they will be retained for a period such as a further 12 months or two years?

**Mr Moore**—That is right.

**Senator HOGG**—Which will it be?

**Mr Moore**—We have to do this for a full 12 months. We just have to keep driving these remediation plans through to their conclusion. As you go through all of these plans, there will be progress established for 2004-05 but there will still be a great body of work to be done in 2005-06 as well. As we require contracting support through Ernst and Young, we will certainly be doing that.

**Mr Smith**—What we will have to do after 30 June is sit down with Mr Meehan and his people and say: ‘This is where we got to this financial year. Where will we go next year, and where will you contribute to that?’ and develop a new contract around that.

**Senator HOGG**—Is there a line item in the budget for that expenditure, or is it something that is just absorbed in a more overall figure?

**Mr Moore**—With regard to the 2005-06 budget, I do not think you would find a line item, but Mr Veitch might—

**Mr Smith**—The total expenditure we have estimated—and I think we put this on the record back in February—for all of this activity we figured would come to about \$12 million, not counting the cost of our own staff who are in line positions in this work.

**Mr Veitch**—The \$12 million is spread over two financial years.

**Senator HOGG**—That is still holding up. So roughly \$6 million in 2004-05 and another \$6 million in 2005-06?

**Mr Veitch**—It is broadly of that order.

**Senator HOGG**—And it is broadly going to Ernst and Young?

**Mr Veitch**—No, not all to Ernst and Young. There is stocktaking money and there is some money we have set aside for the extra staff that Mr Moore talked about for the project. So at this stage we have \$12 million spread over two financial years, and we will progressively review that as the plans are developed and agreed to by the board.

**Senator MARK BISHOP**—Let me get the net of that. There is \$12 million over two financial years plus Defence staff time hours allocated for the total of the remediation implementation plans. Is that correct?

**Mr Veitch**—That is correct.

**Senator MARK BISHOP**—And that \$6 million paid or to be paid to Ernst and Young is part of the \$12 million or in addition to that \$12 million?

**Mr Veitch**—No, it is part of the \$12 million, and it is not \$6 million; it is a portion of the \$6 million. So at this stage I have set aside about \$12 million across two years for all activities and that is under continual review as we look at stocktaking work and the remediation plans.

**Proceedings suspended from 12.30 pm to 1.37 pm**

**CHAIR**—I understand the minister is on his way, so we might kick it off. We are on the remediation plans.

**Mr Smith**—If we are into a full discussion of the remediation plans, perhaps I could get other colleagues to the table and we can carry on more seamlessly. Some of these plans range across different areas.

**Senator MARK BISHOP**—We might turn now to G2 and talk about the three identified major outcomes the department seeks for 2004-05. The first states:

a. gain agreement between Defence and the Australian National Audit Office on key issues;

What are the key issues that Defence seeks agreement from ANAO on? Has agreement been reached? What stage are we at generally as to implementation on those key issues?

**Mr Moore**—The key issues that we are talking about are twofold. Firstly, issues surrounding the closing report for 2003-04—

**Senator MARK BISHOP**—I am sorry; I cannot hear you.

**Mr Moore**—It is some of the key issues surrounding their closing report for 2003-04 that we are addressing through the remediation plans—for example, under remediation plan S2, which is about inventory pricing compared to inventory quantities that Air Vice Marshal Spence is addressing under S1. We have a lot of old inventory that we are having difficulty pricing. We are engaging the ANAO. That to me is a key issue—how we would go about a pricing of very old inventory that still stays within accounting standards.

**Senator HOGG**—So is that the concept that has been floated at earlier estimates and other committees of this parliament where you are going to draw a line in the sand, so to speak?

**Mr Smith**—Stratification, yes.

**Senator HOGG**—Is that the basic concept?

**Mr Moore**—Yes, it is. For a lot of this old inventory, we were not required to keep financial records and so we are going through a process with both the National Audit Office and the department of finance of how we can account for that very old inventory in terms of pricing—that is a very key issue—as part of our remediation plan. Again, on the leave

records, which come up under later plans, we are missing some of those very old source records of actual leave applications. How do we overcome that problem where again we just do not have those old leave records to verify the leave balances on our HR system? How do we go about sampling the records that we do have that would meet their audit standards? We have a couple of sampling activities under way. We are engaging very closely with the ANAO on how we take some of these remediation plans forward. The other key issues for us are looking forward. There are two major issues apart from financial statements: the demerger of the DMO, the Defence Materiel Organisation, from 1 July next year—

**Senator MARK BISHOP**—This year.

**Mr Moore**—Sorry, this year.

**Senator HOGG**—Dr Gumley just thought he had been downgraded!

**Mr Moore**—Twelve months grace! We have taken some management decisions on how we split the two organisations—for example, how the balance sheet is to be split. That is reflected in the portfolio budget statements. We have approached both the department of finance and the Australian National Audit Office—informally in the case of the ANAO at this stage; I am about to write to them—about how we have done that split and the accounting treatment between the two organisations that will flow from the two agencies being established on 1 July.

**Senator HOGG**—So you are saying that that is not settled yet.

**Mr Moore**—We have settled it. We have reflected that in the budget—

**Senator HOGG**—That is what I mean. Is that the settled separation or is it likely that the ANAO will come back to you and say something different?

**Mr Moore**—We are hoping not, but if they do comment that they think we should have done the split a separate way—and they have not done that yet—it is something that Mr Smith and Dr Gumley would have to take on board.

**Dr Gumley**—When we do the split, there are a couple of areas that are grey. You could probably take them either in terms of an audit approach. Our view is that the audit should follow the best management rather than the other way around. We are going to attempt to do what is best for management, for the efficient use of resources, and then let the auditors come and audit that rather than it being dictated the other way around.

**Senator MARK BISHOP**—Mr Moore, are there other key issues?

**Mr Moore**—The one remaining key issue for us is the adoption of the Australian equivalents to the international financial reporting standards. It is something that we have to pick up in 2005-06. Again it is related to the audit remediation work, given our starting position of having qualified accounts—how we can take those accounts forward into an AEIFRS environment. We are consulting with the National Audit Office and the department of finance on how we might transition to the new reporting standards.

**Mr Smith**—We are seeking some advice through them from the Australian Accounting Standards Board.

**Senator MARK BISHOP**—You have identified three key issues—are there others?

**Mr Moore**—They are the major ones.

**Senator MARK BISHOP**—They are the main ones; okay. So you want to close off the report for 2003-04 in terms of past practices, you want to get the demerger correct in terms of looking forward and getting the correct system established, and you want to be able to implement accepted international standards.

**Mr Moore**—That is right.

**Senator MARK BISHOP**—You have been engaged in a degree of consultation or negotiation with the Audit Office over recent periods of time. Have they now signed off the essential elements of those three key issues or is that still the subject of further consultation?

**Mr Moore**—It is subject to further consultation.

**Senator MARK BISHOP**—When do you think that that consultation process with the ANAO is going to be concluded on each of those three issues?

**Mr Moore**—In terms of the issues that came out of the 2003-04 closing audit report, I would hope that much of that consultation could occur by 30 June so that could be reflected in our 2004-05 statements. But I caution that there are many issues at a time when they are building up their audit activity. We have agreed a set of priorities on those issues—the ones we would like answers on first. For example, the stratification of our inventory is an issue that is pretty important to us for the 2004-05 close—

**Senator MARK BISHOP**—I understand that.

**Mr Moore**—so we would prefer them to give advice on that first. In terms of AEIFRS, that is lower down in the priorities.

**Senator MARK BISHOP**—Go to the second one first. You said you would hope to have agreement in principle from ANAO on closing off the 2003-04 reports by the end of June this year. What about the negotiation process or consultation process with the ANAO on the issue you described as looking forward—Dr Gumley's future?

**Mr Moore**—In terms of the DMO demerger, we have made a management call in the portfolio budget statements. If we were to change, for example, the split of the balance sheet as a result of ANAO advice back, the first opportunity for us to effect that change would be at additional estimates.

**Senator MARK BISHOP**—Right.

**Mr Moore**—There would be no change to the bottom line between the two organisations. It would just reflect a switch between where assets or inventory were reported.

**Senator MARK BISHOP**—I understand that point. That is a process point.

**Mr Moore**—That is correct.

**Senator MARK BISHOP**—At this stage, is there agreement in principle between yourselves and the ANAO in terms of looking forward?

**Mr Moore**—In terms of the demerger, they have some views on what Dr Gumley described as our grey areas. That is really the assignment of some inventory items to the

Defence Materiel Organisation compared to assigning those items to Defence. We certainly do not have agreement from them yet on those grey areas.

**Senator MARK BISHOP**—So that still really is a work in progress.

**Mr Moore**—Yes, it is.

**Senator MARK BISHOP**—What about the third major issue—the adoption of the Australian equivalent to international audit standards?

**Mr Moore**—Our intention, as Mr Smith said, would be to seek guidance from the Australian Accounting Standards Board on how Defence can transition to the new standards while staying within the new standards.

**Senator MARK BISHOP**—Are we really at the beginning of the process there?

**Mr Moore**—Yes, we are. We have a bit of breathing space. Our intention is to get our submission to the standards board as right as we possibly can and hopefully get guidance that will facilitate our transition.

**Senator MARK BISHOP**—What is your time frame for tick-off so you can go to implementation: twelve months?

**Mr Moore**—The 2005-06 financial statements have to be AEIFRS compliant.

**Senator MARK BISHOP**—By 30 June next year.

**Mr Moore**—Yes. So we are looking at trying to get to the standards board in the next few months.

**Senator MARK BISHOP**—You have constant references in the PBS to consultation, sign-off, agreement, time lines et cetera with the ANAO. Correct me if I am wrong: they can give advice, point out pitfalls, give you guidelines and suggest possible alternatives, but in the final analysis it is your department that makes the call, your department that implements and your department that takes responsibility, isn't it?

**Mr Moore**—That is right; absolutely.

**Senator MARK BISHOP**—ANAO, as wise as they might be, give advice.

**Mr Smith**—Indeed, and they are constrained in the advice that they can give. They cannot say, 'If you do this, we'll pass it'.

**Senator MARK BISHOP**—No.

**Mr Smith**—On the other hand, it is not quite as bad as 'Where's Wally' where we say, 'Does this work?' and they say, 'No,' so we come back with a new idea and ask, 'Does this work?' and again they say, 'No.' We have to be able to talk through with them what might work.

**Senator MARK BISHOP**—So they can give you advice and you will listen to it, but in the final analysis both they and you accept that you make the call.

**Mr Smith**—Yes, and we are responsible for the ultimate propositions we develop.

**Senator Hill**—Yes, that is correct—but solutions have to be found to some of these issues, particularly issues such as the valuation ones. Otherwise we will never make progress. I think

that in some of this historical stuff the cost has to be taken into account. There is sometimes not a lot of point in spending millions and millions of taxpayers' money on something that is not going to achieve a better outcome. If you were doing the historical records differently now you would have come up with different results. Now we are trying to work to find a way through some of these historical hurdles. I am not talking about the issues that have turned up about unsatisfactory records in relation to the warehouses but the historical issues. I really do think that, within the bounds of the accounting rules, some commonsense solutions have to be found and it is going to take both sides to tango to achieve that goal.

**Senator MARK BISHOP**—I do not quarrel with that proposition. They are a useful organisation and they can give advice. The ADF can consult with them until the cows come home, but sooner or later the department has to make a decision to move forward and drive the changes that the government seeks. It is not subject to veto; that is what I am saying.

**Senator Hill**—There is no point to driving a change that is not going to meet the requirements of the auditor—that is wasting money. If the auditor's requirements are unachievable, I do not see that there is much point in spending money on something that is going to be unachievable. That is why I say that, on some of these issues, there has to be a resolution found, which will require both sides to work together to achieve it. I do not think that is putting the auditor in a difficult position, because the auditor is bound by audit principles, but I do think there is some flexibility on the audit side in relation to some of these historical issues.

**Senator MARK BISHOP**—Are you concerned that the Audit Office is taking too particular or specific a line in the advice it is giving into your department? Are its requests not achievable?

**Senator Hill**—In some ways I have thought that the Audit Office has been a little too arm's length on some of the historical issues that are costing a lot of money to achieve very little.

**Senator HOGG**—So how does one get around that problem, Minister?

**Senator Hill**—I am not sure whether the personalities have played a part in it or whatever, but there is a process taking place over the next few months to try and resolve some of these issues and I hope it succeeds.

**Mr Smith**—As I have said in another committee, there will be a point at which we cannot resolve some matters, as Mr Moore has said and Senator Hill has alluded to. If we do not have the materiel, it is not worth spending more staff years digging around for it, so we have to draw the line and say, 'If that is a scar in our statement, we will carry it,' because there is no benefit in going on digging, and a lot of cost. It is those decisions that Mr Moore will advise on in the near future.

**Senator MARK BISHOP**—So those sorts of issues are to be resolved over the next few months? When we come back in November—

**Mr Smith**—Yes. I do not want to carry them into the next year's financial statements. I want us to take a position this year.

**Senator MARK BISHOP**—So you want them signed off on 30 June?

**Mr Smith**—That is what I would like to do.

**Senator MARK BISHOP**—Are you talking about this financial year or next financial year?

**Mr Smith**—In this year's financial statements I want us to make a decision on a couple of these key historical issues—historical doctrine issues, if you like—so that we do not spend part of next year wrestling with them as we have for the last three years.

**Senator HOGG**—So that is for 2004-05?

**Mr Smith**—Yes.

**Senator HOGG**—Can I read into that therefore that it is likely that the 2004-05 accounts will be qualified again?

**Mr Smith**—The 2004-05 accounts will be qualified; there is not any doubt about that. We start with a qualified balance—an uncertain balance—on our profit and loss statement. Technically it is not possible to transition out of that in the one year. If we get accepted on or accept four kinds of qualifications only on this year's two other statements then we can go forward next year with a certain balance and get back across the line. But we will not be able to this year. The realistic objective this year will be to demonstrate progress and reduce the areas of uncertainties.

**Senator MARK BISHOP**—In that case, we will go to the next paragraph in G2, which states:

b. develop end of year audit process timetable ...

That is one of your major outcomes. That is really the end of this discussion phase you want to conclude with the ANAO over the next few months.

**Mr Moore**—That is right. We have given the Audit Office a draft timetable for the close of the 2004-05 accounts, which includes time for them to do their audit review of our draft financial statements leading up to production of our statements as part of our annual report. We have been negotiating around that timetable now for some weeks. I understand that they are reasonably happy with the proposed timetable. They are currently reviewing their audit work program for June. We have not seen that yet. So this is a two-way flow of information.

When they do turn up at Moorebank again this year, like they did last year, to do their independent stocktake activity, Air Vice Marshal Spence is required to support the auditors. We try to do the adjustments as they are found, so we have a Defence officer dedicated to support that activity at each site. They are currently getting the Auditor-General's sign-off on a revised program. We will have a look at that. It is going to be right in the middle of a major exercise—Talisman Sabre—for us. We cannot shut down that exercise, obviously, during an audit. Those two priorities will just have to compete.

**Senator Hill**—Which means a lot of materiel moving in and out of warehouses.

**Mr Moore**—At a time when the auditors are there.

**Senator MARK BISHOP**—And counting and recounting. I see the problem.

**Mr Moore**—So we have a pretty robust timetable in place.

**Senator MARK BISHOP**—We will go to the next paragraph, which states:

c. gain the Australian National Audit Office clearance of fourteen audit findings finalised by Defence.

Would you be hoping to have, by the time we meet in November, a tick-off on the clearance from ANAO and a decision within Defence to then implement the 14 findings?

**Mr Moore**—The 14 findings are 14 out of 95, if I could put it into context. The 14 audit remediation plans are addressing all 95 findings. The process that we go through is that we have to produce to the ANAO's satisfaction documentation for them to agree that the particular finding in fact has been addressed. For the 14 findings listed in the PBS, we have sent that documentation across to the ANAO already. In fact, we have sent a 15th one over. We cannot control how long it will take the auditors to actually agree that they are to be closed. As far as we are concerned, we have already taken that action to remediate those particular findings.

**Senator MARK BISHOP**—That is why I come back to the discussion we had earlier. You have sent off 14 or 15 plans arising out of the 95 findings to the ANAO. They are looking at them and they are in consultation with you. But, in the final analysis, when are you going to make the call to proceed to implement? That is the question. You can have this 'backwards and forwards' for any number of years.

**Mr Smith**—In the case of these 14 findings that we have worked on, they will review the work we have done against their initial finding and let us know whether we have satisfied the concern they had or not.

**Senator MARK BISHOP**—When will they do that?

**Mr Moore**—We cannot control that. We hope by 30 June so they could close these. We expect to send about another 18 across this financial year proposed for closure. So we actually expect to give them documentation on 33 of the 95 findings that we believe are remediated. But they are not formally closed until the National Audit Office agrees with us.

**Senator MARK BISHOP**—But in terms of that 18, apart from the fact they have not signed off, you are of the view that the work is done and the remediation process is concluded.

**Mr Moore**—Or will be by 30 June.

**Senator MARK BISHOP**—So that leaves 75 to be done and you have another 14 in the consultation process.

**Mr Moore**—We believe that the vast majority of the remaining findings can be resolved next financial year, in the course of 2005-06.

**Senator MARK BISHOP**—So you started out with 95—

**Mr Moore**—Thirty-three is the number—

**Mr Smith**—Ninety-five; 14 plus one plus 18.

**Senator MARK BISHOP**—So you are down to 60.

**Mr Smith**—Sixty-two.

**Mr Moore**—There are 33 proposed for closure this year.

**Senator MARK BISHOP**—This financial year?

**Mr Moore**—That is right.

**Senator MARK BISHOP**—Okay; and the other 62?

**Mr Moore**—Our estimate is that 55 of those will be ready for closure next financial year and the remaining ones the year after. You must remember that we will probably get some new findings as a result of the 2004-05 audit process.

**Senator MARK BISHOP**—I understand that. That has been foreshadowed by ANAO.

**Mr Smith**—If Mr Moore succeeds in getting a tick-off on all those 33, he will have exceeded his targets. But I would realistically expect ANAO to come back and question whether we have achieved a couple, and that is reasonable.

**Senator MARK BISHOP**—That is right. Are S1 through to S11 after G1 through to G3 the 14 that are going forward at the moment?

**Mr Moore**—No. There is a difference between an audit remediation plan, of which there so happen to be 14, and the 14 audit findings that the PBS, under G2, says we have sent across to the Audit Office. It is just a coincidence it is the same number. They are two totally different things.

**Senator MARK BISHOP**—When we meet this time next year and you identify the number of audit plans in a similar document, how many will you have then? What will the figure be?

**Mr Moore**—In terms of audit plans or audit findings?

**Senator MARK BISHOP**—Audit findings.

**Mr Moore**—They are the 95—33 for closure this year, 55 for closure next year and the rest in the financial year thereafter. I would hope that we would have made substantial progress against most of the 14 audit remediation plans during 2005-06 so that we could shut a number of them down.

**Senator MARK BISHOP**—Correct me if I am wrong, but if the timetable you have just outlined is stuck to, by the end of the financial year 2006 you would have close to 80 to 85 per cent of the work done.

**Mr Moore**—That is correct. There are a few ifs and buts as normal with that. One of our major problems, for example, in S1 is that we have undertaken a lot of stocktake activity and that will demonstrate real progress in 2004-05. But the Australian National Audit Office has some underlying concerns about the controls within our standard defence supply system—both systems controls and business process controls. It will take us until about the end of September 2005 to have the auditors test those controls. It would be reliant on the auditors being satisfied that those controls are in place. That will drive the timetable for the relevant remediation plans to be finalised.

There is a fair bit of work between now and September on things like controls within SDSS—not just system controls but business process controls. That extends to the behaviour

of the users. You can put all the controls in place that you can think of as long as the users actually respect those controls and comply with them. We believe that by the end of September we should be able to have the auditors test SDSS. Then we can move on with the controls in place so that, when we do stocktake, the roll forward of data remains accurate. It is not degraded over time because of poor record keeping within a particular system.

**Senator HOGG**—On G2, in the activity section, you talk about establishing an accountable officer to manage the audit activities between Defence and the ANAO.

**Mr Moore**—That is one of my staff.

**Senator HOGG**—That is one of your staff?

**Mr Moore**—It is me ultimately, on behalf of the secretary.

**Senator HOGG**—But is there someone delegated by you to perform that role?

**Mr Moore**—Yes.

**Senator HOGG**—I do not know whether the next question goes to the secretary or the minister. In respect of the chief finance officer's position, I note that we have had an acting chief finance officer for some time. Is it intended to put a person permanently in the position, and, if so, when?

**Mr Smith**—Yes, it is, of course. We have had an acting chief finance officer since the end of March. That is Mr Moore. I took a decision then. We could have launched a recruitment process, as we will do, nationwide. It would have taken several months to run, and it may be that we would have had a new officer coming in midyear, right in the midst of the finalisation of the financial year material and the preparation of the financial statements. I thought that was inadvisable. I had a very competent officer available in Mr Moore. I said to him, 'You take this position acting through until the end of the financial statements. This is your job.' I will put in place a process for selecting a permanent occupant of this position in the near future with the aim that that new person can be available when this cycle, as it were, is completed. I could not see that putting in potentially a new person in midstream would be a good thing to do.

**Senator HOGG**—I accept that. I was not questioning Mr Moore's competence in any way; I was just curious as to what was happening process wise.

**Mr Smith**—I have not neglected it; I have just made that decision.

**Senator HOGG**—When is that process likely to move on?

**Mr Smith**—I expect that we will advertise this position within the next few weeks and have a selection process running. Obviously the person we choose will not be unemployed; he or she will already be doing a job for another organisation, including their financial statements. We would aim to have someone ready to go—if it is Mr Moore, that is one thing; if it is somebody else it is another—right at the end of the financial statement period.

**Senator MARK BISHOP**—I turn now to G3. In terms of both your activity and your major outcomes, you are essentially talking there about a training function and a qualifications process, aren't you?

**Mr Smith**—Yes.

**Senator MARK BISHOP**—To some extent, it begs the question of why that was not done when the government implemented accrual accounting back in 1999.

**Mr Smith**—I was not here, so I cannot answer that, but I can say why it was not done in the two years I have been here. The answer was that, frankly, I did not appreciate the gravity of the skills problem, and I do not think others across government did either in this area. We realised at one point last year that, within the financial management domain in the Public Service, we were simply passing gaps around, pursuing the same people. As perhaps the biggest user, we in Defence decided to launch a big program of training our own people.

**Senator MARK BISHOP**—This is probably a question for you, Mr Moore. Why have you chosen (c) and (d)? It is essentially certificate level and undergraduate level work—lower level work of finance and accountancy type people.

**Mr Moore**—The approach has to encompass everybody who is involved in the preparation of the financial statements. That includes people who work in my group—the CFO group—who are in the accounting space all the time. Right across all parts of Defence we have a number of people who are not versed in financial matters, but they are part of the financial process in the production of financial statements. Air Vice Marshal Spence and Brigadier Edwards are examples of people who we rely on to put all these various parts of the financial statements together. We are targeting people at the bottom level of the senior leadership—the branch head, one-star level.

We have developed a two-day workshop to give them the basics of how to read financial statements—in effect, how to interpret the numbers in this book. We do not expect to turn out accountants after two days—far from it—but we aim to give a general knowledge and appreciation of where they fit into the financial statements process in their particular jobs. We have a number of courses—and we have had for a number of years, I should say—which deal with targeting financial people and giving them quite specific skill sets. For example, we have supported a Diploma of Government (Financial Management) and a Graduate Certificate in Professional Management (Finance). Some of our finance specialists are encouraged to undertake that very detailed training in financial knowledge. We are looking at a broad package of financial training right across the organisation.

**Senator MARK BISHOP**—Correct me if I am wrong, but when I read paras (a), (b), (c) and (d)—and I am specifically excluding (e) here—I interpret them as introductory financial analysis, introductory company accounting and introductory finance. Is that too glib a comment?

**Mr Moore**—I am not sure if it is glib, but it is both ends of the spectrum.

**Senator MARK BISHOP**—I excluded (e) from my comment. I will come to that in a minute. I am talking about (a) through (d), but particularly (c) and (d). I understood you to say that essentially you were running a series of workshops of two or three days to train existing staff.

**Mr Moore**—That is (e). That two-day workshop is for (e).

**Senator MARK BISHOP**—What is the detail? For (c) and (d), are they going to have to do the full courses at the appropriate university?

**Mr Moore**—Or credit at a college of advanced education.

**Senator MARK BISHOP**—In Canberra?

**Mr Moore**—It is mainly in Canberra, but we encourage people in other locations to get similar qualifications. We have a particular affiliation with one of the Canberra based institutions.

**Senator MARK BISHOP**—A certificate is normally one year part time and a diploma two years part time. Is that the type of thing we are talking about?

**Mr Moore**—I could not comment on the time frame, but yes, that is what we are talking about.

**Senator MARK BISHOP**—Going to (e), the financial management processes for SES and executive level 1 and 2, how high do executive levels 1 and 2 go for executive officers?

**Mr Moore**—Executive levels 1 and 2 are directors and assistant directors in the Public Service. They are the level just below the Senior Executive Service. In military terms, executive level 2 is about a colonel equivalent.

**Senator MARK BISHOP**—So they are very senior in the management line, and the SES people as well.

**Mr Moore**—That is right. The first SES course is later this week.

**Senator MARK BISHOP**—When you say ‘financial management processes’, is that more than reading and understanding the parts of a balance sheet?

**Mr Moore**—Yes, it is. There is some basic accounting 101 in it—what is a balance sheet, what is a profit and loss statement, what is a statement of cash flow. It is as basic as that. Then we will walk them through how to apply that to the government setting and, in particular, the Defence set of statements. But it is also on the budget side—Mr Veitch’s side. It is the development of the budget, the process that Defence goes through each year as part of the whole-of-government process—how we put our budget together, what sorts of influences there are on it and the cabinet process leading up to budget night. Then there is the full budget management during the course of the year. We issue allocations out to various parts of Defence. It should round them out in all aspects of the process.

**Senator MARK BISHOP**—How many hours would you be expecting an attendee to put in for these courses?

**Mr Moore**—These are two-day courses.

**Senator MARK BISHOP**—So 16 to 20 hours?

**Mr Moore**—That is right.

**Senator MARK BISHOP**—So it is more of an explanation as to how the accounting-budgeting-finance systems work within the department, isn’t it?

**Mr Moore**—That is right.

**Senator MARK BISHOP**—You are not training them to do it; you are just training them to have an understanding of how it works.

**Mr Moore**—That is right. I stand corrected. The EL2 course is actually five days. The SES course is two days.

**Senator MARK BISHOP**—You have retained one of the universities to do this?

**Mr Moore**—We are doing it ourselves.

**Senator MARK BISHOP**—Are you doing it—your section?

**Mr Moore**—I do not deliver training out of the CFO group. Defence personnel executive normally does our training. But most of what we are talking about, particularly with the SES and EL2 type training, we have developed ourselves in house. We will get a training provider in to assist us in the actual delivery. I should also say that G3 is a fundamental part of our financial controls framework that Mr Smith referred to earlier.

**Mr Smith**—Change management program.

**Mr Moore**—What we are looking for in the longer term is not just to continue these specific initiatives but potentially to introduce a full financial certification framework where we are sure that the people we are putting into financial jobs have the necessary competencies and skill sets before they actually arrive.

**Mr Smith**—Mr Moore and I will both be speaking there.

**Senator MARK BISHOP**—If we stick to our timetable, we will have the bulk of that done by the end of 2006-07?

**Mr Smith**—I would see it being a continuing process.

**Senator MARK BISHOP**—Or 2005-06. Earlier, you had a lengthy discussion with Senator Faulkner about Moorebank. I think you said that started in October and finished in—

**Mr Smith**—On 31 March, the stocktake, yes.

**Senator MARK BISHOP**—Almost six months to conclude that task. Do we have any similar scale work under way?

**Air Vice Marshal Spence**—Yes. As I said earlier, we have a similar activity being undertaken at Bandiana.

**Senator MARK BISHOP**—Anything else?

**Air Vice Marshal Spence**—As I think I also mentioned, as part of the DIDS transition, all of the other warehouses that are part of our business units are having a 100 per cent stocktake completed. If I could answer the senator's earlier question as to when they will be completed, the planning is that—with the exception of Moorebank, which we plan to complete by the end of October, Richmond at the end of August and Williamstown at the end of August—all of the sites will be completed by the end of this financial year.

**Senator MARK BISHOP**—The 2005 financial year?

**Air Vice Marshal Spence**—That is right, and that is an activity that is being undertaken by TenixToll.

**Senator MARK BISHOP**—If they are all completed by 30 June this financial year, does that give us a clean slate to go forward in terms of future inventory management and accountability of stock at all of those sites?

**Air Vice Marshal Spence**—No. There is a range of other remediation activities that have to be fielded and then actually taken up. As I mentioned, this is a people heavy activity. We need to get some of the electronic assistance that I mentioned—the PDETs, portable data entry terminals—out there. We need to get our revised Defence instruction out there, which should be within a week or two of being promulgated. We already have the logistics compliance and assurance teams that I mentioned earlier out there checking from a corporate governance perspective. Then we need time for the people who are involved in this activity—bearing in mind that in large part they are contractors—to be trained in SDSS, and progressively that is occurring. And they have to be familiar with how we require stocktaking to be undertaken. That then will lead us through the next six or eight months to be in a position where we can have greater confidence in our ability to keep the record correct.

**Senator MARK BISHOP**—Correct me if I am wrong, but I think you are telling me this. We are now in May 2005. By May 2006, you will have had all of your inventory count checked, accountability processes will be completed and all of your systems implementation and training of staff to carry forward will be completed. Is that fair?

**Air Vice Marshal Spence**—I think that is fair. I would make the point, though, that, with stocktaking, especially these 100 per cent stocktakes, they are essentially a snapshot at the time. Therefore we need to be absolutely certain that we have the processes and controls in place so that we do not diverge from that snapshot. I understand, too, that ANAO may be suggesting that we go through another stocktake process towards the end of this calendar year—as Mr Moore might have mentioned, once some of those SDSS corrections in terms of controls are in place.

**Senator MARK BISHOP**—They are thinking about another stocktake to ensure that your new systems processes are working adequately?

**Air Vice Marshal Spence**—I think to confirm that what has been put in place is functioning in the way it was intended and to give us a solid baseline to move on from in terms of accountability.

**Senator MARK BISHOP**—You do not want to be in the situation next May of having to explain that you are doing another full six-month inventory count of everything at Moorebank, do you?

**Air Vice Marshal Spence**—Clearly not.

**Senator MARK BISHOP**—We do not want to be in that position either.

**Air Vice Marshal Spence**—As I think I said earlier, we do have a constant rolling stocktake program, though—100 per cent of each unit over two years.

**Senator MARK BISHOP**—That is a different issue.

**Air Vice Marshal Spence**—It is.

**Senator MARK BISHOP**—What I am trying to drive at—and what I am trying to get you to commit to—is that, having done the inventory count at all of your major sites, having another 12 months to implement your systems, your processes, your equipment and your training of your people, all things being equal, come May or June next year, the department should be able to go forward in terms of particularly S1 and S2—the job is done.

**Air Vice Marshal Spence**—My aim in this command is to ensure that we do not contribute to the qualification of Defence's accounts in the next financial year.

**Dr Gumley**—The training will go on for ever. It is not something that will finish by May next year. It will just continue and continue.

**Senator MARK BISHOP**—But there is a set of additional skills and processes that have to be communicated to staff so they can do their job. Then they are updated when new staff come on. But I am trying to get to the bottom line of when it will be done. The air vice marshal is telling me that it is his command to have it done by the end of the financial year next year.

**Air Vice Marshal Spence**—Those things for which I am responsible.

**Senator MARK BISHOP**—Is that subject to any necessary funding by government or are those moneys appropriated in the pipeline?

**Mr Smith**—The costs that we have to take from hide.

**Senator MARK BISHOP**—Are there?

**Mr Smith**—Yes. We have no new money allocated for this remedial work. We are having to take it from wherever we can trade it off from.

**Senator MARK BISHOP**—And you have identified sufficient existing sources to cover the costs in the financial year ended 2006?

**Mr Smith**—Yes.

**Senator FAULKNER**—Mr Smith, you were able to tell me that nine O rings have gone missing.

**Mr Smith**—Ninety-two.

**Senator FAULKNER**—When you said that, I was very impressed that you knew that. Are you able to say to me whether any sensitive material has gone missing?

**Mr Smith**—I want to say at this stage that I do not want to get into any public disputation with our good friends from the Australian National Audit Office. Indeed, there is no need to do so because I do not think there are significant differences between us. But it would be a pity if senators had inferred from what was said here last week that any significant items of military equipment had been either lost or stolen. That of course was the effect of the media reporting.

I think the ANAO and we have agreed that, as I have said in another committee, the issue is that a lot of items were not where the available computer generated records said they were. We were advised of a number of discrepancies, including of some sensitive items, but have subsequently, by a lot of good work by the brigadiers here, been able to reconcile those

records with regard to the sensitive items. That is to say we have located them in another place, often nearby. We have advised ANAO of that. So in the original lists of discrepancies, yes, there were some significant items but we have reconciled all the major significant and sensitive items.

**Senator FAULKNER**—Is there a distinction here between significant and sensitive?

**Mr Smith**—Specialised military equipment and ordnances are broadly what I would put under that heading.

**Senator FAULKNER**—So we are not just talking here about Moorebank, because there are no ordnances in the Moorebank facility, are there? That is what I understood you to say.

**Brig. Edwards**—That is correct. Moorebank is not an ordnance facility.

**Mr Smith**—Orchard Hills. So the audit of the financial statements last year found that our statement with regard to one of these specialised equipment and explosive ordnance was true and fair but that was not to say that those records were 100 per cent right; that was to say that such discrepancies as there were were below the threshold figure that would have ruled them to be not true and fair. But because of the nature of those items, we did work hard to establish exactly where they were and in all the major cases have done so. I think that is correct.

**Senator FAULKNER**—Are we talking then about specialised military equipment or significant equipment or both? I suppose the descriptions are sensitivity versus significance. Sensitive items, I assume, include ordnances and some specialised military equipment. Would that be right?

**Mr Smith**—Yes.

**Senator FAULKNER**—Significant matters might be significant just in terms of value. Would that be correct?

**Mr Smith**—Value or size of the items, yes.

**Senator FAULKNER**—So are you able to assure the committee that, as far as specialised military equipment and ordnances are concerned, you have been able to deal with all the discrepancies?

**Air Vice Marshal Spence**—We have been through the list provided to us by ANAO and looked at all the discrepancies that they provided us with. I can assure you that all of the significant and sensitive items have been resolved.

**Senator FAULKNER**—Let us go back then to the \$28 million that was identified earlier in the hearing. Is there any interface between those items and items identified by the ANAO, or are they a separate group of items?

**Air Vice Marshal Spence**—These are separate in time.

**Senator FAULKNER**—Yes, that is right. That is what I assumed. So, as far as what the ANAO has identified in terms of specialised military equipment and sensitive material, you have been able to deal with all those discrepancies?

**Air Vice Marshal Spence**—Yes, that is correct.

**Mr Smith**—Senator, I wonder if we can clarify that \$28 million. There is a 10 per cent discrepancy or error rate; that is unders and overs—that is a grossed-up figure. Maybe Air Vice Marshal Spence can explain it better in that regard.

**Air Vice Marshal Spence**—Just to clarify it, if I can, the 10 per cent error rate was in relation to stock codes rather than numbers of items. I think I made that point before—that we are talking about identifiers of stock codes, so that is where that error rate resides. In terms of the error rate values that we were able to validate by investigation into the stocktake, there were deficiencies of \$28 million and there were surpluses of \$56 million. That is what gave us that final error rate of a value of 3.4 per cent. Those deficiencies and surpluses are discrepancies and in some cases can be attributed to errors in annotating SDSS, misidentification of items, perhaps poor record keeping, and some of them are attributable to location errors—that is, they are in the wrong place within the warehouse.

**Senator FAULKNER**—I appreciate that, I think, Air Vice Marshal Spence. We have established that there is \$28 million worth of equipment that has not been located through your own audit process.

**Air Vice Marshal Spence**—No. It is a definition thing. There are deficiencies in the record keeping, deficiencies of \$28 million, and surpluses of \$56 million.

**Senator FAULKNER**—All right. I thought before the luncheon break we had settled on use of the language ‘not located’ when it was suggested at the table that my use of the words ‘missing’ and then ‘not found’ were unsatisfactory. So I think we settled on ‘not located’.

**Mr Smith**—Not located in the right place.

**Gen. Cosgrove**—Your laptop is not in your office at the moment, Senator, but if we did a stocktake—

**Senator FAULKNER**—But it is located, you see!

**Gen. Cosgrove**—No.

**Senator Hill**—It might say a record of your stock shows—

**Gen. Cosgrove**—It is actually here in the room, so it is—

**Senator FAULKNER**—It fits the definition of ‘found’.

**Gen. Cosgrove**—As of this moment it is.

**Senator FAULKNER**—Yes, and I hope when I leave for the dinner break that it will remain found!

**CHAIR**—If you were looking in your office, it would be ‘not found’, so it is a fine point.

**Gen. Cosgrove**—Senator, it would be deficient from your office but surplus here in the committee room.

**Senator FAULKNER**—I think that is a very poor analogy, General Cosgrove!

**Gen. Cosgrove**—It was one that just came to my mind.

**CHAIR**—I think it is quite good, actually, Senator Faulkner!

**Senator HOGG**—I think you should give that one away!

**Senator Hill**—That would require an evaluation!

**Senator FAULKNER**—Yes, and lots of it.

**CHAIR**—A committee, I think!

**Mr Smith**—It was once explained to me this way—and perhaps you would need to ask ANAO to validate this simple explanation: if a laptop were found not to be in the shelf where the other 20 laptops are, that is one error. We are supposed to have 21; we have 20. But if it were then found to be on a shelf over there, where we keep desktop terminals, then that is a second error. By adding these errors together, you get a grossed-up figure. Is that correct?

**Brig. Edwards**—That is right.

**Senator Hill**—That is why we had overs and unders. It sounds like our overs exceeded the unders!

**Senator FAULKNER**—All right; let's cut to the chase.

**Mr Smith**—Brigadier Edwards is blessed with some facts on this matter!

**Senator Hill**—Don't spoil a good story!

**Senator FAULKNER**—Well, for heaven's sake, share them with us!

**Brig. Edwards**—I was just going to clarify that at the end of an audit, if something has been found in the wrong position during that progress for a week at the site and ANAO agree that it was a mislocation, that is recorded as a separate error. It is not a financial error.

**Senator HUTCHINS**—Is that recorded as a surplus?

**Brig. Edwards**—No, because if it is simply in the wrong location it is purely a warehousing behaviour error.

**Senator HUTCHINS**—So what is a surplus? Presumably you do not have—

**Brig. Edwards**—A surplus would be where the records say that I have seven and I actually find eight across the whole site. That can be caused by a storeman having the task to issue seven and issuing six by mistake. What happens is that I have got one extra left on the shelf already. So if I have a bad warehousing practice, I can create a record inaccuracy. Similarly, he could issue eight by mistake instead of seven and I will have one less. I will have a deficiency.

**Senator HUTCHINS**—So that is your unders and overs, is it?

**Brig. Edwards**—Warehousing processes can contribute to inaccuracies.

**Senator FAULKNER**—Have you had any problems with theft at any of these facilities?

**Senator HUTCHINS**—No baggage handlers, or anything?

**Air Vice Marshal Spence**—I suspect it would be realistic to expect that human nature would lead to some level of pilfering but I am certainly not aware of any theft. Certainly in my time, there have been no prosecutions for that.

**Senator FAULKNER**—We have dealt with what ANAO looked at in terms of specialised military equipment—sensitive material, if you like. Let us talk about matters of significance

that were identified by ANAO as not located where they should be—items of value not located where they should be. Have you done a full check of those sorts of items?

**Brig. Edwards**—Yes, we have. To give an example, we had a particular item of large value which was not where it was supposed to be in accordance with the records because it had been through the formal disposal process and disposed of but the record had not been adjusted. The value of that item was about half a million dollars. We had just not done correctly the record-keeping transaction to support the physical activity where something was broken and unrepairable and was due to be disposed of. So we just did not complete the warehousing behaviour.

**Senator FAULKNER**—With those items identified in the ANAO survey or stocktake, are there any outstanding items of significant value?

**Air Vice Marshal Spence**—It depends on your definition of ‘significant’—

**Senator FAULKNER**—What do you think is reasonable?

**Air Vice Marshal Spence**—because in some cases volume might be an issue but, getting back to what we were talking about previously concerning sensitive or significant military equipment, the answer is no.

**Senator FAULKNER**—Just so the committee is aware, what sort of dollar value are you using for definitional purposes here?

**Brig. Edwards**—In terms of getting issues resolved and in terms of priority of effort, I have been focusing on half a million dollars. A whole bunch of things that were less than half a million dollars has been resolved as well but, in working our way through, anything of more than \$500,000 is what I am hitting on, remembering of course that these are events that occurred in audits in May and June last year and some of these will have since moved. We have not frozen any of the activity.

**Senator FAULKNER**—What is the value of assets where you have not got a resolution yet?

**Brig. Edwards**—I have the answer; I just have to flick to the right page.

**Senator FAULKNER**—Sure.

**Brig. Edwards**—In what we call repairable items, which as the name implies are reusable, and general stores inventory, which are the other consumables, the unresolved works down to be a little over \$4 million.

**Senator FAULKNER**—What does ‘unresolved’ mean in this instance?

**Brig. Edwards**—Still being investigated or unsure of the circumstances. It could be part of natural—I am just thinking of the commercial term—shrinkage in terms of normal loss. We are continuing to work our way through each of those. Some of those you would not pursue because of the low value. It is not worth the effort.

**Senator FAULKNER**—That deals with the picture from the ANAO stocktake or audit, whatever the best terminology to use is. Let us look at the work undertaken by a consultant on behalf of Defence in the same area. What is the picture now in relation to, first of all, the specialised or sensitive military equipment?

**Brig. Edwards**—Are we now talking about Moorebank?

**Senator FAULKNER**—Yes.

**Brig. Edwards**—First let me clarify that we used a consultant and we paid a commercial company to do the stock counting for us. You cannot buy a commercial company that has the sort of level of SDSS—Defence's warehousing system—systems knowledge, so it was a combined effort by a contractor in terms of stock counting—

**Senator FAULKNER**—That is how Mr Smith knows about the 92 O rings, is it?

**Mr Smith**—I think the Audit Office was good enough to advise me of that.

**Senator FAULKNER**—You are right in the loop. That was a poor attempt at a pun; it is okay.

**Brig. Edwards**—It was a combined effort by a contractor providing a stocktaking team to do counting and defence personnel in terms of access to the records, knowledge of the stock, identification and so on, to run a full stocktaking program. That is why it took from October until March to go across such a large site as Moorebank and also to keep the warehouse running in terms of supporting customers. The stocktake in itself was a large undertaking, and you would not want to do it twice—simply because it is a large undertaking and a disruption to normal business. That site should normally be covered in a two-year cyclic program—that is the normal stocktaking event—which would reveal discrepancies up and down and, as in any warehouse activity, that would be progressively investigated and resolved.

**Senator FAULKNER**—We know what the pattern is for those items identified by the ANAO. Could we have an indication of what the situation is with those items identified in Defence's own stocktaking processes and procedures?

**Brig. Edwards**—In terms of the Moorebank site, I would have to come back to you with what would be a reasonable summary of those items.

**Senator FAULKNER**—If you could do that, I would appreciate it. Are there any other sites where you are also able to provide a heads-up to the committee on what the picture looks like? I do think, from what I have heard from Air Vice Marshal Spence, that there is really nothing else that has been finalised. Is that right, Air Vice Marshal?

**Air Vice Marshal Spence**—A number of the DIDS transitional stocktakes have been finalised. Probably the one that is most aligned with the Moorebank one would be Bandiana, and that is towards the end of this year—September-October.

**Senator FAULKNER**—Would you be able to provide those that have been finalised?

**Brig. Edwards**—In terms of the nature of the items?

**Senator FAULKNER**—Similar information about what, if anything, is outstanding of a sensitive nature or in terms of specialised military equipment and what, if anything, is outstanding in terms of high-value goods.

**Brig. Edwards**—Yes, we could. It would take a little bit of time. The reason I say that is that the DIDS transition stocktake is across all of Australia—multiple sites and locations, all

running a rolling program. As Air Vice Marshal Spence said, the majority will be finished on 30 June, with a couple of sites still to go.

**Senator FAULKNER**—What about Moorebank? Are you able to give us the picture in Moorebank?

**Brig. Edwards**—Yes, I said I would come back to you on that, because that is a completed activity.

**Senator FAULKNER**—All right. If you could do that, that would be helpful.

**Senator HOGG**—Could we look at S3 and S4 briefly? The major outcome there is in S3. For 2004-05 it states:

... allocate an accountable owner to all Supply Customer Accounts; start stocktaking of Supply Customer Accounts and record correct balances on Standard Defence Supply System for those stocktaked.

**Mr Smith**—I will ask Dr Gumley or Brigadier McGahey to take that question.

**Brig. McGahey**—In terms of the supply customer accounts, it points out that there is a requirement, first, to establish ownership of all of the accounts that Defence owns, some 26,000 accounts. That has now been achieved in terms of accountability for each of those. Similarly there was a requirement to put in place training and a charter of management for those accounts. Once ownership was established, we then embarked on a stocktaking activity, which to 30 April is now 38.5 per cent complete.

**Senator HOGG**—So this is different from all the other stocktaking accounts.

**Brig. McGahey**—That is right. Items are either in a warehouse or essentially in a supply customer account which tracks repairable items moving through the supply chain.

**Senator HOGG**—On 30 April you said this was—

**Brig. McGahey**—It was 38.5 per cent complete.

**Senator HOGG**—And likely to be totally complete?

**Brig. McGahey**—Not likely to be totally complete by 30 June but certainly best efforts towards that, given the scale of the task.

**Dr Gumley**—This is where we need a lot of cooperation with the companies who might be repairing items, because some of the supply chain is actually with the private sector who are doing repairables.

**Senator HOGG**—S4 is the ordinance. It says:

a. remediate approximately \$440 million of the \$845 million Explosive Ordnance pricing qualification; How far down the track are you there?

**Ms McKinnie**—Of the \$440 million, we have presented audit approval requests for \$310 million. They have been completed and either have been provided to the ANAO or are going through the final quality assurance check within the CFO group of the department.

**Senator HOGG**—At what date was that?

**Ms McKinnie**—That is today's date.

**Senator HOGG**—So between today's date and 30 June there is still \$130 million to be accounted for, according to your program here. Is that likely to happen?

**Ms McKinnie**—We are on track to achieve that. With some of the various pricing exercises that we went through, when we put them through our management audit branch for QA they suggested they were not quite complete, so we are now redoing those. But our target is still \$440 million by the end of June.

**Senator HOGG**—The balance, the \$405 million, is that next year, 2005-06?

**Ms McKinnie**—That is the aim. Some of that we may not achieve because it will not be cost effective to pursue.

**Senator HOGG**—Is this similar to the problem that Mr Smith was referring to before?

**Ms McKinnie**—That is right. Some of the pricing will be legacy or be very old. We are developing a rationalisation for how we have valued some of the legacy stuff. That rationalisation may be accepted because we simply do not have records to cover that information, or it may not, in which case Defence will make a decision on whether we write it off or accept that we will never be able to get a price to the quality that is required.

**Senator HOGG**—Do you have a ballpark figure of how much is likely to be in that category?

**Ms McKinnie**—At this time, no.

**Senator HOGG**—Are we looking at, of the remaining \$405 million, a quarter or 50 per cent? I am not holding you to this; I just want to get some idea of the problem.

**Ms McKinnie**—I think it would be less than 50 per cent.

**Dr Gumley**—This will be written off for pricing; it will not be written off for quantity.

**Senator HOGG**—Yes, but it will go from the balance sheet.

**Dr Gumley**—But you will still know you have got X number of bombs sitting there.

**Senator HOGG**—They are still usable but they do not have a value.

**Dr Gumley**—We will not spend months and months trying to find a value for something that is just impossible to find.

**Senator HOGG**—Because you have lost the original cash sale docket that you got.

**Senator MARK BISHOP**—So by the end of next financial year you will have sourced the contract documentation, valued it and priced it going into the future for all ordnances capable of being so—

**Mr Smith**—Capable of being sourced, yes, or otherwise concluded on a different treatment of it.

**Senator MARK BISHOP**—Otherwise concluded on a write-off basis.

**Mr Smith**—That is right.

**Senator MARK BISHOP**—But in terms of the stuff you have sourced, valued and priced, it is likely to be the best part of 75 per cent of that \$845 million as at 30 June next year—

**Ms McKinnie**—About that.

**Senator MARK BISHOP**—and the rest is written off.

**Senator HOGG**—What progress is being made with regard to the second paragraph, which states:

b. complete implementation of Explosive Ordnance inventory processing and reconciliation policies and procedures to ensure Defence's ongoing ability to accurately price Explosive Ordnance inventory items.

**Ms McKinnie**—We have completed a number of those activities. We have concluded the process for valuing configured items. That is basically where we have a missile by reconfiguring the missile from a training missile to a war missile, it may have a different value. We previously had a problem with what the policy was for doing that. We have now come up with a new policy in order to go forward into the future for how we value missiles in those circumstances.

**Senator HOGG**—But part of your problem, surely, is just the mere way in which you record these things.

**Ms McKinnie**—Yes. There is an issue where we record how many we have on the shelf at any particular time. We might have reconfigured a suite of missiles for a particular function. When we reconfigure them for another function, does their value change? How do you make up the value of those missiles sitting on the shelf in those different configurations?

**Senator HOGG**—So that is where an upgrade program has been applied.

**Ms McKinnie**—No.

**Senator HOGG**—Not necessarily?

**Ms McKinnie**—When we take different missile components and put them together, you end up with a missile that can perform different functions.

**Senator HOGG**—All right; I understand that.

**Senator FAULKNER**—Generally, is there a reporting mechanism within Defence if a weapon of whatever nature—I am thinking here of smaller weapons as opposed to missiles and the like—goes missing? I assume there would be.

**Ms McKinnie**—Yes, there is.

**Mr Smith**—As soon as we have a report of that kind, in addition to continuing our own investigation, we will notify local police.

**Senator FAULKNER**—I imagine you would keep a very close eye on this, obviously. That goes without saying, doesn't it, Mr Smith?

**Mr Smith**—It does.

**Senator FAULKNER**—What sorts of numbers would we be talking about in a calendar year of these sorts of reports?

**Senator Hill**—We have answered some of these questions on notice that go back over a number of years.

**Mr Smith**—The Inspector-General, Mr Neumann, handles these matters for us. Perhaps he can speak to that.

**Mr Neumann**—There has been no change since we last met in February. Question No. 171 of 7 March gave the latest details and there have been no more reported losses of current in-service ADF weapons since that date.

**Senator FAULKNER**—What about ordnance? Is there a similar reporting mechanism for that?

**Mr Neumann**—Yes. I think that was answered in Senate question on notice No. 1935, which is a couple of years old.

**Senator MARK BISHOP**—Remind us.

**Senator FAULKNER**—Could you provide a very brief update, if there is an update to provide?

**Mr Neumann**—No, I do not have an update for that one.

**Mr Smith**—Would it be helpful to revisit the answer to that question?

**Senator FAULKNER**—I assume, Mr Smith, that internally in the department there would be a logging of this sort of thing—there is a logging of it, obviously. I was wondering if the same provisions applied to ordnance as it does to weapons.

**Senator Hill**—There is a doctrine that would account for ordnance.

**Mr Smith**—Do you want to explain the process?

**Mr Neumann**—Yes. The ordnance has the same process. I think question W14 of the additional estimates hearing of 18 February 2004 also covered the issue of weapons losses and ordnance.

**Senator FAULKNER**—But what has happened since 18 February 2004—that is what I am asking?

**Mr Neumann**—Apart from the update that we gave in question 171, which reported:

... nine in-service weapons have been reported lost or stolen since February 2004. Of these nine weapons, one Steyr rifle and five Browning L9A1 9mm pistols have been recovered. In addition, a training grenade has been lost and recovered.

The ones prior refer to previous answers.

**Senator FAULKNER**—What date was that answer provided?

**Mr Neumann**—I think it was 7 March 2005.

**Senator FAULKNER**—Since that time there has been no change in either further weapons notified or any that have been located, I assume—that is, changes either way—because we seem to be spending a lot of time on it. Would that be right?

**Mr Neumann**—Yes, that is right.

**Senator FAULKNER**—If we could get an update on the ordnance, I would appreciate that.

**Senator MARK BISHOP**—Going to S5 and S6, military leave records and civilian leave records, essentially your activity there is—correct me if I am wrong—identifying and establishing record systems of leave owing to individuals. Is that right?

**Mr Smith**—Yes, that is correct. Mr Sharp, who spoke earlier on medals, can address this. He is the accountable officer for this matter.

**Senator HOGG**—Medals and leave.

**Mr Smith**—He has got all the soft ones.

**Mr P. Sharp**—We are at the stage of testing whether the plan we have had in place since 2003 has worked. In 2003 we set up a plan to both reform our management of leave and improve the remediation of leave management and leave records. That reform program started with an intention by CDF and the secretary to improve the taking of leave. We found that one reason why the accrual amounts were so high is that the taking of leave throughout the organisation was at best sporadic. The Chief of the Defence Force and the service chief put in a regime in the services requiring leave to be taken. They put that on both commanders and managers and defence members.

**Senator MARK BISHOP**—Is taking of leave within a reasonable time of it falling due now mandatory in Defence or is it still an optional extra that you can take if you want to and not otherwise?

**Mr P. Sharp**—It is mandatory to an extent. It is not expected in some cases that everybody can take all their leave but it is expected that people will take a significant amount of it. It is essentially a duty of care issue that people take the leave for which it is awarded.

**Senator MARK BISHOP**—I meant going forward. If we take it as the norm that everyone accrues four weeks annual leave per year, is it—don't worry about what is accrued in the past—mandatory for personnel to take the leave, to cut it out?

**Mr P. Sharp**—We do not have a take it or lose it regime at present but we very strongly enjoin our staff to take the leave that falls due. I make it a part of the appraisal of performance of supervisors that they ensure that their staff are taking leave.

**Mr P. Sharp**—The second important part of the reform was to improve our administration, in particular to improve people's attention to the record keeping of leave records. Again, this fell on personnel, managers and supervisors. It is fair to say that we had fallen into some fairly lax practices in record keeping of leave records. I think it had a little bit to do with the introduction of computers and the notion of the paperless office—enter a leave record and forget about the piece of paper. We have had to reintroduce some better discipline in the keeping and movement of leave records. Coupled with that, we reintroduced some better internal checks—fairly routine, but all important—to confirm that the right information was going into the information system.

The third step we needed to take was to do some system improvements. PMKEYS is our information system for leave. The main effort here focused on what are called activity logs. Activity logs record leave other than annual leave, predominantly in the ADF—for example, war service leave, field service leave, seagoing leave and flying leave. We needed to improve

the accuracy of our record keeping and recording and therefore entry into the information system.

The fourth reform we had to put in place was to get some training done. This was a PMKEYS issue across the board, but it applied as well to the leave module. We have been putting people through training, both face to face and through our online e-learning mechanism, so that we are confident that people who are processing leave are qualified. We are close to the point where, if you are not qualified, you will not be able to operate PMKEYS on leave.

The fifth important reform was to introduce what we call employee self-service and online processing—in essence to try to take the double entry and triple entry out of leave and to go to one-time entry, going through the supervisor and into the PMKEYS record. Civilian staff are on this system, although they are still not using it as much as we would like, and we have plans for the ADF progressively to come online, to use online processing, commencing in June, recognising that there are significant components of the ADF that do not have access to the Defence intranet.

They are the main mechanisms which we put in place and which are referred to in the PBS. By the way, that plan went into place in October 2003. At that time, we intended to self-qualify in the 2003-04 year. We knew we would not be ready by then. We think we are approaching the mark for 2004-05. We are doing two types of tests. One is random sampling testing undertaken by the Inspector-General. The other is a sampling test, which is alluded to in the PBS, which looks at the high-risk areas where leave errors may occur and runs a sampling test on those high risks.

**Senator MARK BISHOP**—So you think you have a system in place, and you are testing it.

**Mr P. Sharp**—That is right. We know that with one large segment of leave—which is the ADF's long service leave—we seem to have got that right. The error rates reported in recent audits were less than 0.1 per cent. That is worth about \$600 million accrued. We are fairly confident about that, and now we are about to test the other sorts of leave.

**Senator MARK BISHOP**—Is that on the military side or the civilian side?

**Mr P. Sharp**—Both.

**Senator MARK BISHOP**—You had \$600 million in unaccounted for long service leave entitlements?

**Mr P. Sharp**—It was part of the accrued leave sum. We always knew that it was probably more accurate than the other types of leave, but we did not seek to not qualify it last year. Rather, we put it in the bundle that went forward.

**Senator MARK BISHOP**—I would have thought the establishment of accurate military and civilian leave records would have been one of the simpler remediation plans. It sounds fairly lengthy. When we have this discussion next year, is it your current intent that you will have this signed off on?

**Mr P. Sharp**—Yes.

**Senator MARK BISHOP**—Good.

**Mr P. Sharp**—I have been given a note that the long service leave error rate—that is, ADF long service leave—is 0.2 per cent.

**Senator MARK BISHOP**—Is the executive remuneration package that you are going to implement in 2004-05 in principle a different package from the work you are doing for the civilian and military leave records?

**Mr P. Sharp**—Yes. That executive remuneration refers to the executive remuneration note that appears in the annual accounts, in which all aspects of executive remuneration—or those that qualify under accounting standards—are reported as a total in the annual report. The difficulty with the executive remuneration note is that the bands that we report to are \$10,000 apart, so it does not take much to get in the wrong band. That is, you might be one per cent out on your leave, but that might be enough to create an error in terms of which band you are in. Accordingly, the demands for accuracy for executive remuneration are somewhat greater than perhaps they might be for leave where a slightly larger materiality might be acceptable. The other issue with executive remuneration refers to SES and star rank officers, some of whom have been in the service for a few years.

**Senator MARK BISHOP**—How many SES and star rank officers are there? Is it just star rank officers?

**Mr P. Sharp**—And SES.

**Senator MARK BISHOP**—Do you know off the top of your head how many SES and star rank officers you have?

**Mr P. Sharp**—Say 240.

**Senator MARK BISHOP**—Of each?

**Mr P. Sharp**—No, total.

**Mr Smith**—It is 120-odd of each.

**Mr P. Sharp**—The difficulty with the SES and star rank can be documentation going back even to enlistment—last year they could not find one enlistment document—because of years of service. Documentation is a bit of a battle for us with executive leave. But we are doing a 100 per cent audit.

**Senator MARK BISHOP**—Is that a problem with a star officer or an SES person?

**Mr P. Sharp**—Both.

**Senator HOGG**—The other difficulty with that table, as I understand it, is that it includes other costs associated with the employment of those people.

**Mr P. Sharp**—That is correct.

**Senator HOGG**—We had this discussion about three years ago, I think.

**Mr Smith**—We had it in February about the value of car parking spaces.

**Senator HOGG**—Are you distilling those costs out so that we get, as well, a reasonable idea of the comparative scale where these people fit?

**Mr P. Sharp**—We are confident about our accuracy for most of the costs that make up executive remuneration. The most difficult one is the leave, for reasons that I have been alluding to for the ADF and the APS as a whole.

**Senator MARK BISHOP**—Will this be done by the end of the financial year, 30 June next year—the executives?

**Mr P. Sharp**—We are working on 30 June this year to get it right.

**Senator MARK BISHOP**—I would have thought so. You are only talking about 240 people, aren't you?

**Mr P. Sharp**—Yes.

**Senator MARK BISHOP**—And all the star officers know when they started.

**Mr P. Sharp**—They know, but it is whether we can prove it. That is the question.

**Mr Smith**—That is the issue here.

**Mr P. Sharp**—We know, but might not be able to prove it from a piece of paper.

**Mr Smith**—We have to demonstrate it; that is the point.

**Senator MARK BISHOP**—To whom?

**Mr Smith**—To ANAO's satisfaction.

**Senator MARK BISHOP**—Most of your star officers would start in Duntroon, wouldn't they—and the other college level establishments? General Cosgrove nodded yes.

**Gen. Cosgrove**—That was just falling asleep.

**Senator MARK BISHOP**—Most of your star officers would start out in the appropriate training establishment, wouldn't they?

**Gen. Cosgrove**—The start date for star rank officers would not be an issue. The issue is along the way, if any of them have accessed any of their leave in a way that was not accurately recorded. They might have had some mid-career use of long service leave—that sort of thing. There are points where again record keeping becomes an issue. But you are right with your first premise on ADF officers: there ought to be a fairly convincing file entry on their start date.

**Senator MARK BISHOP**—Property valuation?

**Mr Smith**—The next one is property valuations, which was a significant one last year, for the reasons explained in the left-hand column there.

**Senator MARK BISHOP**—We had that discussion last time. I do not want to revisit it. What you say there in terms of outcomes is that you are going to complete all land, building and infrastructure valuations and complete other plant and equipment by 30 June 2005. You will have the valuations done. Is that on track to be concluded?

**Mr Smith**—I think so. There is a great deal of work involved. It is always fingers crossed that you will get there, but I think it is. Mr Henderson, who is the accountable officer, will let us know if I am wrong.

**Senator MARK BISHOP**—Where are we at, Mr Henderson?

**Mr Henderson**—I think the question was: are we on track to get all our land, buildings, infrastructure and other plant and equipment valued for this financial year?

**Senator MARK BISHOP**—It is.

**Mr Henderson**—In relation to land, buildings and infrastructure, we had to visit a total of 478 properties. Some of those might have one building on them; others are huge bases. As of 25 May, the Australian Valuation Office, which is contracted to us to do all this, had visited 445 properties—in other words, 93 per cent. It will be tight, but we are hopeful that we are going to get there.

**Senator MARK BISHOP**—You are so close to being completed in terms of valuation of all sites that it does not matter. Does that mean that S8 is likely to be removed from this schedule in the near future? I presume, having done the valuations, it is just a matter of ensuring that the appropriate systems are in place going into the future.

**Mr Henderson**—Visiting all the sites is step one. Then those valuation sheets that come back to the department have to be verified—that everything is correct. I said that we had visited 93 per cent of the sites. We have got the sheets back for about 72 per cent of the sites. On some of those sites there will be discrepancies in one or two assets. We do not actually tick off on a site until we have everything cleared and checked.

**Senator MARK BISHOP**—But when the valuation has been done by the Valuation Office, you accept that, don't you? You do not seek to challenge it any way?

**Mr Henderson**—No, we would not challenge their valuation expertise.

**Senator MARK BISHOP**—So once you receive the documentation arising out of their valuation the job is concluded?

**Mr Henderson**—Yes.

**Senator MARK BISHOP**—Thereafter—

**Mr Henderson**—But let me give a hypothetical example. Our records might suggest that there is a building located on a base; the valuers get there and find that that building is no longer there. Our records may not be right up to scratch. That might be a small, old building that has been demolished during the course of the years. Discrepancies like that have to be tidied up. All I am saying is that they have visited 445 sites but that does not mean that everything is complete and to the satisfaction of the ANAO at this point. But we are still hopeful that it all will be and that this qualification will be removed from the books.

**Senator MARK BISHOP**—In the 2006 year?

**Mr Henderson**—Yes.

**Mr Smith**—This financial year.

**Mr Henderson**—Yes, 2004-05.

**Mr Smith**—For this year's financial statements.

**Senator MARK BISHOP**—Thank you for that discussion on the remediation work. Can we turn to page 71 of the PBS under the heading 'Approved major capital equipment

program'. I direct your attention to table 3.3 and the line item 'programming adjustment slippage'. Can you explain what that is and what it means. Is that what is traditionally called contingency or is it something else?

**Mr Veitch**—Each year when we assess the approved capital equipment program we know from experience in the past that, in the whole population of projects, some will slip in terms of their timing. Their schedule can slip for a range of events, whether they be slippage on the contractor's part or unexpected events. Based on experience, we set what we call a slippage provision. We set each of the individual projects off to achieve what we call their gross program, their gross allocation, knowing that some of them will slip. In practice, that normally works out to be about 20 per cent of the program year on year. If we did not use a technique like that to manage the capital program we would build in an under-achievement of the program right from the very start. This is our way of ensuring that across the whole range of the projects we are delivering to the net allocation.

**Senator MARK BISHOP**—So the moneys for approved project—those ticked off by cabinet—are then appropriated over a period of years, but, if the timetabling of the particular project is delayed or slips, some of the moneys previously appropriated are not spent in that particular year. That is the slippage factor we are talking about?

**Mr Veitch**—Yes, but I should clarify that. The appropriation itself is based on the slipped amount, not the gross amount. The project accounting record itself is based on the gross amount, but we make an assessment, build the slippage factor in and then base the appropriations on that amount. In practice, that is the allocation that we try to manage the program to each year.

**Senator MARK BISHOP**—I understand. Why then is there a difference between the 2007 figure for slippage of \$839 million and the 2008 year for a slippage of only \$57 million? Is that because some of the projects that have been delayed are coming to pass in the latter years of the cycle; hence more appropriations are needed to fund them then?

**Mr Veitch**—I think there are a couple of things there. One is that, when you make an assessment that something will slip, you then have to make an assessment of where to add the money back the following year. You will find that, as we add the money back at various patterns in the future years, we get to a crossover point. You will notice in there that the crossover point is largely around 2007-08, where the number is only about \$57 million. The add back is more than compensating for the slippage in the future years.

**Senator MARK BISHOP**—Then there is a more significant add back anticipated in the 2008-09 year?

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—If you looked at the bottom line, which reads 'total net major capital program', on its own you would think major capital outlays for the Commonwealth in terms of major capital equipment are seriously decreasing from \$3.2 billion in the forthcoming financial year to \$2.1 billion, about 30 per cent less in the 2008-09 year, but that is not correct, is it?

**Mr Veitch**—No, it is not. If you go back to table 3.1, which is on page 68, you will find that there are new projects that get approved each year. You will notice from the third line down, which reads, ‘Sub-total Defence Capability Plan’, that the program is building from \$335.2 million through to \$2.1 billion by 2008-09. As the approved programs go through their acquisition phase in Dr Gumley’s organisation, the DMO, new projects are being approved by government and coming into the program for their acquisition phase so, overall, there is a net increase in investment through the 10-year period in line with the additional money the government allocated for the defence capability plan as part of the white paper. If you go down to the bottom line, you will see that total investment is building from about \$4.1 billion in what we expect to spend this year to about \$5.5 billion by the end of the forward estimates. There is a gradual growth in capital investment, which is in line with white paper allocations.

**Senator MARK BISHOP**—That total capital investment really reflects the planning, the slippage, the later payments and all of that?

**Mr Veitch**—All of those things, yes. Every year when we set the budget, we make a reassessment of the capital program and the achievability of the various projects spends, and we manage to the net allocation that you can see there in table 3.1.

**Senator HOGG**—Is this the place to deal with a couple of questions on capital facilities projects two pages over on page 73?

**Mr Smith**—We are happy to do so.

**Senator HOGG**—Can someone give me an update on what is happening in the electorate of Kingsford Smith with the Randwick disposal and rationalisation interim works? There is a total expenditure of \$8.8 million, a cumulative expenditure of \$4 million and a budget for 2005-06 of \$4.5 million.

**Mr Beck**—The interim works at Randwick have been partially completed. The community centre is completed, and we are working with the Randwick City Council to have a certificate of occupancy issued for that as well as to determine the scope required for an environmental park, which forms part of that project.

**Senator HOGG**—Has any property of the site been sold at this stage? If so, what value?

**Ms Bee**—No. As far as I am aware, none of the site has been sold yet.

**Senator HOGG**—Has it been prepared for sale?

**Ms Bee**—We are in the process of working through what we will need to do for disposal, but as Mr Beck has outlined, it is in conjunction with those works.

**Mr Beck**—Can I add that stage 1A of the project was sold to Mirvac in the year 2000, I believe, and that has now been developed. The next part of the project to be developed is stage 2, parts 1A and 1B, I believe it is, and that development is contingent upon the completion of the community facility and the Randwick environmental park. We are working with the Randwick City Council at the moment to get that completed.

**Senator HOGG**—It says in the PBS on the next page, page 74:

The revenue received from the sale of the property will be returned to consolidated revenue.

None of that returns to Defence at all?

**Mr Henderson**—Net of disposal costs, it all goes to consolidated revenue.

**Senator HOGG**—The other site I was interested in was Ermington. What is happening there?

**Ms Bee**—Ermington is the subject of tenders. Tenders have closed and we are currently evaluating them.

**Senator HOGG**—Tenders? It that being sold in stages?

**Ms Bee**—Yes. Stage 1 was sold in 2004. The tender process is currently for stage 2.

**Senator HOGG**—What area does stage 2 cover?

**Ms Bee**—I will need to get back to you on that.

**Senator HOGG**—All right, if you get back to me. When did tenders close for that?

**Ms Bee**—They closed quite recently. They are currently being evaluated.

**Senator HOGG**—What is the time line for a decision on the tenders?

**Ms Bee**—It is hard to say; we are working through it now.

**Senator HOGG**—Ballpark—roughly?

**Ms Bee**—It should be a matter of a few weeks.

**Senator HOGG**—So within the next couple of months that should be finalised.

**Ms Bee**—We should have a decision on the tender process, yes.

**Senator HOGG**—Okay. That is all I needed to know, thanks.

**CHAIR**—After the break we are going to have DVA and we will come back to Defence after dinner at 7.30. We will break for 15 minutes.

#### **Proceedings suspended from 3.27 pm to 3.46 pm**

#### **Department of Veterans' Affairs**

**CHAIR**—I welcome Mr Sullivan and his officers from the Department of Veterans' Affairs. The committee has before it the particulars of proposed budget expenditure for the year ending 30 June 2006 and the portfolio budget statement for the Department of Veterans' Affairs. The committee was to begin with the portfolio budget overview and then consider outcomes, but we will be considering outcome 6 to start with.

When a written question on notice is received, the chair will state for the record the name of the senator who submitted the question and the question will be forwarded to the department for an answer. The committee has resolved that Thursday, 21 July 2005 shall be the return date for the answers to questions taken on notice at these hearings. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. Mr Sullivan, do you wish to make an opening statement?

**Mr Sullivan**—No, I am just happy to be here.

**CHAIR**—We will start with questions from Senator Mason.

**Senator MASON**—I have a couple of questions relating to the Audit Office report from the middle of 2003—about two years ago—relating to absence management in the Australian Public Service. In relation to the Department of Veterans' Affairs, I understand that, in the calendar year 2004, 10.3 days were taken per employee as sick leave. How many days of personal leave were taken—which would be a fraction higher, of course.

**Mr Sullivan**—I will ask Russell McLaughlan, who is the head of our people's branch.

**Mr McLaughlan**—I have only got the figures that apply to unscheduled absences, Senator. I could pull out the others on request.

**Senator MASON**—What is the total days unscheduled absences taken per full-time employee?

**Mr McLaughlan**—I have only figures on average. I can give you figures for calendar year 2004. The department's employees took 25,696 days of personal leave.

**Senator MASON**—Is that sick leave or personal leave?

**Mr McLaughlan**—Personal leave includes sick leave.

**Senator MASON**—But it is larger, of course. So that is sick leave and other cultural leave and so forth.

**Mr McLaughlan**—Yes. Under the current agreement, it is all gathered into one.

**Senator MASON**—So it is 10.3 days for personal leave.

**Mr McLaughlan**—Yes.

**Mr Sullivan**—That is personal leave incorporating illness.

**Mr McLaughlan**—It also incorporates carer's leave, funeral attendance and that type of thing.

**Senator MASON**—Just looking back at the statistics from 2001, back then it was 13.59 days per full-time employee per year and now it is down to 10.3. That is a drop of about 25 per cent, Mr Sullivan. That is excellent. Is that good management or good luck?

**Mr Sullivan**—I would love to claim it but being there for six months I could not. Certainly the last enterprise agreement of the department put a fair bit into absence management and the department has pursued that with the release recently of some absence management guidelines. Maybe Mr McLaughlan or Mr Campbell would like to say something, but I could not claim credit.

**Mr McLaughlan**—Early last year, following what you might say were not concerns but the realisation that the figures were up, we formed a workplace injury prevention management committee which also had responsibility for carriage of absence management. So we have done a number of things over that time.

**Senator MASON**—What have you done specifically to bring it down from, gee, it is 20 per cent, 25 per cent? What strategies did you undertake?

**Mr McLaughlan**—We have rewritten parts of our managers handbook and, as I said, we have worked up an absence management policy, which was approved by the subcommittee only last week. By the very nature of developing such a policy it tends to highlight across the

organisation the issues themselves. While it might take a while to actually get the policy, and it took a number of months to do it, as you would appreciate, I think the actual process of developing the policy highlights the issue.

**Senator MASON**—Does that in a sense let managers in the department know that you are concerned about the issue and highlights it for the managers and for all staff?

**Mr McLaughlan**—I believe so.

**Senator MASON**—Do you collect data about unscheduled absence—

**Mr McLaughlan**—Yes, we do.

**Senator MASON**—Days of the week that people take off, the work site they work at, the gender, the reason they take leave—you gather all that information?

**Mr McLaughlan**—Not generally. We can extract it. As far as compensation cases are concerned, we collect that sort of information on a regular basis. We tend to just collect generic information on absences of less than five days which we classified as unscheduled absence. If it is longer than five days we logically apply that it is known. But we can work down into those figures if we have the need.

**Senator MASON**—How often do you review the level of unscheduled absence?

**Mr McLaughlan**—We report to our executive management group every six months in our work force report.

**Senator MASON**—Do you think it would assist management if the Public Service Commissioner developed guidelines in this context?

**Mr McLaughlan**—Yes.

**Mr Sullivan**—My view is that anything the Public Service Commission can do in terms of distributing best practice amongst agencies within the Public Service is very good. In terms of DVA, coming to DVA I see that its work force management reporting is some of the more complete that I have seen. It has been one of the focuses of its enterprise bargaining negotiations around work force planning issues and attempting to address, if you like, the needs of staff with respect to formal leave, to ensure that where leave is necessary there are formal ways of doing it. You will never get rid of unscheduled absences, but at least there is looking and saying there are the opportunities available and there are ways of taking leave.

**Senator MASON**—Have you thought of changing the certified agreement? Was that ever an option that was considered?

**Mr Sullivan**—No, not changing the certified agreement.

**Senator MASON**—To be frank, in other departments they have had to do that. Every department is different and I understand different cultures and so forth, but there has been recourse to that in some departments. Are you happy with 10 days personal leave a year? There is two five-day weeks in addition to rec leave. Are you happy with that or will you seek further improvement?

**Mr Sullivan**—I would hope that we are always seeking further improvement. I think we should but I think we should also say we are reasonably happy about where we benchmark—10.3 is pretty good. In terms of the old—

**Senator MASON**—It is a lot better than three years ago.

**Mr Sullivan**—We have improved. We benchmark reasonably well. We think it is an issue the organisation has taken to heart and we think it is an issue that staff and management have taken to heart. I will be happy as long as we do not slip.

**Senator MASON**—Thank you very much. Thank you, Chair, and thank you, Senator Bishop.

**Senator MARK BISHOP**—I might commence by thanking Mr Sullivan for briefing my office on the content of the PBS last week. I think that settled most of my questions on numbers and what is in the budget papers. I simply observe that in the past few years that I have had responsibility for vets that the DVA PBS has been quite straightforward and easy to read. I note that information on the detail of budget measures and savings has been removed. I understand it is on the grounds that it is set out in Budget Paper No. 2. I might just say to you that, for someone who reads the PBS fairly assiduously, Mr Sullivan, I would have preferred to see the portfolio information covered more comprehensively here, as it once was. I just draw that to your attention, perhaps for reconsideration in future years. I also thank the department for all of the answers to outstanding questions on notice. I have just been given two more now so I suspect there is only one outstanding. When might Senate *Notice Paper* questions Nos 447 and 477 on Gallipoli be answered?

**Mr Sullivan**—I would hope that our draft of those questions will go to the minister's office this week. They have taken some time. It is the same reason for the one outstanding question, which is on commemorations, and it is really just getting some numbers together.

**Senator MARK BISHOP**—So you would hope they go this week to the minister's office?

**Mr Sullivan**—I would hope they would go this week to the minister's office.

**Senator MARK BISHOP**—I note that the minister is going to be absent from Australia I think from 3 June until about 13 June on that delegation up to Borneo.

**Mr Campbell**—The fifth to 13 June.

**Senator MARK BISHOP**—It requires her sign-off for the answers to go back into the system, does it not?

**Mr Campbell**—Yes, it does.

**Senator MARK BISHOP**—I draw to your attention that particular issue, Mr Sullivan, because we would like the answers to those two questions.

**Mr Sullivan**—We have been able to access the minister while overseas before. We will strive. I have no doubt that the minister's office and the minister herself are as keen as anyone to have these questions answered and put on the record.

**Senator MARK BISHOP**—I have raised that; you have answered it. Let us now turn to the budget measures on pages 260 and thereafter in the budget measures document. Could we have the detail of the scheduled fee increases that have been agreed with respect to allied

health care, dentists and anaesthetists? Firstly, how long is it since these rates were last adjusted in respect of the three subgroups?

**Mr Douglas**—The prices for all of our health professionals are revised each year on the basis of indexation. I will have to check with my colleagues about the last time the allied health professionals were updated.

**Mr Winzenberg**—It has been some time—in the early nineties.

**Senator MARK BISHOP**—Right; since the early nineties.

**Mr Winzenberg**—Except for podiatrists. The commission provided an increase for them two years ago. That is why they are not included in the budget announcement.

**Senator MARK BISHOP**—So allied health care have not had an adjustment, except CPI, since the early nineties?

**Mr Winzenberg**—That is correct.

**Senator MARK BISHOP**—Dentists have not had an adjustment, except CPI, since the early nineties?

**Mr Winzenberg**—No. There was some adjustment to some dental items around 1999-2000.

**Senator MARK BISHOP**—Anaesthetists?

**Mr Winzenberg**—Anaesthetists have not had any adjustment since the department brought in the time-tiered arrangement, which was in 1993. So since 1993 we have been operating two payment systems: the MBS relative value guide and the DVA time-tiered system.

**Senator MARK BISHOP**—So anaesthetists did not have CPI after 1993 either, because you had a different system.

**Mr Winzenberg**—Those anaesthetists using the MBS relative value guide had the MBS indexation, which is WCI—

**Senator MARK BISHOP**—Say that again?

**Mr Douglas**—Wage cost indexation.

**Mr Winzenberg**—Those anaesthetists using the DVA time tiered system had CPI.

**Senator MARK BISHOP**—How is the CPI applied to a time system?

**Mr Winzenberg**—It is just a different indexation indice.

**Senator MARK BISHOP**—How long will these new rates last, firstly, for allied health care?

**Mr Douglas**—The government has decided that there will be an increase staged over four years. It has not put a time frame on the decision. On top of the increases there will also be indexation. The government keeps prices under constant review and it will revisit it, presumably at a time when it thinks that an adjustment is appropriate.

**Senator MARK BISHOP**—Does that mean the allied health care, the dentists and the anaesthetists, will get CPI each year for the next four years plus some form of adjustment to be negotiated some time in the next four years?

**Mr Douglas**—No. The government has decided on the precise percentage increase to apply over the four-year time frame, so they will get a quarter of that increase each year. In addition to that they will be indexed by the relevant wage cost index.

**Senator MARK BISHOP**—What is the aggregate increase over the four years for each of the three groups?

**Mr Winzenberg**—The increases are different. Maybe I can run through the groups. Over the four years from 1 July, for chiropractors and osteopaths, the increase is eight per cent, or two per cent per annum—as Mr Douglas said—for dieticians it is 10 per cent, or 2½ per cent per annum; for occupational therapists it is 6.8 per cent, or 1.7 per cent per annum; for physiotherapists it is seven per cent, or 1.7 per cent per annum; for psychologists it is 24 per cent, or six per cent per annum; for social workers it is 20 per cent, or five per cent per annum; and for speech pathologists it is 55 per cent, or 13.75 per cent per annum. The differential in the increases reflects the current fee levels relative to the market.

**Mr Douglas**—On top of that the dentists get 13.6 per cent over four years and with the anaesthetists the government has extended the 20 per cent increase which was made to other specialists in last year's budget to confirm that for the anaesthetists in this year's budget, but with the additional amendment to put all anaesthetists onto the MBS's relative value guide payment system, not the time tiered arrangement.

**Senator MARK BISHOP**—Are those figures you just gave me for all of those eight or nine groups plus CPI as determined by the wage cost index?

**Mr Douglas**—Plus WCI each year on 1 January.

**Senator MARK BISHOP**—So there are real gains there for each of those groups.

**Mr Winzenberg**—There are some differential indexation arrangements. The dental arrangements are indexed by the CPI dental component whereas some of the other allied health rates are indexed by the WCI.

**Mr Douglas**—The principle remains, though. There is indexation on top of the price rises.

**Senator MARK BISHOP**—Some of the increases are pretty modest; others are more generous, such as those for psychologists, social workers, speech pathologists and the other two groups. Give me a bit more detail as to why the government felt that those significant increases were warranted.

**Mr Douglas**—The government looked at the rates we were currently paying and the market price, looked at the difference between those two rates and made decisions in relation to that gap.

**Senator MARK BISHOP**—Have we come up to full market rates now?

**Mr Douglas**—No. The government has a long-standing policy of saying that the community has benefited from the service of veterans and the community contributes, and that is reflected in a discount to the market rate for prices.

**Senator MARK BISHOP**—What is a rough rule of thumb for that discount?

**Mr Winzenberg**—It varies between the different professions. The current fee levels are a different percentage below the current market rate depending on which profession you look at.

**Mr Douglas**—It is difficult to establish a market rate because some of these allied health groups are covered, for example, by health funds and the health funds have different rates with those groups. Others abide by the pricing regime suggested by their associations. Others have different pricing regimes again for other customers, so it is very hard. We have taken an average on what we could find out.

**Senator MARK BISHOP**—If I said to you that for each of those groups you are within about 10 or 15 per cent of the current market rate, am I correct?

**Mr Winzenberg**—We have done some analysis. For example, looking at physiotherapy, we believe we are probably around 14 per cent below the 2003-04 rate. With the additional increase announced in this year's budget, that will close that gap to about eight or nine per cent. That sort of figure is, rule of thumb, roughly the same across the rest—

**Senator MARK BISHOP**—Ten to 15 per cent below market.

**Mr Winzenberg**—but they are all different markets.

**Senator MARK BISHOP**—There are variations and different levels of demand but within 10 or 15 per cent of the market below.

**Mr Winzenberg**—I think that is fair.

**Senator MARK BISHOP**—With respect to the measures targeting overpayments to health providers, what are the areas of high risk referred to?

**Mr Douglas**—This was a lapsing program and the government has confirmed that that program would continue at the level of savings anticipated. What we do is we cycle through all of the different health professions and we look at the sorts of charging regimes and billing regimes that are occurring across the industry. Generally speaking, we are looking at variations from the statistical mean outliers, if you like, in terms of frequently used providers, frequently claimed customers and differences in terms of prices, so the risk regime is measured by that kind of analysis.

**Senator MARK BISHOP**—Why are there no figures under the heading 'Reducing overpayments and improving debt'? You are going to recover, you say, \$10½ million; it is going to cost you \$5.6 million over the four years. How come no figures are allocated?

**Mr Winzenberg**—It is a lapsing program so that the estimates are already in the forward estimates. The money for that program is already in the forward estimates.

**Senator MARK BISHOP**—I see.

**Mr Douglas**—If the government decides that all programs are now lapsing at the conclusion of the forward estimates period, they are then reviewed at the end of that period. If the government decides to continue with the program then the forward estimates figures remain. Consequently, the financial adjustment is at zero.

**Senator MARK BISHOP**—The government has decided to continue with this particular program for another four years.

**Mr Douglas**—Correct.

**Senator MARK BISHOP**—So in next year's PBS or budget statements, would there be figures in lieu of those dashes?

**Mr Sullivan**—No. If government had decided, for instance, that this program had been unsuccessful, then you would have had figures in the budget statement to reflect the fact that we were no longer producing these savings. The fact that the government has accepted this program is achieving its outcomes means that in the forward estimates sense it now remains in a steady state. This is confirming expenditure on this program and that the savings reflected in the forward estimates of achievement in this program will be met, so no change in budget numbers.

**Senator MARK BISHOP**—The fact that there is a net savings in the program says you do not have to outlay any money in appropriation terms.

**Mr Douglas**—What it means is that we are saving more than it is costing.

**Mr Sullivan**—Yes.

**Senator MARK BISHOP**—But people still have to be hired. The work still has to be done.

**Mr Douglas**—And it continues.

**Senator MARK BISHOP**—Where is that money covered off? Under general administrative—

**Mr Douglas**—It is already in the forward estimates, so there is no adjustment to the forward estimates. The existing money that is being required to be spent on that program continues to be spent. If the government had decided to abolish the program there would not be a reduction. There would not be the savings being achieved and costs that are being incurred to generate those saving would also no longer appear, so you would have different figures. That is why the figures are zero, because we are just confirming the existing program.

**Mr Sullivan**—This would have appeared in our budget documents when the program was first initiated a few years ago and it has been incorporated within estimates ever since. It would have, as I say, had to have been reported again had it ceased or had it increased. If the government had a view of increased expectation from the program or a willingness to increase investment in the program then you would have seen numbers there.

**Senator MARK BISHOP**—Okay. The statement in the budget measures refers to overservicing or fraud. Are the measures that are being continued more directed to overservicing or fraud itself?

**Mr Douglas**—I guess we have used a generic term to describe the total level of activity that is undertaken in this program. At the serious end of that there is fraud; at possibly the less serious end there is overservicing. If you come back a degree, it is in the area of education for providers that want an appropriate treatment regime. We have a model that we use for developing and implementing our programs, and it is all consistent within that framework. We

follow the same sort of approach as the Health Insurance Commission, for example. At the less serious end, it is re-education; at the most serious end, it is intent based on fraud.

**Senator MARK BISHOP**—Is the bulk of the overpayments relating to overservicing and hence capable of adjustment by re-education, or is the bulk of the payments relating to fraud and hence in a different ballpark?

**Mr Douglas**—The majority of them are in the former.

**Senator MARK BISHOP**—All right. There is \$4.9 million allocated over the four years, including \$200,000 in capital funding. Is that for staff or systems?

**Mr Winzenberg**—The capital funding is for systems.

**Senator MARK BISHOP**—So they have to be updated, do they?

**Mr Winzenberg**—We are building what we call a corporate fraud and debt management system that the health systems will feed into. So it is picking up the data on our providers in terms of the bills they send into the HIC and then analysing that data to detect any evidence of fraud or overservicing.

**Senator MARK BISHOP**—Understood. On the free trade agreement, what is the cause of the extra costs attributed to the FTA with the United States?

**Mr Douglas**—These are costs that are being incurred by all agencies who have procurement responsibilities and they are the costs associated with implementation of the revised and upgraded Commonwealth procurement guidelines. The two main factors underpinning the revision of the guidelines are, obviously, the ongoing improvements that you make to those guidelines and the fact that, with the free trade agreement, in return for access to government procurement arrangements in the United States by Australian firms, the negotiating parties decided on a common procurement framework, that being the American framework.

**Senator MARK BISHOP**—This is a government policy call to spread the costs across all departments and agencies?

**Mr Douglas**—This is an opportunity because there was recognition that it would be a quite a job to revise internal procurement arrangements to make them consistent with the new guidelines. The government said that where there were additional costs then agencies could indicate the extent to which those costs were additional and they would be budget funded.

**Senator MARK BISHOP**—That is what I was going to ask you: what do you procure directly from the US?

**Mr Douglas**—No, it is not—

**Mr Sullivan**—No, it has got nothing to do with the US. These are the Australian procurement guidelines generally, but one of the factors that influenced the new set of Australian procurement guidelines was the agreements coming out of the free trade agreement. So this is basically around the fact that now the Commonwealth will go to market, in the first instance, on far more occasions than the previous procurement guidelines required it to.

**Senator MARK BISHOP**—I understand. Tell me about this business with calcium tablets. That is probably for you, Dr Killer—welcome. Why are calcium tablets being deleted from the RPBS?

**Mr Douglas**—You would probably have to direct that question to the Health and Ageing portfolio, because it is a decision taken about the PBS which then applies to the Repatriation Pharmaceutical Benefits Scheme.

**Senator MARK BISHOP**—But you have additional items on the RPBS that are not on the PBS.

**Mr Douglas**—That is correct.

**Senator MARK BISHOP**—And you make your own decision on a whole range of items.

**Mr Sullivan**—Dr Killer, I think, can give an opinion anyway.

**Dr Killer**—It is an interesting question. Primarily we take our direction from the PBS, as you know, for commonly prescribed items, and calcium is one of those. But, if an item is deleted from the PBS, the RPBS then has to make a decision, based on the treatment needs of the veteran population, about whether or not that particular medication should be listed specifically for veterans. I understand that in the near future the Repatriation Pharmaceutical Reference Committee would want to do this. It would have to look at the nature of the veteran population and the types of health problems they have and determine whether the presence of calcium on the RPBS was essential to their treatment. If they felt that that was the case then this would be reviewed by the RPRC and a recommendation would then come through to the commission.

**Mr Douglas**—A proposal would need to come from the industry in relation to that.

**Senator MARK BISHOP**—Why do veterans access calcium, Dr Killer?

**Dr Killer**—You understand the nature of the veteran population. It is an ageing population. It has increasing feminisation. Many of the war widows, and in fact many of the males also, have osteoporosis. The treatments for osteoporosis go from calcium supplements and exercise to calcium and vitamin D—which is essential, from the sun, particularly if people are in their homes and cannot get outside. There are also more complicated treatments with bisphosphonates. So there is a whole therapeutic range of pharmaceuticals that may be made available in the treatment of osteoporosis. That is substantially the main reason. I might add that these medications, up to the bisphosphonates, are currently available on our prior approval arrangement if doctors convince our specialised committee that these treatments are essential for people's conditions. These pharmaceuticals are currently available now, but there is a very careful assessment process to see whether the indications are there.

**Senator MARK BISHOP**—But the onus is now on those who seek to retain access to calcium under the RPBS to bring their case forward.

**Dr Killer**—As Ken Douglas stated, it is up to the pharmaceutical manufacturer who manufactures calcium to approach the RPRC, our reference committee, with an argument that this particular medication should be listed on the RPBS. That is the process involved. Then our Repatriation Pharmaceutical Reference Committee would look at the evidence and put a recommendation to the commission and to the minister.

**Senator MARK BISHOP**—I will ask you for a medical opinion, not a policy call, Dr Killer. In your experience, is there sufficient justification to differentiate the veteran population and the general aged population in terms of having access to the calcium on the RPBS?

**Dr Killer**—If you look at the veteran population, it is different. The age spread is different from the general population—in other words, of our 340,000-odd veterans and war widows, substantially the majority of those, both males and females, are in their 80s. For many of them, osteoporosis is a significant issue. So I think there may be grounds—it is not up to me.

**Senator MARK BISHOP**—It is up to others to decide.

**Dr Killer**—There may be arguments in favour of this preparation being listed. But it has to go through a process. We have to seek advice, then it has to go to the commission and, clearly, to the minister.

**Senator MARK BISHOP**—I understand. Mr Douglas, what proportion of RPBS veterans reach the threshold of 52 scripts a year? Do you have that information?

**Mr Douglas**—We will have to take that on notice.

**Senator MARK BISHOP**—Will gold and orange card holders be affected by the increase in the value of the safety net?

**Mr Douglas**—Yes.

**Senator MARK BISHOP**—In what way?

**Mr Douglas**—In the same way that ordinary Australians are, and that is there will be the same increase in the number of prescriptions required before the safety net cuts in. They will be treated in the same way.

**Senator MARK BISHOP**—There were also budget measures seeking to prevent hoarding of prescriptions. Has that been a big issue for veterans as well or is that more of an ageing issue?

**Mr Douglas**—It is not an issue in my consciousness as a big issue for veterans.

**Senator MARK BISHOP**—It is more of an aged and health issue?

**Mr Winzenberg**—Veterans are susceptible to that as much as anybody else in the general population in the ageing cohort.

**Senator MARK BISHOP**—Nothing has come across your desk to suggest they are different?

**Mr Winzenberg**—No.

**Senator MARK BISHOP**—About 40 per cent of the way down page 34 of the PBS, under the heading 'Income support pensions' at table 2.5, the figure has gone from \$2.826 billion to \$2.813 billion. What are the client population numbers for service pension veterans and widows which produced this figure and what are the projections?

**Mr Bayles**—Is that on page 34?

**Senator MARK BISHOP**—It is on page 34, at table 2.5, under a heading ‘Income support pensions’. You will see that there is a marginal decline in the appropriation. My question is: what are the client population numbers for service pension veterans and widows which produced this marginal decline and what are the projections?

**Mr Campbell**—Perhaps I can help. Our projection for service pension veterans for June 2005 is 130,200. The figure in June 2004 was 138,700. These are, as you understand, projections. In June 2006 the figure is 121,400, and it is 112,800 in June 2007. We can give you these figures over a period up to the next 10 years if you like.

**Senator MARK BISHOP**—That is okay, because you already have the formula there.

**Mr Bayles**—The other element is income support supplement beneficiaries who are war widows. The actual number in receipt of benefits as at 30 June 2004 was 88,269. Our estimated number at 30 June 2005 was 89,400, and the estimated number at 30 June 2006 is 90,400. So the income support supplement beneficiaries are rising slowly, but that has been well negated by the reduction in the number of service pensioners.

**Senator MARK BISHOP**—What about those who get the widows pension but not the ISP? Do we have those figures?

**Mr Campbell**—I have the total number of war widow beneficiaries. I have not got the difference, which are those who are not in receipt of the income support supplement.

**Senator MARK BISHOP**—I have the ISP numbers so, if you have the aggregate number of war widows, that will do.

**Mr Bayles**—The total number of war widows in the corresponding figures to those I just read out to you?

**Senator MARK BISHOP**—Yes.

**Mr Bayles**—The actual number of war widow pensioners as at 30 June 2004 was 114,418. The estimated number for 30 June 2005 is 114,500 and the estimated number for 30 June 2006 is 114,400. Total war widow numbers will reach a peak in 2005-06 and start to come down very slowly.

**Senator MARK BISHOP**—Widows are going to peak next year and their husbands or partners have already peaked and are in significant decline.

**Mr Bayles**—Yes.

**Senator MARK BISHOP**—Is there a four- or five-year differential between the males and the females?

**Mr Bayles**—In terms of average age, yes, that is roughly right.

**Senator MARK BISHOP**—Have you got projections for the entire World War II population, including service pensioners?

**Mr Bayles**—Yes.

**Mr Campbell**—We do our projections more by receipt of benefit or by gold card population. Service pensioners include veterans from post-World War II deployments, but if I stay with those for a second, as I indicated to you, service pensioner numbers are projected to

be 130,000 in June 2005. By June 2014, we are projecting 60,600, which is a decrease of just over 50 per cent over the next 10 years.

**Senator MARK BISHOP**—So a 50 per cent decline in aggregate service pension numbers over the next 10 years.

**Mr Campbell**—That is veterans with service pension. As I said, that includes veterans who were in post-World War II conflicts as well, in Korea and Vietnam.

**Senator MARK BISHOP**—Do you have the figures for just the World War II people? I want to get a hold on what their decline is going to be. The people coming in from the late 1940s right through to the 1950s are going to keep the figures up.

**Mr Campbell**—I could make a couple of comments on that and then we might be able to drill into the figures. The current number of World War II veterans in the treatment population, those with a gold card, was 126,000 at July last year. We will have another figure for the end of this year, but as at July 2004 we had 126,000 World War II veterans with a gold card. As I said a moment ago, it depends on who you want to count—

**Senator MARK BISHOP**—What about those who did not go away?

**Mr Campbell**—We would only count those in our treatment population if they have a white card, and there are only about 50,000 white card holders right around Australia from all activity. Our current estimate—these are estimates because these veterans will not necessarily be on our books—is that there may well be somewhere around 60,000 World War II service personnel who did not go overseas. But that is an estimate because we have no real basis for determining that. We base that estimate on some census data that was done about 10 years ago.

**Senator MARK BISHOP**—They may get their pension from—

**Mr Campbell**—That is right. Unless they have a disability pension from us, which some of them do, we do not have them on our records.

**Senator MARK BISHOP**—You have got, as at June 2004, 126,000 service pensioners in receipt of a gold card.

**Mr Campbell**—In the treatment population, which is the major way we count them.

**Senator MARK BISHOP**—What is the number in decline you are projecting each year over the next 10 years?

**Mr Campbell**—The projected work that has been done is that the World War II veteran cohort will probably halve over the next 10 years. As a rule of thumb, we are working on the basis that unfortunately, but as a fact, the World War II cohort will halve over the next 10 years.

**Senator MARK BISHOP**—Is that halving rate a uniform figure in the out years or does it get higher in the out years?

**Mr Campbell**—It is recently uniform over the next 10 years but then of course over the years following that there will be a tail. We will still have World War II veterans hale and hearty in 25 years time. They will be over 100 but they will be hale and hearty.

**Senator MARK BISHOP**—Not too many.

**Mr Campbell**—The general projection of the Australian population is that the number of people over 100 in 25 years time will be far more than now.

**Senator MARK BISHOP**—I have seen that. You are right. Let us bring this to a head, then. You think the World War II population, from your database source, is going to decline roughly around 7,000 or 8,000 each year for the next 10 years.

**Mr Campbell**—Yes.

**Senator MARK BISHOP**—That will bring us down to about 60-odd thousand, and then the figures are in the air.

**Mr Campbell**—That is too far away. We know that it will tail out beyond 10 years.

**Senator MARK BISHOP**—You reckon there will be a stack of them over 100. If I am a very aged male returnee from World War II, I have a service pension, I marry a much younger woman and I should then happen to pass on at the age of 95, 98 or whatever, is she entitled to receive a widow's pension?

**Mr Campbell**—You mean a war widow's pension?

**Senator MARK BISHOP**—Yes.

**Mr Campbell**—It depends on the cause of death.

**Senator MARK BISHOP**—If my death is related to my wartime activities?

**Mr Campbell**—If the death is agreed to be war related or service related, yes. His widow would become a war widow.

**Senator MARK BISHOP**—Could we turn over to page 35. The heading is 'Military rehabilitation and compensation scheme', the new MRCS. Have you done any forecasting as yet to show future trends in liabilities?

**Mr Bayles**—We do ask the Commonwealth actuary to produce some projections on the liability of the new scheme and of the old scheme, the Military Compensation and Rehabilitation Scheme. For the new scheme, of course, the liability projections may well change year to year as we get the actuary to revisit the figures, because it is very early days in the scheme. So, yes, we do have liability projections from the actuary, but they are based on data from the start of the scheme, which was 1 July 2004. So it is very early days in the scheme. The more experience we have with the new scheme, the better the data the actuary will have.

**Senator MARK BISHOP**—Do you get liability valuations done each year?

**Mr Bayles**—Yes, we ask the actuary to do a liability estimate.

**Senator MARK BISHOP**—At the bottom of the table there is a heading 'Adjustment of liability provision'. It shows an increase from \$9.9 million to \$13.6 million. Why is there that increase in liability—what is that related to?

**Mr Bayles**—You will see the figures in several tables—you will see references to 'adjustment of liability provision' in several of the tables. They are in outcomes 1 and 2. They relate to the actuary's estimates of liability. The liability is calculated at point of time, at 30

June each year. We have asked the actuary to estimate the liability at 30 June for each year, from 2003 onwards, for next 14 years. The change in the liability estimate from the start of a year to the end of a year is a movement which needs to be expensed. So in accounting terms it needs to be reflected as an expense in the figures. So these figures in the portfolio budget statements reflect the movement in liability from the start of one year to the start of the next year. That is why we have that adjustment in there. It is the difference between the liability estimated at 30 June and that at the end of that year.

**Senator MARK BISHOP**—So each year, for the next 10 years, we would assume the liability would increase as the net number of people in receipt of payments under the scheme increases.

**Mr Bayles**—That is correct—under the new scheme.

**Mr Campbell**—And of course the liability in respect of the MCS may decrease, as it has in the table right at the top of page 35.

**Senator MARK BISHOP**—Yes, that has gone from \$103 million down to \$67 million—is that right?

**Mr Campbell**—Yes—over a nine-year period of course.

**Senator MARK BISHOP**—I see.

**Mr Campbell**—It is reflecting what Mr Bayles has been saying about the growth under the MRCS. There is a corresponding downfall in the MCRS.

**Senator MARK BISHOP**—Nonetheless, that is a significant decline, isn't it?

**Mr Bayles**—Just to clarify, the adjustment for 2004-05 reflects a two-year adjustment. This year is the first time we have actually brought the liability onto our books. We had a liability from the Department of Defence which transferred to DVA, but what this figure reflects for 2004-05 is an adjustment between 2003 and 2005.

**Senator MARK BISHOP**—So a two-year count there.

**Mr Bayles**—Two years of count, and in the next year it is one. What we have done is to split the liability movement between the schemes, based on the actual expenditure.

**Senator MARK BISHOP**—So the liability decline under the old scheme is much higher than the liability growth under the new scheme?

**Mr Bayles**—The liability under both schemes will continue to rise over a period of time. The total liability for both schemes is not projected to fall; it will continue to rise. The first year contains, as I said, two years of data. It reflects a liability adjustment from June 2003 to June 2005. The adjustment in the next column reflects the adjustment between June 2005 and June 2006.

**Senator MARK BISHOP**—Yes, but at the top of page 35 the liability adjustment is down from \$103 million to \$67 million.

**Mr Bayles**—That is correct. The first figure—the \$103,570,000—reflects an adjustment in the liability between June 2003 and June 2005. It is two years' movement. The next represents

the movement from June 2005 to June 2006. The way that we have calculated this is to estimate—

**Senator MARK BISHOP**—But even if you did a straight division, Mr Bayles, the difference between 103 and 67 is 36, so if we allocated \$18 million to each of the two years, you would have an decline in 2004-05 of, say, \$18 million but a growth in liability provision in the new scheme of only a bit over \$3 million.

**Mr Bayles**—The scheme liabilities are of course different because they are based on different experience and different historical data. The liability for each of the schemes is worked out separately by the actuary, based on whatever historical information the actuary has available.

**Senator MARK BISHOP**—But didn't that strike you as interesting?

**Mr Bayles**—What we have done here is to distribute the total movement in liability according to the expenditure figures for each of the schemes and under each of the outcomes. We have taken the total liability movement and pro-rated it based on expenditure. That was a methodology which was agreed with the department of finance when we did it.

**Senator MARK BISHOP**—I do not quarrel with the different liabilities for the two schemes and I do not quarrel with your process of doing it. The only observation that I make is that your liability decrease in the old scheme is about \$18 million per year in those two years but your liability increase in the new scheme is \$3 million or \$4 million. I ask myself what changes have occurred to warrant such a significant reduction in liability growth. If we had continued with the old scheme and did not have the new scheme, we would have a different outcome.

**Mr Sullivan**—I am not sure that we are agreeing with that analysis. What I would like to do is offer us the chance to talk to the actuary and write something for you in terms of the analysis, particularly in terms of what this double year means. I think it may mean we have increasing liability—

**Senator MARK BISHOP**—You understand the point I am making?

**Mr Sullivan**—I can understand that and I can understand the rationale; I am just saying that I am not sure that we accept that argument and we would like the opportunity to maybe give you an analysis—

**Senator MARK BISHOP**—Could you take it on notice and give me an analysis of the reasons for the difference in liability over the two or three years in the two different schemes.

**Mr Sullivan**—Yes.

**Senator MARK BISHOP**—I go down to the increase in health costs. Mr Bayles, I think this is for you again. You will note under the heading 'Total veterans hospital and health services' the costs have increased from \$2.8 billion to \$3.06 billion in estimated actual to budget estimates for next year, which, on my figures, is an increase of about 8½ per cent between the two years. My understanding is that the community norm in this area is around seven per cent. What is the explanation for that higher than community norm, even by age group?

**Mr Bayles**—You can see that there are three elements that make up that \$2,816,800,000 figure. There are consultations and services by medical practitioners, treatment in public and private hospitals and other health care costs. There is growth in utilisation of health care services, which would have a significant effect on the figures, as well as new policy proposals. Some of the costs of the budget initiatives would be reflected in some of those figures.

**Senator MARK BISHOP**—So you usually get more plus new policy initiatives.

**Mr Bayles**—Movement from low-cost items to use of high-cost items would be another effect.

**Mr Campbell**—A large part of it would be the decisions that have been taken with regard to specialists, with GPs from January and then the anaesthetists coming through.

**Mr Douglas**—And the allied health professionals and the dentists.

**Senator MARK BISHOP**—The number of crowns you can get is capped, isn't it?

**Mr Douglas**—Part of the decision was to increase the monetary limit on schedule C items from \$745 to \$2,000. In total, that is not going to add as much as the remaining components because some of those price rises on the totality of those services are high, bearing in mind the 20 per cent for anaesthetists. A benchmark of eight per cent versus seven per cent is about right. We are in the right ballpark.

**Senator MARK BISHOP**—We are seeing an increase in real health care costs for this population group, aren't we?

**Mr Douglas**—We are seeing an increase because of the government's decision to increase the prices paid to health professionals.

**Dr Killer**—The general practitioners—the LMOs—have increased from 100 to 115 per cent plus a veteran access payment. There have been very substantial increases with the general practitioners. This is why we now have 17,600 general practitioners signed up as LMOs. It is the biggest figure we have ever had. There is considerable satisfaction with the fee increases in relation to the treatment of veterans. Of course, as Ken said, there are projected big increases, or there have been big increases, for the proceduralists. The surgeons are now getting 120 per cent for surgery and 115 for consultations. There has been a very large injection of funds into the treatment of veterans.

**Senator MARK BISHOP**—Is the bulk of it government policy decisions that increase the fees paid to all those groups you just mentioned, Dr Killer, or is the bulk of it the shift from lower cost services to higher cost services?

**Dr Killer**—Without having the figures in front of me, I would think it would be both.

**Mr Campbell**—I would add another one and I suspect it is just as important as the increase in fees, and less so from low to high costs. It goes back to our discussion 10 minutes ago about the ageing of our World War II population. It is unfortunate that ageing brings with it lots of health problems. A significant amount of health expenditure is incurred in the community generally and in the veteran population in the last year or so of life.

**Senator MARK BISHOP**—I remember that discussion from previous years.

**Mr Campbell**—That is right. I suspect you will find that this is reflecting that as well because the average age now of our World War II veterans is over 80. The fact is that there are often significant health costs towards the end of life.

**Senator MARK BISHOP**—That then leads to a more interesting question. What is the real percentage increase given the fall in the treatment population numbers? I think the annual report suggested something in the order of 10,000. We were earlier talking about 7,000 or 8,000 per year for each of the next 10 years. What is the real percentage increase?

**Mr Douglas**—We have to take that kind of analysis on notice. Part of the difficulty, as Mr Campbell has alluded to, is that it is difficult to compare like with like. As people age, so too does the nature of the treatment they receive change. So someone in their 80s or 90s, for example, is less likely to be undergoing coronary artery bypass graft surgery or to have stents inserted or to have artificial hips or knees done. They would have a greater propensity of falls with longer rehabilitation stays. So the average length of stay in hospital is different. They are osteoporotic. It is a reflection of the nature of the change in the population. I do not have that kind of analysis to hand.

**Senator MARK BISHOP**—You can do a rough analysis simply on the money spent on total veterans' hospital and health services plus the vets' pharmaceutical services to give you a gross figure outlay. We certainly know pretty accurately the population from the number of cardholders in 2004-05. When you do that addition and then division, my rough figures show that the entire health budget per person will increase from \$10,200 in 2004 to \$12,125 in 2005—an increase of \$1,925 per head, which in turn is over 18 per cent.

**Mr Campbell**—Senator, we should take this question on notice. I think we did this two or three estimates hearings ago. We will come back to you with the average cost of the gold card. I suspect that you have divided the expenditure by both gold and white cards.

**Senator MARK BISHOP**—I will tell you what I have done. I have added \$2.8 billion and \$0.48 billion, giving a figure of \$3.296 billion. I divided that by the number of cardholders at 2004, which was 325,798, and that gives a figure of \$10,200.

**Mr Campbell**—That is the point I am making, actually. We usually do it on gold card. We split the gold card and the white card treatment population out. You might recall that we told you several hearings ago, and I think the average cost of a gold card now is about \$13,000 to \$14,000 a year. We will take that on notice, although they may have it now. Your figure as a ballpark figure is right. If it is \$13,000 or \$14,000 a year, our projection is that it will increase by somewhere around \$1,000 a year for the next few years, and that is in large measure for the factor that I mentioned, which is the increasing cost of health care for aged people—particularly in the last 12 to 18 months of their lives. The costs increase quite substantially.

**Mr Douglas**—In 2005-06, the estimated average cost of a gold card is \$13,900. It rises to \$15,200 in 2006-07 and \$16,800 in 2007-08.

**Mr Campbell**—And that, as I said, is reflecting a change—and I think sometimes going to lower cost items. As Mr Douglas said, it is not so much in the way of surgical interventions

but in far more time being spent in the medical system and having medical care as the inevitable effects of ageing take effect.

**Senator MARK BISHOP**—Have you had any discussions with DOFA on this growth over the last couple of years?

**Mr Campbell**—They are fully aware of what is happening, and they are aware that our veteran numbers are dropping and will continue to drop. They are aware that some of our estimates, such as service pension and war widows costs, will drop; but there is a tail in the health expenditure, because of the factors that we have all been talking about.

**Mr Sullivan**—This being a special appropriation, DOFA are interested in the parameters, and they seek assurance from us that the prices we pay, et cetera, are right. But our estimates process back to them is to actually analyse and say, ‘This is why we believe this estimate moves from \$1.648 billion up to \$1.791 billion this year. There is an interest in it, but there is nothing other than that.

**Senator MARK BISHOP**—They ask you for an explanation, you offer an explanation and—

**Mr Sullivan**—We offer the basis of our revised estimate to them and they will go through that with us.

**Mr Douglas**—The other observation I would make is that some of the analysis we have been doing over the course of the last six to nine months or so suggests that the number of items for which the HIC pays on our behalf has peaked and that we are now in a downward trend. There is a debate amongst the statisticians about whether that trend is recoverable. We think that it is now established. The difficulty is that a lot of the parameters associated with making these estimates are over a much longer time frame, and of course that is going to be dominated by the increase. As Mr Sullivan has suggested, it is quite conceivable that we would be issuing a revised estimate during the course of the year if the reality of the service and the end-of-life issues take hold.

**Senator MARK BISHOP**—We had discussions about fraud and overservicing, but that is \$10 million over four years, so that is on the margins. And you have got a population decline starting to happen—certainly in males; in females it is a little bit out. Apart from that, are you taking any steps to control this growth?

**Mr Sullivan**—We are taking steps to ensure that the most appropriate care for our veterans, particularly as they age, is there and available. That does present some challenges. Our hospital system is built around short-stay surgical procedures and we are starting to see more and more of our veterans needing longer stay medical procedures. I think, if we are taking any special steps, we will always keep an eye on the control of costs, but we have to face the challenge that the ageing of our veteran population, particularly our World War II veterans—

**Senator MARK BISHOP**—And the different types of services they will require.

**Mr Sullivan**—presents and make sure that our contractual arrangements with the hospitals and others mean that we can continue to provide those sorts of services at the level of quality that our veterans and the country expects.

**Senator MARK BISHOP**—When did you last renew the state health agreements?

**Mr Douglas**—We are in the process of finalising agreements with six of the eight at the moment for a fresh round of six-year agreements. The other two fall due, I think, at the end of this year, and we are in discussions with them.

**Senator MARK BISHOP**—When do the current ones expire?

**Mr Douglas**—The six-year agreements expired at 30 June last year.

**Senator MARK BISHOP**—So you are well into the renegotiation phase.

**Mr Douglas**—We are.

**Senator MARK BISHOP**—When will that be concluded?

**Mr Douglas**—I would have liked it to have been concluded some time ago. The stages vary according to the states. As you would expect, one of the most protracted parts of the discussions regards the parameters underpinning the pricing models. I suppose it is fair to say that that is probably where we are with the majority of them at the moment—understanding their pricing models and making sure that they are reasonable based on pre-existing arrangements.

**Senator MARK BISHOP**—Is that figure we were talking about of around seven, eight or nine per cent growth generally in the health care costs within this population the sort of growth factor you will build into the state health agreements?

**Mr Douglas**—The state health agreements provide for an annual reconciliation process. To that extent it is more about understanding the fairly complex pricing models that exist about the nature of care provided and the sort of treatment being received, making sure that that is underpinned by robust estimates and ensuring that any movement between the individual cost cells is able to be explained by movements in market parameters—for example, if there are particular enterprise bargaining agreement costs for nurses, only those percentage cost increases are incorporated for nursing costs, and nothing over and above that—so that we are behaving responsibly in relation to administering the expenditure.

**Senator MARK BISHOP**—Do you have figures on the average annual growth rate in the cost of GP and specialist consultations over the last two years?

**Mr Douglas**—I would have to take that on notice.

**Senator MARK BISHOP**—Can you take that on notice, please?

**Mr Douglas**—Yes.

[4.53 pm]

**Senator MARK BISHOP**—We now turn to outcome 1, compensation. Footnote 2 at the bottom of page 51 of the PBS says:

The transfer of \$0.5m per annum from Administered to Departmental appropriations is to recognise the cost of using in-house resources instead of external suppliers for the provision of legal services to the Military Compensation and Rehabilitation Service.

What has brought about this shift from external solicitors to DVA staffing? Bear in mind that we have had a couple of discussions on this issue in the past.

**Mr Bayles**—This is a decision taken to move from using external solicitors and lawyers for advice on such things as what are called reconsiderations, which are part of the military compensation scheme, to using our own in-house legal services.

**Senator MARK BISHOP**—I certainly understood that. I am asking what is the change in policy. You have gone from contracting out to contracting in.

**Mr Johnson**—It has to do with us seeking legal advice in the reconsideration stage. The Military Rehabilitation and Compensation Commission took a decision late last year setting out some guidelines on the circumstances under which we would seek external legal advice. Traditionally, we have been funded on the basis that we would go to a panel of lawyers for reconsiderations, not as a matter of course, but for a much higher percentage of the reconsiderations. This reflects a new funding base, if you like, to allow us to take on staff to not go out to the panels as frequently.

**Senator MARK BISHOP**—Did you have legal advice that contracting out the work to outside solicitors to review claims was outside your power?

**Mr Johnson**—No. This is just that we will do more of the reconsiderations and not seek outside advice on those as often.

**Senator MARK BISHOP**—Why are you making that decision?

**Mr Johnson**—Because we think that we can use internal resources to do the reconsiderations without going to the external panels on a more frequent basis, we think that we can staff up to do that internally and we think we can probably do it a bit cheaper.

**Senator MARK BISHOP**—Do you think you can do it better?

**Mr Johnson**—We still reserve the right to go out to panels on particularly complex cases. If the client is represented, it could lead to substantial liability, but we think we can do it at least as well.

**Senator MARK BISHOP**—Are you going to be employing more lawyers in the relevant section?

**Mr Johnson**—No, most of it will be claims officers at a slightly higher level.

**Mr Sullivan**—I think one of the things we are seeking to do—and that partly is behind this—is continue to refresh and enhance the internal knowledge of the military compensations schemes. This function is, if you like, one of the hard ends at the reconsideration end. To a degree, if we could match the performance of external lawyers, we build knowledge capital within the organisation, which is important.

**Senator MARK BISHOP**—This is a bit before your time, Mr Sullivan, but Mr Campbell would remember it. At least two and possibly more sessions ago, there was, firstly, some

criticism of your operations up in the Queensland office and, secondly, allegations in Queensland and in other offices that the decision making function was being carried out by outside solicitors, not by the nominee required to make the decision under the act. Were they factors in the consideration in bringing the work back inside?

**Mr Campbell**—As I was one of the people who took the decision, no.

**Senator MARK BISHOP**—Nothing at all?

**Mr Campbell**—No.

**Senator MARK BISHOP**—Just a cost saving?

**Mr Campbell**—Yes. I think the Queensland issue was very different. As you say, it was a discussion we had over several hearings, but it was very different to what is being talked about here. It was a very particular and localised issue. It was not a particularly satisfactory one, but a very particular one.

**Senator MARK BISHOP**—You are saying that it is going to be shifted inside, claims officers are going to be doing it and that is going to be the norm but at a slightly higher officer level doing the review decision making—is that right?

**Mr Johnson**—Yes.

**Senator MARK BISHOP**—Will the concentration be on reconsiderations or on AAT appeals?

**Mr Johnson**—It is reconsiderations.

**Senator MARK BISHOP**—No change on the AAT appeals?

**Mr Johnson**—No.

**Senator MARK BISHOP**—When did the shift back in occur?

**Mr Johnson**—It is happening progressively. We are still in the process of recruiting up to that, but we think it will be fully operational some time in the early part of the financial year 2005-06.

**Senator MARK BISHOP**—When was the call made to make the change and when was the beginning of the implementation phase?

**Mr Johnson**—The decision by the commission was taken late last year, and we started to put it in place but we have not had the funds to be able to do that, so that is why we are starting to finish the recruitment and the staffing for that.

**Mr Campbell**—In part, the timing is reliant upon the transfer of the funds.

**Senator MARK BISHOP**—Yes. Good point. But the decision was made late last year.

**Mr Campbell**—By the commission, but then, of course, we had to go to the minister for finance as well because it is a transfer of funds between two programs.

**Senator MARK BISHOP**—You can take this on notice if you have not got it: how many cases were referred out to solicitors in 2004-05 and 2003-04? I presume you do not have those figures now.

**Mr Johnson**—I actually have. For 2003-04, and this is just for reconsiderations, there were 493. In the period to 25 May, there were 388.

**Senator MARK BISHOP**—Once you are fully operational, how many cases are you expected to handle internally with this new resource?

**Mr Johnson**—Can I take that on notice? It will depend on the complexity of the cases that we get when we go out to the legal panel rather than a set percentage.

**Senator MARK BISHOP**—Correct me if I am wrong, Mr Johnson, but hasn't it always been the case for internal reviews under the VEA to be done in-house?

**Mr Johnson**—Yes.

**Senator MARK BISHOP**—Is there any consideration being given to a change in that practice?

**Mr Johnson**—Under the VEA?

**Senator MARK BISHOP**—Yes.

**Mr Johnson**—Not that I am aware of. But I am not responsible for that function.

**Senator MARK BISHOP**—Who is? I want to establish if the current review practice, under the VEA, of in-house review is going to continue now that you have brought back in the MCRS.

**Ms Spiers**—Your question was about the review practices for VEA section 31 reviews. There is no proposal to change the current process where we use senior claims assessors to undertake that process.

**Senator MARK BISHOP**—Has there been any extension of the previous outsourcing trial under the VEA which was trialled a few years ago now?

**Ms Spiers**—Which outsourcing trial was that?

**Senator MARK BISHOP**—For the outsourcing of legal services. I think it might even have been done before my time.

**Ms Spiers**—No, we have not.

**Senator MARK BISHOP**—I thought that was the case. On page 53 of the PBS, I refer you to the footnote there, which says:

A six monthly review of claims processing under the [MRCA] was conducted in January 2005 to determine what issues arose during the early implementation phase.

What has been the feedback from ESOs on the new MRCS? Are there any particular areas causing difficulty at this stage?

**Mr Johnson**—No. The review referred to on that page was a review we did of claims that had been completed in November last year. So it was, if you like, a full QA for that month to see whether there were any processing issues and to also allow us to develop a formal quality assurance process, which we are going to undertake this month or next month—probably next month now, in June.

**Senator MARK BISHOP**—At that early stage, nothing jumped out?

**Mr Johnson**—No. There were a few things about referrals when needs assessments were identified. So the needs assessment identified a rehab program. It was around some processing issues, but nothing that was very significant. It allowed us to work with our Queensland office, who are undertaking this function, to develop the QA process.

**Senator MARK BISHOP**—Have you got a formal committee established to get feedback from the ESOs on the new scheme?

**Mr Campbell**—At this stage, no. Obviously there is a very significant amount of feedback when we meet with them and attend conferences, but there is no formal body established at this stage.

**Senator MARK BISHOP**—Do you feel the need as yet to get formal feedback? You have heard the talks I have heard at the various conferences and the like.

**Mr Campbell**—That is a matter that we have under notice. We are currently considering whether or not there is a requirement for something more formal than we have at the moment, but no decision has been taken.

**Senator MARK BISHOP**—Are you doing any training of advocates on the new system as yet?

**Mr Johnson**—Yes, we have done some training. We trained the TIP chairs in each state plus some others and we are continuing to work through the ESOs for training.

**Senator MARK BISHOP**—So you have got a training regime in for the ESOs.

**Mr Johnson**—Yes. We did the first lot of training in June-July last year.

**Senator MARK BISHOP**—Is there any suggestion of a need for legislative amendments as yet, Mr Campbell?

**Mr Campbell**—There have been a number of issues raised with the commission and the department by ex-service people and ex-service representatives but nothing of a magnitude that I would say would be leading us to be considering legislative change at this stage, no.

**Senator MARK BISHOP**—Also on page 53 reference is made to changes in the Safety, Rehabilitation and Compensation Act guidelines, the PIG. We are advised that the ESOs are quite alarmed by what some of them describe as a dramatic toughening up in the new draft PIG but consultations have barely begun. How long has it been known by DVA that Comcare have been reviewing the PIG?

**Mr Johnson**—Comcare started reviewing the permanent impairment guide some years ago; exactly when I cannot recall, but some years ago. There have been a couple of drafts. I think this is actually the second draft of that.

**Senator MARK BISHOP**—When you say second draft, is that the guidelines?

**Mr Johnson**—There was an earlier draft of what is out now and that was changed following some consultations some time ago.

**Senator MARK BISHOP**—The new guidelines have not yet been put in place, have they?

**Mr Johnson**—No.

**Senator MARK BISHOP**—It is a draft.

**Mr Johnson**—That is right. In fact, Comcare and DVA have had consultations with ESOs in Canberra, Melbourne, Sydney and Brisbane and there is a meeting today in the Department of Veterans' Affairs with Comcare going through the guide. That started at 9.30 this morning.

**Mr Sullivan**—This is Comcare's guide and it is the Department of Employment and Workplace Relations who determine that guide. Our role has been to ensure that we are promoting the consultation with veterans around that guide as well as providing our policy expertise to Comcare where required to assist them.

**Senator MARK BISHOP**—The lead reviewing agency is workplace relations.

**Mr Sullivan**—It is their guide.

**Senator MARK BISHOP**—You say it is their guide.

**Mr Sullivan**—It is Comcare's guide. It is not the DVA guide; this is about Comcare's guide.

**Senator MARK BISHOP**—The permanent impairment guidelines are Comcare's guidelines.

**Mr Campbell**—They apply to the SRCA, not to VEA. They apply to the SRCA and we administer the SRCA in respect of Defence personnel. But the SRCA is actually administered by Comcare and by the commission, the SRCC. So we in effect have a guideline that we take up from the SRCA when we are administering the SRCA in respect of serving members, which is what we do under the military compensation scheme.

**Senator MARK BISHOP**—You are right. Was the decision to do the review or to engage in ongoing review, and hence your reaction by consulting with them or providing them with policy expertise, the decision to go down the review path, a decision of the SRC commission?

**Mr Sullivan**—I do not know. I do not know whether Mr Johnson knows.

**Mr Johnson**—No.

**Mr Sullivan**—We have to be careful here. Dr Boxall would not want me answering questions which we do not cover. As I say, our primary role—and it goes even to the meetings that Mr Johnson described today—is to ensure that veterans and their organisations are being consulted in the development of that guide. I must say that I think it is within our realm to say that the response of Comcare and DEWR to that has been positive.

**Senator MARK BISHOP**—I can ask you this question: what are the main changes proposed? I can ask you that because you are consulting on them.

**Mr Sullivan**—From our perspective, we can talk about changes, but I do not know why you would want to ask us about changes to another portfolio's guide, just to test—

**Senator MARK BISHOP**—I can tell you why. In due course I am going to get hundreds of letters asking me about the changes and what the government is doing.

**Mr Sullivan**—They are upstairs, and that is where you should be asking the question.

**Senator MARK BISHOP**—You will be getting the letters too.

**Mr Sullivan**—I know. We make it our business to be aware of such a change. I am just worried about us saying to you, ‘From our knowledge of that guide, these are the changes.’ The authors of the guide are the ones who really should be responsible for outlining the changes.

**Senator MARK BISHOP**—So you say that is going before Workplace Relations?

**Mr Sullivan**—Yes.

**Senator MARK BISHOP**—We will in due course.

**Mr Sullivan**—I am not trying to be difficult.

**Senator MARK BISHOP**—They are on this week; I understand. Who administers the MCRS?

**Mr Johnson**—The Department of Veterans’ Affairs.

**Senator MARK BISHOP**—So what are the consequences for the MCRS of the new PIG for the MCRS arising out of these other reviews.

**Mr Johnson**—If a new guide were put in place, that is the guide that we would have to administer.

**Senator MARK BISHOP**—And so you would have to administer that in terms of the MCRS, wouldn’t you?

**Mr Johnson**—That is right.

**Senator MARK BISHOP**—So I can ask you questions about that, can’t I?

**Mr Johnson**—But we would purely be administering Comcare’s guide or the guide that was approved by the Minister for Employment and Workplace Relations.

**Senator MARK BISHOP**—But who approves the guidelines for the administration of the MCRS? That is a DVA matter, isn’t it?

**Mr Johnson**—We administer claims, yes.

**Senator MARK BISHOP**—I am not talking about the claims; I know you administer the claims. Mr Sullivan just told me—

**Mr Sullivan**—Those guidelines would be approved by the commission.

**Senator MARK BISHOP**—The Repatriation Commission?

**Mr Campbell**—The MRCC—the Military Rehabilitation and Compensation Commission.

**Senator MARK BISHOP**—And that is administered by DVA. Are you going to send me to ask Workplace Relations about changes to the PIG under the SRC Act? There are going to be consequential changes to the MCRS, the new PIG, administered by the DVA. Which are the appropriate agency, department and Senate committee to ask about those changes.

**Mr Sullivan**—It goes to the authors of the guide, DEWR. That is a legal instrument which will be issued by DEWR, which has consequences for the parliament.

**Mr Johnson**—The guide is a disallowable instrument.

**Senator MARK BISHOP**—That is a decision of DEWR?

**Mr Johnson**—That is right.

**Senator MARK BISHOP**—So they will promulgate the regulations?

**Mr Johnson**—Yes.

**Senator MARK BISHOP**—You simply administer them.

**Mr Johnson**—We apply the guide that is in place at the time, yes.

**Senator MARK BISHOP**—So you say again that it is not appropriate to be asking you questions here about the PIG under the MCRS?

**Mr Sullivan**—I think in terms of the development of the guide, no, it is not. Certainly it will be relevant for you to come to us when the guide is in place—

**Senator MARK BISHOP**—When the guidelines are decided—

**Mr Sullivan**—That is us.

**Senator MARK BISHOP**—then that is you.

**Mr Sullivan**—We are then administering a new guide and it would be appropriate for us to talk to you about our experience with that, but this is the development of a guide.

**Senator MARK BISHOP**—Although they have to consult with you.

**Mr Sullivan**—They are certainly consulting with us, but it is their task.

**Senator MARK BISHOP**—You say I should not be asking questions about that consultation process during the consultation process.

**Mr Sullivan**—No. I do not mind answering questions on the consultation process. What I suggested was that, in terms of a question you asked Mr Johnson which was ‘Describe the changes’, that was a question for the authors. I think Mr Johnson has already described the fact that we are making sure that there are sessions between Comcare, DEWR and the veterans’ organisations at both a policy level and a practitioner level, and that the new guide will not come as a surprise to them, nor will their initial reaction come as a surprise to the authors. That is our job.

**Senator MARK BISHOP**—When do you think the new guidelines will be in place under the MCRS?

**Mr Sullivan**—I do not know. It is in the minister for employment’s hands as to when that will occur.

**Mr Johnson**—To be fair, I think that will depend on the consultation process and the follow-up from discussions like those occurring today.

**Senator MARK BISHOP**—Can we turn to various health studies. What is the status of the review of the draft Korean health study? When is the final report due and what are the likely areas of change?

**Dr Horsley**—The final Korean health study has been signed off by the Scientific Advisory Committee; the consultative forum has also looked at it and had their last meeting; and we are now going through the process of getting it ready for printing.

**Senator MARK BISHOP**—So it is virtually done?

**Dr Horsley**—Yes.

**Senator MARK BISHOP**—I presume then that the minister has signed off on it?

**Dr Horsley**—No, it has not gone to the minister yet.

**Senator MARK BISHOP**—Does it go to her after printing, does it?

**Dr Horsley**—It sometimes goes after printing or during printing. Sometimes she likes to see an advance copy; sometimes it is just a process where she says, ‘No, I’ll wait and see the printed copy when it comes.’

**Senator MARK BISHOP**—Do you think it will be released in the next month or two?

**Mr Campbell**—The release of these reports is a matter for the minister and the government rather than for departments to speculate on.

**Senator MARK BISHOP**—I see.

**Mr Campbell**—I do not want to commit the minister to something by sitting here saying, ‘The minister is going to release it in the next two or three weeks’, when—

**Senator MARK BISHOP**—It is a bit of a problem not having a minister here, isn’t it?

**ACTING CHAIR**—I am very sorry about that, but we knew the minister would not be here. He advised he would not be able to be here.

**Mr Campbell**—The point I am making is that the report is not yet printed. There is a process it goes through. We should not pre-empt the decision about the exact timing of the government’s release of the report.

**ACTING CHAIR**—Senator Bishop, maybe you could ask the minister when he returns this evening.

**Senator MARK BISHOP**—Or we could make an inquiry of the minister’s office now as to whether she has decided on a release date.

**ACTING CHAIR**—I think we have to leave it. I think it is up to the minister at the table, and I know he is not here at the present—

**Senator MARK BISHOP**—Well, the minister is not here.

**ACTING CHAIR**—I understand that, but we knew he would not be here because there is a national security briefing.

**Senator MARK BISHOP**—It is pretty smart not being here—

**ACTING CHAIR**—That was the arrangement.

**Senator MARK BISHOP**—saying, ‘I’m not here because I’ve got to be somewhere else’. And there are no replacement ministers here who can access the files.

**ACTING CHAIR**—You know that that was the arrangement.

**Senator MARK BISHOP**—No, I do not.

**ACTING CHAIR**—It was arranged with the Leader of the Opposition in the Senate.

**Senator MARK BISHOP**—I am not aware of that at all.

**ACTING CHAIR**—I am sure it was.

**Senator MARK BISHOP**—I am not aware of that at all. In fact I have a memo here from the Leader of the Opposition in the Senate saying that he and the Clerk of the Senate are not aware of any precedent for having such a period—some two or three hours—without a minister, other instances having generally been much shorter and unavoidable. This is simply because the minister wanted to be somewhere else and has chosen not to have a replacement here to answer questions.

**ACTING CHAIR**—The replacement would not have been able to answer the question anyway, would he?

**Senator MARK BISHOP**—No, but he would be able to ask Mr Sullivan, because Mr Sullivan knows the answer.

**Mr Sullivan**—No, I do not know the answer.

**ACTING CHAIR**—That is not a fair comment, because the minister is the only one who knows when it is going to be released and Senator Hill was only representing the minister here.

**Senator MARK BISHOP**—What is the current position on the SHOAMP with respect to the F111s? When will the government be releasing the details of the compensation scheme?

**Mr Sullivan**—That is up to the government. All I can say is that we are working through a number of quite complex issues, for government, around SHOAMP and the F111 resale.

**Senator MARK BISHOP**—What is the complexity? This is the third time we have discussed this. Minister Hill put out a press release last November or December. He advised in that press release that it went to cabinet and that cabinet had decided to attempt to resolve the situation in terms of compensation fairly urgently. We had a lengthy discussion in February or March of this year where the minister indicated that the progress was significant. He expected then a fairly swift resolution. Now, some three months later, there is no resolution at all. What are the problems?

**Mr Sullivan**—It is correct to say that there is no resolution yet. The government has not determined the details of the scheme. The issues, which are quite complex, concern the interaction between such a payment and the various compensation schemes that are open to the various persons who possibly come under the lump sum scheme. That includes state compensation schemes and a variety of Commonwealth compensation schemes, including the different military compensation schemes.

**Senator MARK BISHOP**—But we knew that last December and February, because we had a discussion about it.

**Mr Sullivan**—We knew, and that is why I think, when you look at that press release, it certainly said that we have to work out the detail. I think the detail has taken longer than the government had hoped, but all I can say is that we are actively, with the Department of Defence, providing advice to government on how to tackle those issues.

**Senator MARK BISHOP**—So the complication arises from the interaction of state workers compensation schemes and various Commonwealth schemes. Is that the major complication?

**Mr Sullivan**—No. It is about the interaction between the payment and the various compensation schemes.

**Senator MARK BISHOP**—What do you mean by ‘the payment’?

**Mr Sullivan**—We have here now, unlike with other schemes, people who may be eligible and who have in many instances applied for compensation under SRCA, under the VEA and under the Queensland workers compensation arrangements. The Commonwealth does not control the Queensland workers compensation arrangements, for instance, and the nature of this payment and its interaction with those payments has got to be worked through between the parties involved.

**Senator MARK BISHOP**—How many of the cases for which there is potential liability arise out of the state of Queensland?

**Mr Sullivan**—There would generally be civilians involved in the process who would be covered by the Queensland workers compensation scheme.

**Senator MARK BISHOP**—Is it an issue in other states?

**Mr Sullivan**—No. This process was undertaken in Queensland and it is a particular thing around the civilians employed in the process, who the minister’s press release said would be covered. It concerns the civilian aspects that have an interaction with that scheme, which is as much a question for Queensland and its workers compensation people as for us. This is no longer moving from a decision in principle and an announcement; this is down to exactly what happens in respect of the VEA and in respect of SRCA as a result of having this payment made.

**Senator MARK BISHOP**—When you say ‘civilians’, are you talking about the employees of various firms that were contacted to do the cleaning work on ships and the like?

**Mr Sullivan**—That is who they largely are—non-military personnel involved, as defined, in the task.

**Senator MARK BISHOP**—But not civilian employees of the Department of Defence?

**Mr Sullivan**—I do not believe it involves civilian employees of the Department of Defence—

**Senator MARK BISHOP**—They would have been under the relevant Commonwealth act. Have you resolved the issue of differentiating compensation for exposure to the toxic substances involved from all other similar exposures during defence service?

**Mr Sullivan**—I do not think there is an answer to that. As I understand it, you are asking whether we have been able to isolate the impact. I could not say, ‘Yes, we have,’ to that.

**Senator MARK BISHOP**—How many people have been screened to date?

**Mr Sullivan**—Screened for what? I think we went through the numbers before of persons who have availed themselves of the services available under the interim health scheme.

**Senator MARK BISHOP**—My recollection was that at the last discussion you had just set up the various contact points. A range of people were seeking advice and of course you had a whole heap of people who had applied beforehand.

**Dr Horsley**—Are you talking about the screening program?

**Senator MARK BISHOP**—Yes, I am.

**Mr Sullivan**—We have implemented a screening program.

**Dr Horsley**—We are implementing the screening program. As part of the medical examination with the SHOAMP we gave all of the participants a complete medical examination which also included an attempt to screen for what we thought would be the likely malignancies at that time. Subsequent to that we have been advising them consistently that they need to be alert and carefully concerned about the risks for various diseases and the need to keep in contact with their local doctors. In addition to that we are designing a formal cancer screening program and a formal health screening program in consultation with some recognised experts. That program is still in the design phase. We envisage that it will be designed within the next two months and that we will then be rolling out with a formal cancer screening program, a disease screening program, for this population of individuals.

**Senator MARK BISHOP**—How many people have gone through the screening process so far?

**Dr Horsley**—The formal screening process we are envisaging for the future has yet to be set up. In the SHOAMP, though, all of the participants who had a full medical examination—and that included the comparison group—would have had an examination that was in part a screening examination. I would have to take on notice the exact numbers, but it was most of the people involved in the program and roughly double that number of people in comparison groups selected from Amberley and Richmond.

**Mr Sullivan**—The screening we are doing is for disease; it is not screening for exposure. That is important in that the SHOAMP health study was basically around—

**Senator MARK BISHOP**—The incidence of the disease.

**Mr Sullivan**—incidence of disease and showing there could be a link between your involvement in the reseal/deseal exercise and particular diseases. It is not a causal thing. There are about 200 or so chemicals involved in the reseal/deseal exercise. What Dr Horsley is describing is that from that health study we have concerns that particular diseases may be more evident in this group, and the screening is to look for those diseases.

**Senator MARK BISHOP**—The future screening?

**Mr Sullivan**—The screening that we have now implemented. The screening was certainly one part of the government decision that proceeded immediately.

**Senator MARK BISHOP**—How many claims for disability compensation from people affected have been made and accepted since SHOAMP was released?

**Ms Spiers**—We obviously have the VEA claims and the SRC claims. Under both acts we will only accept the condition if the evidence is there and, because the government response

has not been finalised, it can be for non-SHOAMP related conditions. For example, someone might claim a lung condition and they have a service related smoking history, so we can accept it on the basis of that SOP factor. At present there are 173 claimants that have had a liability accepted under either the VEA or SRCA, and you will appreciate that most of the claimants have dual entitlements under the two acts. There have been 42 that have had liability accepted under both acts, 57 who have had their liability accepted under the VEA and 158 for those under the SRCA.

**Senator MARK BISHOP**—What was the figure of 173?

**Ms Spiers**—That is the total number of claimants who have a liability accepted under either act, but it does include ones that have dual entitlements. Dual liability is accepted.

**Senator MARK BISHOP**—So 173 are dual liability.

**ACTING CHAIR**—Not all are dual liability though, you say.

**Ms Spiers**—That is correct.

**Mr Sullivan**—Possibly including dual liability.

**ACTING CHAIR**—All are dual liability?

**Ms Spiers**—No—

**ACTING CHAIR**—The possibility of dual liability. Not all, Senator Bishop, have dual liability.

**Senator MARK BISHOP**—You have given me four figures: 173, 42, 57 and 158. Perhaps you could just say what they are for again.

**Ms Spiers**—The figure of 173 is where they have had a liability accepted under either act, 57 is under the VEA, 158 is under SRCA and 42 who have had a liability accepted under both acts.

**Senator MARK BISHOP**—Okay. What is the cost of these claims to date by way of lump sums?

**Ms Spiers**—We might have to take that on notice.

**Senator MARK BISHOP**—How many people are now receiving treatment post SHOAMP?

**Mr Douglas**—We have expenditure approved in relation to 223 group 1 participants plus we have had another number, which we do not have any count of, who have received counselling services through the VVCS.

**Senator MARK BISHOP**—Does that counselling extend to partners, wives and dependents?

**Mr Douglas**—Yes, that is correct.

**Senator MARK BISHOP**—Plus presumably the claimants as well.

**Mr Douglas**—Correct.

**Senator MARK BISHOP**—Have you found a group of specific disabilities with which the majority of people have been diagnosed—that is, lung cancer or skin breakouts? Can you give us a break-up on the ailments?

**Dr Horsley**—The most obvious feature from the SHOAMP study was a diminution in neurological function. This was subtle and it needed careful assessment before we could ascertain that. But there was a general loss of higher cerebral function and some other facets of their health associated with neurological damage. In addition, the cancer incidence study suggested that on balance this group was at greater risk of developing more cancers.

Beyond that, we were really not able to make any significant observations. Of course, the neurological loss has also resulted in an increase in psychological disability amongst them and they have a greater rate of anxiety, depression and other psychiatric disabilities. But we think that that is a reflection of the underlying damage to their nervous system. So the two standout findings in relation to their health have been the damage to the nervous system with subsequent psychological sequelae and the suggestion that they are at increased risk of cancer.

**Senator MARK BISHOP**—Are you satisfied that the suggestion is real and quantifiable?

**Dr Horsley**—The cancer risk?

**Senator MARK BISHOP**—Yes.

**Dr Horsley**—We examined that very carefully in many different ways. In most of the examinations that we made, the incidence of cancer was what we call ‘of borderline significance’. It was very close to being statistically significant but did not quite make it in most of the analyses. In some of the analyses, it did. We looked carefully for what we call a dose response relationship, which is very strong evidence of causation, and we could not see that. We left the matter of judgment as to the importance of this finding to the independent Scientific Advisory Committee. That committee very carefully considered that set of words which is contained within the report, where they said on balance they thought that there was a real elevation in cancer. As a result of that finding, the government has responded with the cancer incidence and screening program that I outlined before. We are in the process of developing that and rolling it out through the cohort.

**Senator MARK BISHOP**—The RMA is doing some work, is it not, on assessing the medical and scientific links between exposure to these toxic substances and disabilities occurred? Or is theirs just a literature search?

**Ms Spiers**—The RMA, when it assesses any scientific and medical evidence, must apply the definition of sound scientific and medical evidence in the VEA, which requires any report to be peer reviewed. I understand that the SHOAMP report is currently in the process of being peer reviewed. It will form a body of evidence that the RMA will have to look at when considering particular SOPs or new SOP factors for SHOAMP. As you would appreciate, there are already existing statements of principles for the conditions that the SHOAMP report has potentially linked to the desal-reseal process. So we anticipate, when the body of evidence is sufficient for the RMA, that they will produce a SHOAMP-SOP factor—

**Senator MARK BISHOP**—A SHOAMP-SOP guideline.

**Mr Sullivan**—For the benefit of *Hansard*, SOP is statement of principles.

**Senator MARK BISHOP**—We get right into the acronyms here. Do you anticipate that, in due course, the RMA will develop special SOPs for additional factors identified as arising out of the SHOAMP?

**Ms Spiers**—No. I would expect them to do a factor within particular SOPs that would recognise the SHOAMP conditions. But, as I said, this report is one of what the RMA would have to see as a body of evidence pointing to that link. So it is the RMA's call as to when they are in a position to do that.

**Senator MARK BISHOP**—I understand. That is 12 months?

**Ms Spiers**—The peer review process takes a total of about nine months. Their report is then used for the purposes of looking at all sound scientific and medical evidence. So it is about what other national and international reports are available on any particular link linkages, say, for cancer and chemical exposure.

**Senator MARK BISHOP**—This issue is going to be around for a while yet. Is there any consideration being given to the use of the commission's discretionary powers whereby actual lack of medical science can be bypassed? Is any thought being given to that?

**Mr Campbell**—Not at this stage.

**Senator MARK BISHOP**—Do we have current estimates of the number of RAAF and civilian personal affected?

**Ms Spiers**—We have some rough figures. The figures are derived from a combination of a few sources: the initial people that were involved with the board of inquiry, the people that registered for the interim health care scheme and the people that lodged compensation claims. In terms of RAAF numbers, we think there are 460-odd people that were involved in the tank process within the tanks themselves. There were possibly another 200-odd people that were within the hangar arrangements and external to the hangar. We also think that, of that group—as we have already mentioned—there were some civilian contractors at the end of the deseal-reseal process. Many were former ADF members who have coverage under the SRCA. But there were potentially about 25 that were civilians with no former ADF employment and, therefore, would have coverage specifically under the Queensland workers compensation scheme.

**Senator MARK BISHOP**—So they are the Queensland people that Mr Sullivan was talking about?

**Ms Spiers**—That is correct.

**Senator MARK BISHOP**—How many people have died already as a result of this exposure? Do we have those figures?

**Ms Spiers**—I do not.

**Senator MARK BISHOP**—Does the department?

**Mr Sullivan**—I do not think that question is possible to answer. We can take on notice how many people in the group we are looking at have died. To say they have died as a result of this—you could not answer that.

**Senator MARK BISHOP**—Unless their medical practitioner says so.

**Mr Sullivan**—No. You would not see ‘Cause of death: participated in a reseal/deseal program’. I think we can take on notice how many of the group we are interested in have died since.

**Senator MARK BISHOP**—I am just thinking about the point you have raised.

**Mr Sullivan**—We are in the process of talking about links. We are not yet in the process of talking about cause—this is where the RMA process will go. At the moment we know that there is a linkage—the health study and other things have said that there is a linkage—between those people who worked on the reseal/deseal program and certain diseases. The connection there is exposure to certain chemicals. The RMA is now going through an exercise which looks at exposure to certain things and whether they are causes. That is where they take it. But right now, if you ask us to tell you how many people have died because of their exposure in the reseal/deseal exercise, I cannot possibly give an answer. Dr Killer, who has come to the table, is going to add to that.

**Dr Killer**—I have a couple of comments. The RMA only promulgates statements of principle, SOPs, when there is a strong evidence base. There must be a strong evidence base. It will take into account the information that has come out of the SHOAMP study, but you must understand that this study had great difficulty in terms of exposure levels. Even in the study you will notice, as Dr Horsley said, the linkages between the SHOAMP study and cancer were not statistically significant but they were indicative. I think there were a number of variables in the study that the RMA would have to look at very carefully if they were going to include some of these issues in statements of principle. To say of anyone who has died in this group that it was related to SHOAMP is something you simply cannot do. You cannot definitely say that. People die for a multitude of reasons. We have a group of people here who have been variably exposed to particular conditions. They have also worked in other working environments in the military. As you know, many of these people are technicians who may have worked on other bases in other environments where there were also exposures. So to say simply that someone in this group has died because of exposure to SHOAMP is something you cannot do.

**Senator MARK BISHOP**—It is not on at this stage.

**Dr Killer**—You cannot say that it is cause and effect. You could only say that, from this group, a number have died. I think you have to be very cautious here about suspecting or indicating that the RMA will take a particular position. They will look at the outcomes of the study and look at studies that have been done elsewhere and, on the basis of all the information provided, they will make a decision on whether some of these aspects should be built into an SOP. As you know, they are quite independent of the department and they look at the evidence base. There must be a strong evidence base, not just something indicative.

**Senator MARK BISHOP**—I understand the point you are making, Dr Killer.

**Dr Killer**—I am sorry if I have made that too strong.

**Senator MARK BISHOP**—Where is the atomic testing dosimetry report up to?

**Dr Horsley**—The report has been completed. We sent it to the independent scientific advisory committee, who read it and said that the report was of such a technical nature that they would feel more comfortable if some recognised experts outside of them reviewed the report. We arranged for two or maybe three referees—one here in Australia and one overseas—and they spent a few weeks reading through the report and reported back to the committee that they felt that the report was sound. As I say, that report is a very dense and technical document. The SAC said, ‘Thank you, we have got that finished but we’ll put it to one side for the moment and let’s move on to doing the mortality and the cancer incidence studies.’

**Senator MARK BISHOP**—So the scientific advisory committee said that the report was very, very technical and sent it off for local and international reviews. They have come back and said that the report is sound.

**Mr Sullivan**—Those elements that they were asked to talk about are sound.

**Senator MARK BISHOP**—And now?

**Mr Sullivan**—It is still with the SAC.

**Dr Horsley**—It is with the SAC. The SAC feel that it would be more appropriate for them to meet when they can also look at the mortality study, which is moving towards completion. We have had some delays with this study created by some difficulties with the registrars of births, deaths and marriages; they have a very great strain placed on them at the moment from a variety of sources. There were also some difficulties we found with the National Death Index. It took us some weeks to reconcile those differences. We are now in a position where we have completed the data collection and are writing up the report. As we were conscious—

**Senator MARK BISHOP**—Does the report then go to the SAC?

**Dr Horsley**—Yes. As we were conscious of the delay in that report, we asked the independent contractor, the University of Adelaide, to move ahead with the completion of the cancer incidence and case reference study. They have done that and made better progress on that study than we had envisaged. So we think it is likely now that the SAC will consider all three studies and sign off on them—hopefully, in the same meeting or series of meetings in the next several months.

**Senator MARK BISHOP**—After the SAC does that, what happens?

**Dr Horsley**—Then we would have to take the study back inside the department and I would write a submission for the consideration of the Repatriation Commission. The commission looks at it and looks at, in this case, probably several studies, and makes a recommendation as a matter of policy to the minister as to what they feel should be the government response. The minister considers that and then, in the fullness of time, government will make a decision and will then move to print the report and release it.

**Senator MARK BISHOP**—So we are really looking at another 12 months at least, aren’t we?

**Dr Horsley**—I would not say 12 months, no.

**Senator MARK BISHOP**—Before it gets to the minister’s desk?

**Dr Horsley**—No, I would say less than that.

**Mr Sullivan**—But it will be some time still. It is not soon.

**Senator MARK BISHOP**—The beginning of next year, are you telling me? Not putting words into your mouth, Doctor!

**Dr Horsley**—I would be disappointed if it was the beginning of next year. But we are working towards an earlier timetable than that.

**Senator MARK BISHOP**—That third report you were talking about was the third Vietnam mortality and cancer incidence study, wasn't it?

**Dr Horsley**—No. The first was the nuclear study, which is the dosimetry report, the second one is on the mortality of participants and the third one is cancer incidence in nuclear test participants. The third Vietnam veteran mortality and cancer incidence study is a separate study.

**Senator MARK BISHOP**—Let's go to the Vietnam one then; where is that at?

**Dr Horsley**—The cancer incidence study has been completed and recently signed off on by the SAC, and we are now moving through the processes of getting that printed. The mortality study will be considered by the SAC at their next meeting and I am hopeful that they will, with only minor adjustments, approve the wording of that one and we will be able to move that one forward into the printing process also.

**Senator MARK BISHOP**—They then get flicked over to Mr Sullivan?

**Dr Horsley**—Yes, it will be the same sort of process, where we will need to get the reports and put in a submission to the Repatriation Commission. The commission will then recommend what policy changes, if any, are needed to take to the government, and it will go through that normal process.

**Mr Sullivan**—Again, the commission's view is not that dissimilar to the SAC wanting to look at the atomic testing thing; that is, it seems to us very important to see the mortality study outcome along with the cancer incidence study outcome to build a complete picture. In fact, there is quite a bit of potential in some of these to build misleading pictures if you do not.

**Senator MARK BISHOP**—The mortality study is a study done of the incidence group and the general population to see if there is a difference, isn't it?

**Mr Sullivan**—To a degree. For instance, there may be a lower, a higher or the same level of cancer, but it may be killing a lower number, the same number or a higher number of them earlier. It is that combination that I think is very important, particularly in respect of government consideration of the issue. I think, to a degree, a public consideration of the issue is that you would not want to see a result which said there was a lower level of cancer and then discover a little while afterwards that it kills more people, or there is a higher level of cancer but it does not kill more people. The commission is certainly looking at them together, so again I think we will be seeing a more complete picture.

**Senator MARK BISHOP**—The cancer incidence ratios and the mortality incidence ratios have to be analysed together in terms of the government accepting potential liability into the future, don't they?

**Mr Sullivan**—But government response and public response are also important. People want to know what this picture looks like fully.

**Senator MARK BISHOP**—The dapstone study on malaria—where is that at?

**Dr Horsley**—The dapstone study is the fourth in our study of Vietnam veterans. The third will be our national service comparison; that is progressing well and should be available well before the end of the year. The dapstone study is the fourth of the studies and will be the most complicated and complex. To some extent, it is probably the study of less interest to the general community because there is not a great deal of interest in the general community in the role of dapstone in any disease. Indeed, our earlier dapstone study failed to show any relationship between dapstone and any disease. However, I am hopeful that that study will, despite its inherent complexities, be completed by the end of the year. That will draw to a close the four studies that we currently have under way on Vietnam veterans.

**Senator MARK BISHOP**—Was dapstone used right through our engagement up in Vietnam?

**Dr Horsley**—No. It was used only for certain periods of time during the wet season, and then—

**Senator MARK BISHOP**—The wet season of each year?

**Dr Horsley**—Not every year, no. What happened was that the malaria prophylaxis that the Army was using was revealed to be not as effective as they had hoped, particularly in the wet season. The Army looked for an alternative drug and considered the use of dapstone. It was known at the time that dapstone was a very effective antimalarial, but it has a known complication rate. What was not known was what would be that complication rate in country.

It was decided to use dapstone on a trial basis for, I think, the wet season of 1968, but I am not entirely certain of that. It was found that the dapstone was particularly effective in suppressing malaria. Given that, it was used for several subsequent wet seasons, at the end of which there was a case identified that was a potential complication as a result of dapstone consumption. Unfortunately, that soldier, at a much later date, passed away. The Army considered all of that and felt that, since they had yet to experience a death from malaria and they had a possible death from the prophylaxis, it would be more prudent to go back to the old prophylactic regime. That did mean that there were more cases of malaria in the wet season, but the drug had a greater safety. So the amount of time over which dapstone was used is very precisely and carefully known.

**Senator MARK BISHOP**—The year 1968 was essentially the peak of our troops in Vietnam, wasn't it?

**Dr Horsley**—Yes.

**Senator MARK BISHOP**—That was the Tet offensive. What sort of population might have been affected by the use of dapstone?

**Dr Horsley**—The use of dapsone was restricted to the Australian Army, and, in the main, to the Army involved in the task force. The Air Force and Navy did not use dapsone at any stage except for those naval personnel who were on attachment to the Army at a time when dapsone was used. I would have to take on notice the exact numbers, but it is many thousands.

**Senator MARK BISHOP**—It would be some tens of thousands.

**Dr Horsley**—It may be just under 10,000. I really should take that on notice and get you the exact figures.

**Senator MARK BISHOP**—All right.

**Dr Horsley**—It is a differential thing as well. Some soldiers were there for only a small portion of a wet season when dapsone was being used, so they received only a small amount. Others happened to be there for two—

**Senator MARK BISHOP**—You might take on notice to get me the estimated population that might have been affected by the use of dapsone and the periods in which it was administered. That will get the exact material out.

**Dr Horsley**—Yes.

**Senator MARK BISHOP**—What is the current state of progress with the children's health feasibility study? I understand that you have a committee set up to talk through issues with some of the ESOs.

**Dr Horsley**—Yes.

**Senator MARK BISHOP**—Where are we at on that?

**Dr Horsley**—We have both a scientific advisory committee and a consultative forum established. Both are working, in my estimation, particularly well. Each committee has representation on the alternate committee, so the scientific advisory committee sends representatives to the consultative forum and vice versa. I do not think I am putting words in their mouth by saying that we have made substantive and pleasing progress and we are envisaging having a report that can go to government in the not-too-distant future.

**Senator MARK BISHOP**—Is that report going to address the issue as to whether there should be a study or not?

**Dr Horsley**—The charge to the committees was to assess the feasibility of undertaking such a study. The report will come back saying that this type of study is feasible or not feasible. It will be a matter for government then to decide, given that it is feasible—

**Senator MARK BISHOP**—Whether it will proceed or not.

**Dr Horsley**—Yes.

**Mr Sullivan**—It will give some useful advice as to the parameters of any such study if it is feasible. This is a very complex area.

**Senator MARK BISHOP**—I know. We looked at it seriously prior to the election, and it is a complicated area. I noted that during the election period the then minister, Minister Vale,

said that the government was going to do a feasibility study—not commit to a study. So that is almost under completion? Is that what you are saying?

**Dr Horsley**—I think that is going a little too far. We are fast-tracking this one and putting a lot of resources and energy into it. We are hoping to get a report for government in the next few months.

**Senator MARK BISHOP**—In terms of other health studies, my understanding is that the government has committed itself to undertaking a health study of all deployments. What is the current status of such studies for East Timor, Afghanistan, the Solomons and Bougainville?

**Dr Horsley**—The government has also made a commitment that those studies will be part of the Defence area. If you want to get better updates than I can give, it would be best to speak to my colleagues from Defence.

**Senator MARK BISHOP**—Is that a Defence issue?

**Dr Horsley**—It is.

**Senator MARK BISHOP**—Because they are still serving personnel. I have received a formal written complaint forwarded from the member for Hunter alleging that in Western Australia MCRS has asked a specialist to write an adverse report on a medical review of a claimant. Do you have any knowledge of this particular case?

**Mr Campbell**—I certainly do not. If you could give us the details, we could take it on notice and look into it.

**Mr Sullivan**—Has the member written to the minister?

**Senator MARK BISHOP**—No. I have received the complaint. I am not aware—

**Mr Sullivan**—If they are happy for the complaint to be passed on, we will certainly have a good look at it. I would be surprised if it would be a real issue if there was any suggestion of an officer—

**Senator MARK BISHOP**—I would be too, but I will check and come back to that after dinner. I am advised that there is an income advice unit in DVA created to help veterans understand the law on income and assets testing—VAFIS, the Veterans' Affairs Financial Information Service. Has that been disbanded?

**Mr Sullivan**—I have been nodded to—yes.

**Senator MARK BISHOP**—Do we know why that was?

**Mr Stevens**—We did have a service some years ago that was similar to the FIS of Centrelink. It died out. We have two people in Victoria who still provide that service, but it is something that we have ceased to do. Because Centrelink have quite a service on that, we have turned our people towards their service.

**Senator MARK BISHOP**—So you are now directing people over to Centrelink?

**Mr Stevens**—That is right.

**Senator MARK BISHOP**—I think that is the complaint—that the service that you used to provide was better, more exact and of more value to vets. Now they are all getting caught in the revaluation of properties.

**Mr Stevens**—They also had the infrastructure for seminars. They had a wider spread of service throughout the community than we did.

**Senator MARK BISHOP**—When did you cease the service within DVA?

**Mr Stevens**—As I said, we still have two people in Victoria providing that service, but as a general operation we ceased some years ago.

**Senator MARK BISHOP**—The complaint I have comes out of New South Wales—Daryl Melham's seat.

**Mr Sullivan**—South-west.

**Senator MARK BISHOP**—Yes, the south-west. His office is complaining about the curtailment of the service in his area.

**Mr Sullivan**—I am happy to pursue that as a question on notice and get back to you.

[6.01 pm]

**CHAIR**—We turn to outcome 2, 'Eligible veterans, serving and former defence force members, their war widows and widowers and dependents have access to health and other care services that promote and maintain self-sufficiency, wellbeing and quality of life'.

**Senator MARK BISHOP**—Page 56 of the PBS shows a reduction in the veterans employment and training scheme from \$721,000 to \$649,000. What is the explanation of that reduction?

**Mr Douglas**—That is a demand driven scheme. It is responsive to the number of veterans who indicate their desire to participate in it and the assessment that is done by CRS on our behalf as to their capacity to benefit from participation in the scheme. We promote it and we then wait for people to come forward. The numbers are revised in accordance with the number of people who do that.

**Senator MARK BISHOP**—So if demand increases out of the blue, the service will react accordingly?

**Mr Douglas**—Generally.

**Senator MARK BISHOP**—It is not a capped scheme.

**Mr Douglas**—No.

**Senator MARK BISHOP**—Mr Douglas, can you take on notice the statistics—I presume you do not have them here—on the number of applicants who use the scheme and the number who get into work, both short term and long term.

**Mr Douglas**—I will take that on notice.

**Senator MARK BISHOP**—Has any review of the scheme been conducted apart from the CRS thing you mentioned?

**Mr Douglas**—I believe that we did review the scheme some two years ago, but I would have to take that on notice.

**Senator MARK BISHOP**—Please take it on notice.

**Mr Campbell**—It was reviewed several years ago. We can make the report available to you.

**Senator MARK BISHOP**—That would be appreciated. Thank you. Is there an equivalent process for the MRCS in terms of training and rehabilitation?

**Mr Sullivan**—There is a completely different focus in terms of the MRCS in that it is a rehabilitation focus scheme and actually can make compulsory rehabilitation, whereas under the VEA rehabilitation is at the discretion of the veteran. It is a completely different way of looking at it. If the assessment under the MRCS is that rehabilitation of the veteran or serviceman will result in a return to paid employment or an improvement in social participation, there are a lot more forces in play to ensure that the veteran will participate in rehabilitation.

**Senator MARK BISHOP**—I think we might have had a discussion on this about 12 months ago—the change in emphasis in terms of rehabilitation under the MRCS. It was certainly a live topic when the bill was out in the Senate committee. Is rehabilitation under the new act now mandatory?

**Mr Sullivan**—It can be enforced, in that you may have your compensation payments deferred if you will not participate. It is certainly one of the central focuses of the new act. I think it is something which has the now general support of the veteran community and the organisations that represent them.

**Senator MARK BISHOP**—That is quite a change from the way the VEA has been run.

**Mr Sullivan**—I think, drawing a line in respect of the date of this and who it impacts on, generally it is serving younger veterans. In my time I have certainly detected that the department is moved by veteran organisation leadership—in particular, the Returned and Services League—and the importance that they see in rehabilitation and a move away from a compensation culture. I do not hear vehement criticism of that by anybody. Of course, it did not impinge on those who had coverage under the VEA.

**Senator MARK BISHOP**—No, it only applies post 1 July last year.

**Mr Sullivan**—Yes.

**Senator MARK BISHOP**—The numbers would be minimal anyway.

**Mr Sullivan**—Numbers are small so far. It would be good to give you on notice, from a very small base—and we are not claiming anything from them—numbers in respect of those referred to rehabilitation services and those with a successful outcome from rehabilitation. They are quite encouraging.

**Senator MARK BISHOP**—I would be interested in those figures.

**Mr Sullivan**—We will give you some numbers on that.

**Senator MARK BISHOP**—I was going to ask whether as yet you have had to suspend payment of entitlements as an encouragement to persons to undergo rehabilitation.

**Mr Sullivan**—I will take that on notice.

**Senator MARK BISHOP**—The answer is no?

**Mr Sullivan**—I do not believe so. That is the word from behind. I will confirm that but I think the answer is no.

**Senator MARK BISHOP**—Can you bring us up to date with the problems that have been identified at the Austin hospital psych wards? In particular, I understand that the local member has received written complaints from local vet organisations and she in turn has forwarded them to the powers that be at the local hospital. Is the department aware of the situation, and what is its involvement, if any?

**Mr Sullivan**—I think we have been briefed on it. I have visited the hospital to have a look myself and talk to some people there. The complaints are generally around the appearance of the wards. I find it reassuring that most complainants about the appearance of the wards want to assure me immediately that they are not complaining about the service that is provided in the Austin hospital. The complaints are around the appearance of the wards. I have met the CEO of the hospital and the department of health in Victoria. I believe we will see some progress in the redevelopment of the hospital in the Victorian government, in getting the wards some temporary measures to improve their appearance, and in an acceleration of the master planning process of the Austin hospital to see a future long-term home for the facility to be determined in their next round of improvements. We are seeing acceleration from the Victorian government. I think we have seen an understanding of the priority of the issue by the hospital administration. At the same time, at the last meeting of NTMC, the National Treatment Monitoring Committee, which was held in Victoria, we took the opportunity to speak to the Victorian state people and veteran organisations. They were addressed by the CEO of the hospital as well. I think they came away a bit more encouraged than they were that there will be some work done to improve the appearance of the ward and that we will get some medium- to longer term answers sooner than we were anticipating.

**Senator MARK BISHOP**—Is the responsibility for fixing up the problems at Austin hospital a matter for the Victorian government and not the Commonwealth?

**Mr Sullivan**—Yes. It is their hospital.

**Senator MARK BISHOP**—It is their responsibility?

**Mr Sullivan**—Yes.

**Senator MARK BISHOP**—Because in the photographs I have been provided with—and no doubt they are the same ones you have seen, Mr Sullivan—are what look like very tired and ageing post-war structures that have neither been repaired nor painted nor improved over the years.

**Mr Sullivan**—It is again quite complex. One of the things that struck me is that there is probably division between the patients as to whether they like it or do not like it. There are some facilities, including some recreational facilities and others, which, if you looked at them with eyes that did not understand the issues of some of these people, you would say are not suitable. Some of the facilities had the overwhelming support of the patients I spoke to. When you get down to what they would like to see it is the gutters repaired, the paint improved—

**Senator MARK BISHOP**—The outside chairs and facilities—

**Mr Sullivan**—and those sorts of issues. There is an attraction to the style of facility. It is just that, with the other campus of course now dominated by one of the most modern hospital complexes in Australia, they would like to see some improvement. In what was seen as rapid improvement in the overall hospital, that part of the hospital which has been treasured by the veteran community did not seem to be going at the same pace. I think the concern of the veterans' organisation was whether this was a threat to the services provided. I think we have seen an acceptance that there is no threat to the service provided and that there is now an acceleration, as I say, in the priority given to the improvement of the look of the facility in which the service is provided and a longer term solution.

**Senator MARK BISHOP**—But there is no point in saying—

**Mr Douglas**—I think it is important to say that redevelopment of this part of the hospital was always part of the strategy, but something always has to come last, and that happened to be the area of the hospital that was coming last. Of course, when you see the rest of the facility you then wonder why it has not happened here. The hospital, to its credit, has responded very positively to that, as Mr Sullivan has indicated.

**Senator MARK BISHOP**—I take it from that discussion there is no liability on the part of the Commonwealth to fund any part of the repair or construction there?

**Mr Sullivan**—The Commonwealth's obligations in respect of that hospital were met at the time of the transfer of the hospital to the Victorian government. The Commonwealth and the Department of Veterans' Affairs will remain a significant purchaser of services from that hospital, so therefore we do provide the revenue base—

**Senator MARK BISHOP**—Cash flow.

**Mr Sullivan**—for which the hospital and the government can take consideration. So we are an active participant, but we do not have a liability in respect of the capital works of that hospital.

**Senator MARK BISHOP**—Did you pursue issues of complaints concerning food standards?

**Mr Sullivan**—Yes. The food arrangements have changed. The new food arrangements have very recently been put in place. I have not had time to see what the feedback was, but there is a new arrangement around catering, including the plating of food and choice. Again, the CEO of the hospital and the chief guy in the veterans' psychiatric area were both confident that this would address the complaints made. That has happened in recent weeks, if not days.

**Senator MARK BISHOP**—There is also the issue of gender segregation. Has that been drawn to your attention?

**Mr Sullivan**—Gender integration or segregation?

**Senator MARK BISHOP**—I think they wanted segregation.

**Mr Sullivan**—Being an old facility, there are a number of shared wards. It is unusual to see any gender integration, and certainly the hospital is aware of the sentiment that runs with veterans in respect of gender integration or segregation issues. It is not something which I can

say will always be solved, because that hospital, like all hospitals, sometimes has to. But they are certainly aware of the issue.

**Senator MARK BISHOP**—Is it a ward sleeping issue? Without going into terrible detail?

**Mr Sullivan**—While it is a series of wards, it is fairly open, and it means movement to bathrooms and general movement around the wards. It would only be when the wards are quite crowded that you would see a sleeping issue.

**Senator MARK BISHOP**—Was that a complaint to you?

**Mr Sullivan**—I had heard of the complaint. It did not surface in my quite brief visit and discussion. I was there mostly to look at the facilities and the food issue.

**Senator MARK BISHOP**—Okay. Could we get a quick update on the gold card issue down in Tasmania? The complaint is that Tasmanian veterans are having problems getting access to specialists down there. Is the new fee structure intended to remedy that issue in any way?

**Mr Sullivan**—We have a number of issues—Roger and Ken can talk about them—but a number of things are working in our favour. There were a number of specialities which were causing people to have to travel from Tasmania to the mainland. We now see some provisioning of specialists, which has reduced some travel to at least intrastate travel. I am not sure the fee structure was the issue. I think what we faced in Tasmania was that veterans could not access some specialists, just like the Tasmanian community could not access some specialists. We were very heartened to see, in the Tasmanian budget released last week, provision made for 25 additional specialists to work in Tasmania, and we are certainly working cooperatively with the Tasmanian government to ensure that specialists will be able to treat veterans.

The bigger issue is the provision of specialists to the community of Tasmania, which will provide for the provision of specialist services to the veterans of Tasmania. That provision in last week's budget by the Tasmanian government is promising. We have eased the issue in that we now have got some facilities in Launceston and Hobart, which is reducing the number of people who need to travel to the mainland for services.

**Mr Douglas**—The same specialties that we discussed last time remain the difficult areas: urology, neurosurgery and orthopaedic surgery. The issues that are faced by the veteran community are, in many respects, no different from those that are being faced by the general community—which is why the Tasmanian government has had in place a number of initiatives designed to increase the number of specialists available. Primarily, of course, their obligation is to the public system. We will have in place the arrangements that we discussed last time for the urgent triage categories and for access to relevant specialists; and, of course, treatment is available through the public system.

During the course of 2004, we did fly people to Melbourne for treatment, but I would make the point that we have, for quite a long time, sent people by aeroplane from Tasmania to Melbourne. In fact, if you live on King Island or Flinders Island, for example, the only way you can get medical treatment of a specialist nature is to fly to Melbourne. What we can say is

that, over the course of 2004, only 10 veterans were flown to Melbourne for treatment that they could have received in Tasmania had it not been for these difficulties in relation to these three specialist categories.

**Senator MARK BISHOP**—How many year-to-date in 2005?

**Mr Winzenberg**—We do not have the figures, but for 2004 we flew 43 veterans to Melbourne.

**Senator MARK BISHOP**—I thought Mr Douglas just said 10.

**Mr Winzenberg**—Yes, that is about a question on notice you asked.

**Mr Douglas**—The 10 visits were for those that would otherwise not have occurred—in other words, there are people who already have to travel to Melbourne. I have the number of 10 visits who were made to receive treatment that was available in Tasmania to the general population.

**Mr Winzenberg**—I will take you through it, Senator. There were 43 veterans who went to Melbourne for 77 trips. However of the 43 veterans, only six had travel to Melbourne for 10 trips for treatment that would have been otherwise available in Tasmania, and those six went to Melbourne for neurosurgery. The 37, as with the rest of the Tasmanian population, had travel to Melbourne for services that simply are not available in Tasmania because of the general structural work force issues relating to the absence of specialists.

**Senator MARK BISHOP**—Do you think this new allocation of funding for 25 additional specialists by the Tasmanian government is going to rectify those problems into the future?

**Mr Winzenberg**—As Mr Sullivan and Mr Douglas said, we are working with the Tasmanian government to see how we can maximise access for veterans to those specialists. You need to bear in mind that, first of all, the Tasmanian government has to recruit and retain those specialists. That is the more difficult task: getting those specialists on the ground in Tasmania. Once they are on the ground, we will work with the Tasmanian government to see how we can maximise access to them.

**Senator MARK BISHOP**—Will the 25 extra specialists that the Tasmanian government wants to retain cover off those three problem areas of classification to which you referred, Mr Douglas?

**Mr Douglas**—At the moment, all we know is the Tasmanian budget decision. We are actually engaged in some discussions later this week with the Tasmanian government over where their priorities are going to be and, from our side, how we can ensure veteran access to the specialists.

**Mr Winzenberg**—The additional funding in the Tasmanian government budget is a second initiative. They recently also recruited two urologists to the Royal Hobart Hospital, so that maximises access for veterans in Hobart. The budget initiative from last week is an ongoing program.

[6.22 pm]

**Senator MARK BISHOP**—We might flick over quickly to outcome 3, 'Commemorations'. Can we confirm for the record that the \$300,000 allocated back in

additional estimates in February for the Ballarat prisoner of war memorial is still there and still unspent?

**Mr Sullivan**—I will get the expert to the table, but the answer is yes and yes.

**Mr Campbell**—The answer is yes.

**Senator MARK BISHOP**—I thought it might be.

**Mr Kelly**—The answer is yes.

**Mr Douglas**—If the money is still unspent by 30 June, will approval be sought to carry over?

**Mr Sullivan**—I would anticipate so and I would anticipate it being agreed, if that were the case.

**Senator MARK BISHOP**—What is the current state of play with respect to the council down there and the negotiations on the election undertaking on the part of the government? What has been the problem?

**Mr Kelly**—We are not exactly sure. We have prepared a grant agreement with them and it has not been finalised yet. We are waiting to hear back from them, as I understand it.

**Senator MARK BISHOP**—The Treasurer went down there sometime during the election campaign. He said he was going to give them \$300,000. There have been negotiations post the election. You say a grant agreement has been prepared and sent off to them to respond to. Why did the parliamentary secretary say that they would no longer be getting their money?

**CHAIR**—I do not think you can ask that question.

**Senator MARK BISHOP**—Yes, I can. Why can't I asked the question?

**CHAIR**—You can ask it, but it would be better if the minister was here.

**Mr Sullivan**—We do not have a parliamentary secretary. I do not have a parliamentary secretary to refer that question to.

**Senator MARK BISHOP**—Senator Troeth is the parliamentary secretary.

**Mr Sullivan**—Not for veterans' affairs.

**Senator MARK BISHOP**—I did not say she was.

**Mr Sullivan**—I was wondering what you wanted me to do.

**Senator MARK BISHOP**—Can you tell me why the government, via the responsible frontbench officer, advised in writing that the Ballarat Council would not be receiving \$300,000?

**Senator FERGUSON**—You cannot ask the officials to answer why a parliamentary secretary did something if it is not in their department—and who is no longer a parliamentary secretary, I might add. You just cannot ask that question of officers of the department and expect an answer.

**Senator MARK BISHOP**—But she was carrying out government policy.

**Senator FERGUSON**—You cannot ask the officials of this department to respond to what a parliamentary secretary from another department may have said, at any time.

**Mr Sullivan**—I think I can only answer the question you put: is the money still available? The money is still available. We have put a deed of grant to the proper people and we anticipate finalising that negotiation for the money to be used for the purpose.

**Senator MARK BISHOP**—Did you make inquiries as to why the parliamentary secretary—

**Mr Sullivan**—No. I did not ring. I know what my portfolio is doing.

**Senator MARK BISHOP**—Did Minister Kelly ask you why Senator Troeth made that announcement?

**Mr Sullivan**—Minister Kelly asked me to confirm that the money was available for the Ballarat memorial, and I did.

**Senator MARK BISHOP**—So the money is available and it will be allocated. And if it is not spent by 30 June, another application will be made.

**Mr Sullivan**—As I said, I anticipate that we would seek agreement to handle such a transfer.

**Senator MARK BISHOP**—How long has Senator Troeth not been a parliamentary secretary?

**CHAIR**—Since the election. She was the parliamentary secretary for agriculture.

**Senator MARK BISHOP**—Now or then?

**CHAIR**—Then.

**Senator MARK BISHOP**—Why was she involved in this at all, then?

**Senator FERGUSON**—I do not think you can ask us that either.

**Senator MARK BISHOP**—I bet you know why she was involved.

**Senator FERGUSON**—Because she is a Victorian senator, as Senator Payne said.

**Senator MARK BISHOP**—So she had no front bench responsibility after the election?

**Senator FERGUSON**—I am not sure that we are here to answer questions. I bet the officers are. I think you should direct your questions that way, not this way.

**Senator MARK BISHOP**—I know. But you know who your parl secs are. Does she have front bench responsibility?

**Senator FERGUSON**—Come and see me during the dinner break.

**Senator MARK BISHOP**—Do you know if she has been on the front bench since the election, Mr Sullivan?

**Mr Sullivan**—I do not know.

**Senator FERGUSON**—It is not his responsibility.

**Senator MARK BISHOP**—It is funny that you do not know something like that.

**Senator FERGUSON**—You are a net fisherman. You should try using a line.

**Senator MARK BISHOP**—Everyone knows what has happened here. Let us talk about these grants. On page 64 of the PBS, departmental outputs for commemorations is shown as \$6.3 million to administer a program, and the figure is above, of \$8.6 million. It seems a very high ratio. Are those figures correct?

**Mr Sullivan**—I do not quite follow you. Departmental outputs does not just include support moneys. It can be funded under departmental expenditure for actual commemoration work. This is not the staff and support. You should not look at \$6.3 million and say that is in support of \$8.6 million. It is purely that 8.6 in funding is through administered expenses and 6.3 is through departmental expenditure. That would include some staff, but could include elements of the actual commemoration program.

**Senator MARK BISHOP**—Can you give us a breakdown of where that 8.6 is going to be spent in the next financial year? Is it for visits, delegations, memorials, educational material? Do we know what is going to be spent yet?

**Ms Blackburn**—We can take it on notice. There will be a notional allocation of that expenditure for next financial year but, as you will appreciate, that may vary between individual initiatives from time to time. But there is always a project plan set out for the commemorations program. It will contain a number of elements. It could contain commemorative missions, but it also has things like education resources, public awareness, Anzac Day and Remembrance Day posters, et cetera.

**Senator MARK BISHOP**—Can you provide the committee with a copy of the notional work program for the 2005-06 financial year?

**Ms Blackburn**—That would be a matter for the minister to sign off on. So we would have to take that up with our minister's office at the appropriate time.

**Senator MARK BISHOP**—Could you take that on notice and ask the minister?

**Mr Sullivan**—I think we are a fair way off developing it. We are right in the middle of what is an extraordinarily busy year. We are signing off those. We will do what we can.

**Proceedings suspended from 6.31 pm to 7.36 pm**

**Senator MARK BISHOP**—Mr Sullivan, I want to turn now to the \$10,000 grant to electorates. Mrs Kelly wrote to me on 15 May advising of a range of activities including the electorate grants issue. Was that at the same time as she wrote to other members and senators?

**Ms Blackburn**—Yes. The department prepared letters for all members and senators for the minister. I understand that they were all dispatched at the same time.

**Senator MARK BISHOP**—There was no differential posting time for government members as opposed to non-government members?

**Ms Blackburn**—Not that I am aware of. I understand that they were dispatched from the minister's office.

**Senator MARK BISHOP**—Can you check on that and let us know?

**Mr Sullivan**—I believe there was not any differential.

**Senator MARK BISHOP**—Were identical letters sent to all members and senators?

**Ms Blackburn**—Yes.

**Senator MARK BISHOP**—When the funding applications are received, are they going to be restricted to the auspices of the federal member of the lower house or may senators for a particular state make application on behalf of a group in an area?

**Ms Blackburn**—They are electorate grants, so senators have been asked to direct any inquiries and applications to the relevant lower house member.

**Senator MARK BISHOP**—Does that mean you would not accept applications from senators who apply on behalf of a group or a range of individuals in a particular area?

**Ms Blackburn**—The procedures that have been advised to all members and senators are that the member will have a number of applications from their electorate. They are then to advise the department of the ones that they recommend for funding within the \$10,000 electorate cap. So it means that you would have some anomalies of some outside—unless they do go to the member's office, they would not fall within that electorate \$10,000.

**Senator MARK BISHOP**—So if I as a senator from Western Australia wished to process an application for a particular veterans' group for electorate grants, I would have to direct that through the appropriate lower house member of parliament?

**Ms Blackburn**—That is correct, but there would be no reason why you could not offer support for a particular project or initiative and provide some comment on the reasons why that should be considered favourably.

**Senator MARK BISHOP**—So you will take notices of support from a senator on the same basis as you will take notices of support from the person from the lower house in the particular area?

**Ms Blackburn**—The member has to advise which applications they think should be funded from that particular electorate. There is provision on the application form for comments from the member. Any additional papers can be attached to that. So the application would still have to be channelled through the member's office. As I said, there is no reason why a senator could not provide some support for a particular application. It would still go through the member's office and then the member would forward all of the applications and the ones he or she is recommending for approval to the department for consideration and final decision.

**Senator MARK BISHOP**—What happens if you have got a particular senator recommending applications in a particular electorate and the lower house member elected in that electorate has a different order of priorities or thinks a different application or set of applications is more worthy than that of the particular senator?

**Ms Blackburn**—That would probably be a matter that we would refer to the minister for consideration and final decision.

**Senator MARK BISHOP**—So that is why government senators have been out soliciting applications in Labor held electorates.

**Ms Blackburn**—Senators were asked by the minister to promote the availability of the electorate grants. All members of parliament were asked to promote the program.

**Senator MARK BISHOP**—Government senators are doing it in Labor held electorates.

**Senator PAYNE**—Government senators represent the entire state as a senator; at least that is how I view my job.

**Senator MARK BISHOP**—Yes, but this is electorate grants for electorates to be recommended by the elected member in the lower house. What I am hearing the officer say is that, if there is a contrary or different recommendation from a senator not necessarily located or involved in the electorate, that is going to be a cause of disputation and the minister is going to decide. She is going to substitute her view, if she chooses, for that of the lower house member.

**Ms Blackburn**—There would be a recommendation from the department and you are presupposing that the applications for a particular electorate exceeded the \$10,000 cap. That situation would not necessarily arise if the applications for that electorate added up to \$10,000 or less. We would have to look at each case on its merits.

**Senator MARK BISHOP**—What you are inviting senators to do is involve themselves in electorate grants which I understood were designed for House members to process. Now we have a twofold application: House members and senators.

**Mr Sullivan**—I think what has been said is that we have invited senators and members of the House of Representatives to promote the scheme, to promote the availability of grants. Ms Blackburn has stated clearly that in the end these are electorate grants administered by a member of the House of Representatives duly elected. I think we are sitting here attempting to say that if a senator put a view, being a senator of the Australian parliament, that view would be put to the minister. But I believe this scheme is designed entirely around, as you describe, members of the House of Representatives.

**Senator MARK BISHOP**—I would have thought that but, you see, I am advised that government senators are going into Labor electorates, contacting ex-service organisations, advising them of the grant and requesting that the process application be forwarded to the senator. In my view, that is a deliberate politicisation of the grants process. The department is inviting senators of another party to make applications.

**Senator PAYNE**—Chair, I do not think officers are necessarily in a position to answer these questions.

**CHAIR**—I think you can make your point, Senator Bishop—

**Senator MARK BISHOP**—I am making the point. You are setting out to politicise it.

**Mr Sullivan**—You have put a proposition and just used the term that ‘you’, the department, is setting out to politicise. Show me in the procedures. We have made it very clear that the grant application will go through the member of the House of Representatives.

**Senator MARK BISHOP**—And Ms Blackburn also advised that, if there were contrary recommendations from the member and a senator, the issue in dispute would be referred to the

minister for determination—the minister who invited and requested government senators to organise around this issue in non-government seats.

**Mr Sullivan**—The last proposition you are putting is not knowledge to me.

**Senator MARK BISHOP**—The proposition I am putting is that government senators are going into non-government lower house seats and soliciting applications; as a consequence, dual applications might go forward; and, if there is a dispute as to an entitlement for a grant in the electorate, the minister of the same party gets to choose.

**Mr Sullivan**—I do not think that is going to be the case.

**Senator MARK BISHOP**—That is what Ms Blackburn just said.

**Mr Sullivan**—If you put the proposition that they are soliciting grants directly through them against the procedures, that is different to a comment. I think you will see, if you check the *Hansard*, that Ms Blackburn said a supporting comment would be useful in respect of a grant application through the local member.

**Senator MARK BISHOP**—She did say a supporting comment would be welcome.

**Mr Sullivan**—You are now talking about other than supporting comments.

**Senator MARK BISHOP**—Ms Blackburn also said that, if there are contrary recommendations or dual applications, the department would take it to the minister to resolve.

**Mr Sullivan**—That is what happens now in respect of almost anything we do. When a senator of either side of the parliament writes a contrary view to the minister, it goes to the minister and it becomes part of the consideration.

**Senator MARK BISHOP**—So this is a big pork barrel in which government senators are requested to go out and solicit funds to organise around in electorates which are not theirs.

**CHAIR**—I do not think you can ask Mr Sullivan's opinion on that sort of statement.

**Senator MARK BISHOP**—That is a statement I am making. The minister chooses not to be here; the government chooses not to be here.

**CHAIR**—I do not think you can expect Mr Sullivan to pass comment on that.

**Senator MARK BISHOP**—Mr Sullivan can pass comment on whatever he likes. What I am hearing him say is that government senators are requested to go into non-government electorates and solicit grants and, when there is a dispute between the House member and the senator, the minister will decide.

**Mr Sullivan**—With respect, you have never heard me say that government senators are being encouraged to solicit grants. You have heard me say that all members of the Senate and the House of Representatives are being encouraged to promote the grants program. The grants program procedures clearly show how an application for a grant will be made. All grants in this department are approved by the minister, and the minister will take anything into account in terms of a grant. But this is an electoral grant, and for the scheme to operate well it is going to need to see all electorates approach it as the salute in commemoration of the 60th anniversary of World War II should be approached.

**Senator MARK BISHOP**—If that is the case, why is it necessary to involve government senators in non-government held seats?

**Mr Sullivan**—I do not know about government senators doing that. That is outside my domain. As I said, all I know is that the letter you got as a senator encouraging promotion of this was sent to all senators.

**Senator MARK BISHOP**—But you know that government senators are out in non-government seats soliciting grants.

**Mr Sullivan**—I do not know that, truly.

**CHAIR**—Mr Sullivan has already answered that.

**Senator MARK BISHOP**—Are lower house members of parliament only entitled to make applications on behalf of grants within their own electorate?

**Ms Blackburn**—For this program, yes. They are required to put forward applications and recommendations from within their electorate. As you probably are aware, with the Saluting their Service general grants program, support may be offered by any member or senator to a particular application. But in this case the idea is that the \$10,000 is allocated on an electorate basis.

**Senator MARK BISHOP**—If a lower house member who held a particular seat applied for a grant in a seat not held by him or her but supported by another senator, would the department receive that application and process it?

**Ms Blackburn**—The member does not apply for the grant. The grant applications have to come from an organisation, whether that be an ex-service or community organisation. They then go to the member's office and a recommendation is made in relation to the applications that should be supported from that particular electorate.

**Senator MARK BISHOP**—It says in the guidelines that all applications are to be submitted to the MP's office so that the bid for the electorate grants does not exceed the \$10,000 limit. Is a member in seat X entitled to receive an application from a group in electorate Y supported by a member of parliament in that electorate? Would he be expected to forward that to the department and would the department process that application?

**Ms Blackburn**—What the guidelines state is that the applications for a particular electorate come to the department from the relevant member. If there were an organisation which submitted an application to the member in electorate X and in fact their organisation is resident in electorate Y then the member for X should refer that application to the member for Y so that all the applications for a particular electorate are considered as a group and the recommendation is made by the relevant member and then forwarded to the department.

**Senator MARK BISHOP**—So if the member for electorate X receives an application for a grant in electorate Y—that electorate not being his or hers—he should not forward it on to the department; he should send it to the member for electorate Y. Is that your understanding?

**Ms Blackburn**—That is correct in accordance with the guidelines.

**Senator MARK BISHOP**—If he failed to do that—if he forwarded it on to the department—what would you do with it?

**Ms Blackburn**—We would refer it to the relevant member for consideration together with the other applications from that particular electorate.

**Senator MARK BISHOP**—I just want to establish that those are the rules—that lower house members may only forward applications on behalf of applicants within their own electorate, not otherwise.

**Ms Blackburn**—They can forward applications—there is nothing to stop them doing that—but the way that they are going to be assessed is on an electorate basis. All the applications from the particular electorate need to be considered by the relevant member and recommendations made in respect of applications from within that electorate.

**Senator MARK BISHOP**—So an application for a grant inside member X's electorate that did not come from him or his office and did not have his recommendation would not be considered?

**Ms Blackburn**—It would be considered but, as I said, the department would refer it to the relevant member so it could be considered in the context of the electorate—

**Mr Sullivan**—Ultimately it must be considered by the member.

**Senator MARK BISHOP**—I ask you to turn to page 64 of the PBS please. There is a line there under special appropriations, 'War graves—commemoration care and maintenance' and its budget. The appropriated figures appear to have been reduced from a bit over \$14 million to \$11.3 million. Why is that, and what work that would have been done will not be done?

**Mr Sullivan**—I will ask Gary Beck to come forward.

**Air Vice Marshal Beck**—The major differences between 2004-05 and 2005-06 have to do principally with London and with the construction of two gardens of remembrance in Townsville and Canberra, funded in that year. Those items drop out. And there is also Gallipoli. I can think of nearly \$3 million there that will not appear in 2005-06.

**Senator MARK BISHOP**—So it was from two special projects that were done.

**Air Vice Marshal Beck**—In 2004-05.

**Senator MARK BISHOP**—Up in Townsville?

**Air Vice Marshal Beck**—We built a new garden of remembrance—about \$700,000—in Townsville. We are building one in Canberra that will be primarily funded this year. And there is \$1 million there for Gallipoli. There is also the final expenditure on London.

**Senator MARK BISHOP**—The final expenditure on London would not be much, would it?

**Air Vice Marshal Beck**—No. It is about \$300,000.

**Senator MARK BISHOP**—What was the Gallipoli thing—the million there?

**Air Vice Marshal Beck**—That is the whole commemorative program for the 90th anniversary.

**Senator MARK BISHOP**—So it will be on a smaller scale next year.

**Mr Sullivan**—That is for that special element of the program this year, which will be reversed out. There is a bit over a million dollars in commemorative funding this year which was going through War Graves that will not be there next year; and there is some rephrasing around the proposed memorial in New Zealand as well which affects these numbers.

**Senator MARK BISHOP**—Is the rephrasing delaying?

**Mr Sullivan**—While we are waiting for a site to be identified by the New Zealand government.

**Senator MARK BISHOP**—Going back to the grants application, Ms Blackburn, do the applications have to come from legal entities or can they come from a group of individuals without legal cloak or a range of groups working on a cooperative basis?

**Ms Blackburn**—The guidelines state that they cannot be from individuals, but, as with the Saluting their Service grants program, it can be an entity. Normally if they have an ABN, for example, that simplifies payment arrangements, but they do not necessarily have to have that. It needs to be some kind of recognised group. It may be a historical society or an ex-service organisation; it could be a school. It can be a range of entities. The only one that has been excluded at this stage is individuals.

**Senator MARK BISHOP**—The grant application having been made, recommended by the member and signed off by the department and the cheque dispatched, what is the acquittal process, if any?

**Ms Blackburn**—Normal acquittal processes. As part of the documentation that goes to the organisation, they have to first accept the terms and conditions of the grant so that we can make the payment. After that, at the same time as they get their advice of approval, there is an acquittal form. That needs to be completed within a certain time frame after the grant has been paid and they have to certify that the money has been expended in accordance with the terms and conditions of the grant. If it has not been fully expended, there is repayment to the department of the balance or, if it has not been expended at all, repayment to the department. Then we will follow up on the acquittal process.

**Senator MARK BISHOP**—But there is no requirement to get an accountant or an auditor to certify that the moneys have been spent?

**Ms Blackburn**—No. The cost of that would probably exceed the amount of the grant in some cases. Provided that the relevant office-bearers of the organisation certify that the grant has been expended in accordance with the terms and conditions, that would satisfy the department. There may be receipts that can be attached to the acquittal. That information would be requested from the organisation.

**Mr Sullivan**—The community tends to be the best acquittal process in these things.

**Senator MARK BISHOP**—I notice in the price of departmental outputs, output 3.2, that the estimated actual and the budget for 2005-06 is \$4.4 million up to \$4.5 million for expenditure by the Office of War Graves—there is no particular significance to that. There are about 282,000-odd graves cared for, and the unit cost is about \$16 per grave. That adds up to

about, as you say, \$4½ million. What is the remainder of that \$11.3 million going to be spent on? Air Vice Marshal, at the top of the table is the figure \$11.359 million for 2006. At the bottom of the same table the cost for output 3.2 is \$4.597 million. That gives a difference of a bit less than \$7 million. What is the split-up of that?

**Air Vice Marshal Beck**—There is a \$6 million donation to the Commonwealth War Graves Commission to pay for Australian graves maintained overseas.

**Senator MARK BISHOP**—In addition to that \$4.5 million?

**Air Vice Marshal Beck**—Yes.

**Senator MARK BISHOP**—Air Vice Marshal, can we get a report on the war graves outside Baghdad? Has there been any activity since we last met?

**Air Vice Marshal Beck**—There is absolutely nothing to report there, I am afraid. No-one from the commission has been there and nothing has occurred there.

**Senator MARK BISHOP**—I would have thought that. Okay. Have the Boer War graves in South Africa been fixed up?

**Air Vice Marshal Beck**—I am not quite sure what the current situation is so far as work actually commencing, but the arrangement now is that the Commonwealth War Graves Commission has the role on behalf of the British Ministry of Defence to undertake maintenance of 25,000 graves. That has been agreed with the South African government. I am not sure whether they have actually started work.

**Senator MARK BISHOP**—That would include the graves of former members of colonial regiments?

**Air Vice Marshal Beck**—Yes: 621 Australian graves.

**Senator MARK BISHOP**—So that is a job for the Commonwealth War Graves Commission?

**Air Vice Marshal Beck**—Yes, but it is the responsibility of the British Ministry of Defence, so the Commonwealth War Graves Commission are only doing it under contract. It is not a responsibility of the Commonwealth War Graves Commission.

**Senator MARK BISHOP**—Are you aware if a contract has been let by the British Ministry of Defence to repair those graves?

**Air Vice Marshal Beck**—No, I am not aware. I will take that on notice and find out.

**Senator MARK BISHOP**—I have seen a couple of press reports that next year's Anzac ceremony at Gallipoli will be managed by DFAT. Is that correct or incorrect?

**Mr Sullivan**—DVA has responsibility for the management of the Anzac ceremony and that has not been changed. That is in conjunction, obviously, with the post in Turkey.

**Senator MARK BISHOP**—Yes, and that has been the practice for many years.

**Mr Sullivan**—Yes.

**Senator MARK BISHOP**—I was advised that the job of letting the contracts for event responsibilities had been taken from War Graves and given to the post and that the post were going to have responsibility for organising—

**Mr Sullivan**—There is no change in the appropriations of DVA, which is where that would be paid from.

**Senator MARK BISHOP**—So those reports are incorrect?

**Mr Sullivan**—I would not believe them to be correct, recognising DFAT's vital role, particularly through the embassy in Turkey, in delivering the ceremony, but not to the contracts for the ceremony. There is no change.

**Senator MARK BISHOP**—But the basic rule of thumb in recent years, or at least in the last four years, is that Air Vice Marshal Beck's organisation has had the responsibility of the liaison, negotiation, making sure it runs properly, security, the whole—

**Air Vice Marshal Beck**—Oh, well—

**Senator MARK BISHOP**—Yes—leave security out.

**Air Vice Marshal Beck**—There are growing roles in security and areas like that, and DFAT has taken a greater role in some of those issues.

**Senator MARK BISHOP**—But in terms of the functions the evening before and the day itself, that is still your responsibility.

**Mr Sullivan**—There is no change in that.

**Senator MARK BISHOP**—Regarding the Thai-Burma monument, there was a press article in the *Australian* some weeks back expressing what I suppose was concern or outrage at the removal of a crucifix from the memorial at Hellfire Pass. I was surprised to read that. I presume that is incorrect.

**Air Vice Marshal Beck**—No, that is correct.

**Senator MARK BISHOP**—What is the story then?

**Air Vice Marshal Beck**—A temporary cross was installed there for the Anzac Day service in previous years. It has now been replaced, as part of a major refurbishment of the Hellfire Pass Memorial Museum, with a small memorial that just has two simple words: 'in memory'. It commemorates all those who died in Hellfire Pass, including 90,000 Asians. Because of the Buddhist religion of the Thais and similar to Gallipoli where the Cross of Sacrifice is not on display in any cemetery, a cross was not considered appropriate and nor did it represent the entire population that the memorial is meant to serve.

**Mr Sullivan**—A cross had been there in recent years. A cross was erected three or four years ago. It was removed two years ago. Another cross was erected by the manager of the memorial area. In the design of the new memorial, we basically followed the convention that we have followed everywhere.

**Senator MARK BISHOP**—Tell me about that convention. Every time I have been to a memorial service, there have been nothing but padres left, right and centre, crosses on every

gravestone, blessings of the multitudes and invocations to God. In fact, the role of Christian religion has been so prominent in every memorial service I have been to in the last four years it is almost worthy of note itself.

**Mr Sullivan**—We are not trying to de-Christianise the memorial services that we conduct. It is the memorial site which reflects what it is. The Australian memorial services for fallen Australian veterans will be, as you say, a very Christianised event. It will have padres; it will have the elements of a religious service. We are not attempting in any way to de-Christianise the remembrance and commemoration of fallen Australian veterans. The only thing that concerned me, of course, was the fact that some veterans did give upset. That was a shame. But, as we have explained, this cross was not of great historic significance. It had been a local arrangement for a few short years. This is how we design memorials. The veterans organisations have accepted that. The important thing, as I have said to you, is that there is no attempt whatsoever to de-Christianise the memorial service to fallen Australian veterans.

**Senator MARK BISHOP**—That is okay. Thank you for that assurance. I accept that. I will move on from the de-Christianising argument. I introduced it and you have answered, so we will just move on. Hellfire Pass is a memorial, is it? It is a memorial to what?

**Air Vice Marshal Beck**—It is a memorial to all those who died on the Thai-Burma railway.

**Senator MARK BISHOP**—Does that refer to people whom we now describe as prisoners of war of the Japanese or does it go past that?

**Air Vice Marshal Beck**—Yes, it does refer to prisoners of war of the Japanese. It was meant to serve as a memorial to POWs in the whole South-East Asian region. Admittedly, after that we built one at Sandakan to commemorate those who died on the death march, but that was a specific event where 2,500 Australian and British died. The difference with Hellfire Pass is that there was the enormous loss rate for so many different nations. That memorial was specifically designed to represent all those who died. The reason it is built at Hellfire Pass is that that was the area where the Australians first started that cutting with the British.

**Senator MARK BISHOP**—Started what?

**Air Vice Marshal Beck**—They commenced the cutting there. That was considered the most difficult part of the whole railway because it was the deepest cutting.

**Senator MARK BISHOP**—Is there an overrepresentation of British and Australian men who died at that site?

**Air Vice Marshal Beck**—Yes.

**Senator MARK BISHOP**—Are they predominantly or exclusively Australian and British?

**Air Vice Marshal Beck**—No. There are Dutch as well and I think maybe even a few Americans.

**Senator MARK BISHOP**—So Hellfire Pass is a memorial to those men?

**Air Vice Marshal Beck**—No, it goes beyond that. It is meant to be a memorial to the 90,000 Asians as well, remembering that we built this memorial in Thailand.

**Senator MARK BISHOP**—When did we build that memorial?

**Air Vice Marshal Beck**—We built it in 1998.

**Senator MARK BISHOP**—I was up there about one or two years later, from memory. When we originally built it, was it intended then as a memorial to the men of those nations that you referred to, or was it also intended at that time as a memorial to the other 90,000 people who died?

**Mr Sullivan**—I think it was probably more focused in its original design on the POWs of Australia, Britain, the Netherlands and so on. What we have found since 1998 is that, as a memorial, it has achieved great significance to the Thai people in particular. That is where we really saw that some of the features of the original memorial were not sympathetic to their interest in it. For instance, it was a monolingual memorial. It was a memorial for English-speaking people to be able to read about what happened. The new and improved memorial is now bilingual so that the Thai visitors, who may not outnumber the Australian visitors at a time like Anzac Day but over the full year vastly outnumber any other visitors to the site, now understand the significance of the site. I think it has shifted.

**Senator MARK BISHOP**—It has shifted since 1998.

**Mr Sullivan**—We probably saw a perspective of it which was more closely around the POWs themselves.

**Senator MARK BISHOP**—Those 90,000 men—I presume it is men—you refer to—

**Air Vice Marshal Beck**—Asians.

**Senator MARK BISHOP**—Were they Indians or what?

**Air Vice Marshal Beck**—It involves a vast number of different nations. Probably Burmese, Indians—

**Senator MARK BISHOP**—Members of the former British Imperial Army.

**Air Vice Marshal Beck**—I do not know about that. They were brought in by the Japanese, not by the British.

**Senator MARK BISHOP**—Were they?

**Air Vice Marshal Beck**—Yes.

**CHAIR**—I think they were predominantly Thais.

**Air Vice Marshal Beck**—No, there were no Thais. The Thais were not involved.

**Senator MARK BISHOP**—Were these 90,000 Asians imported as slave labour, or were they prisoners from previous battles?

**Air Vice Marshal Beck**—They were not imported as slave labourers but they became slave labourers.

**Senator MARK BISHOP**—Prior to being imported, were they members of former allied armies?

**Air Vice Marshal Beck**—No, they were just civilians brought in by the Japanese.

**Senator MARK BISHOP**—From Burma and India.

**Air Vice Marshal Beck**—Yes—I think on the promise of improved conditions and all that. Then they ended up dying, largely.

**Senator MARK BISHOP**—Who made this decision to agree to the removal of the cross? Was that at officer level or DFAT—

**Mr Sullivan**—I do not think it was a decision to remove it; it was a decision to approve a design which did not incorporate the cross. The cross had never formally been incorporated in any design of any memorial.

**Senator MARK BISHOP**—Who made that decision to improve the design, absent the previous temporary cross?

**Mr Sullivan**—To not incorporate the temporary cross?

**Senator MARK BISHOP**—Yes.

**Air Vice Marshal Beck**—The temporary cross was put there without any approvals. It would never have been agreed to.

**Senator MARK BISHOP**—Who put the cross there then?

**Air Vice Marshal Beck**—The manager.

**Senator MARK BISHOP**—Is he a Christian?

**Mr Sullivan**—We do not know. We do not ask that on the forms.

**Air Vice Marshal Beck**—I would not say that as a criticism. I would have thought that, from a limited perspective, that would be the first reaction—to install a cross.

**Senator MARK BISHOP**—All right. We have done that to death. I will switch ahead a bit west to talk about media reports of skulls of Australian soldiers put on display for tourist purposes in Oro Province up there in PNG. Do you have any information on that? There was a press report from 11 April in the *Daily Telegraph* as well as in the *Adelaide Advertiser* and a whole stack of them through the wire service.

**Air Vice Marshal Beck**—I probably missed that. I do remember the issue, but I never read anything on it. I do not think there was ever any evidence that they were Australian skulls.

**Mr Sullivan**—The Papua New Guinea government announced that they would make endeavours to discover that and that, if they were proven to be Australian skulls—or any part of an Australian—they would move to remedy the situation, apply the proper processes and apologise for any distress caused to anyone, regardless of whose skulls they were. I think it has now been taken off display—any suggestion—

**Senator MARK BISHOP**—Mr Nick Butterly leads several articles saying:

The Government is investigating claims the remains of Australian Diggers are being touted as tourist attractions in Papua New Guinea.

**Mr Sullivan**—I will give you a proper answer to that question, but I know for sure that the Papua New Guinea government moved quickly to address any real issue or any perception of an issue.

**Senator MARK BISHOP**—If there were investigations going on, that would be your agency, wouldn't it, Air Vice Marshal?

**Air Vice Marshal Beck**—No, that would probably be a Defence matter. If there were some evidence they were Australian skulls, it would definitely become a Defence issue.

**Senator MARK BISHOP**—You do not have any knowledge of it, though?

**Air Vice Marshal Beck**—No further knowledge, no.

**Senator MARK BISHOP**—When can we anticipate a response on the Senate committee report on the veterans administrative review system?

**Mr Sullivan**—I am afraid my newness has caught me there. I will take it on notice. I might check with you on what that is before we leave, Senator.

**Senator MARK BISHOP**—We had a discussion earlier where we talked about how male numbers had peaked and female numbers were anticipated to decline in forthcoming years, and over the next 10 years the total number of the client population is expected to halve. I am advised that DVA is conducting a review of its national structure. Is that correct?

**Mr Sullivan**—We are doing a review of what we call our service delivery framework, with a view to addressing how DVA, over forthcoming years, will manage its dwindling workload—with its commensurate reduction in resourcing—with the objective of there being no reduction whatsoever and preferably improvement in individual service delivery standards to a veteran. We are working on how, with the decrease in the overall volume of veterans, our service delivery standards to individual veterans will remain at least static, if not improved. That is giving us an opportunity to look at things like our rural and remote strategies and other things.

**Senator MARK BISHOP**—Who is conducting that review?

**Mr Sullivan**—It is an internal review. It is chaired by Ian Campbell, the deputy president.

**Senator MARK BISHOP**—Will he continue to do that now that he is—

**Mr Sullivan**—No, he will not do that now. It will be taken over by Ken Douglas as the chair of that review. It has representatives from national office and our state offices and has been the subject of a number of internal forums as we attempt to work out what our strategy is. It is not starting from a restructuring basis but it is starting from how we deliver these services effectively—which may get to, in the end, how we best structure.

**Senator MARK BISHOP**—Okay. That is a sensible thing to be doing. What about the time scale of that review?

**Mr Sullivan**—I would hope that we would have some recommended strategies coming from that review within the next two months.

**Senator MARK BISHOP**—Then it would be a matter for internal departmental consideration at a senior level?

**Mr Sullivan**—A lot of the senior elements of the department are involved—

**Senator MARK BISHOP**—Yes, Mr Douglas is senior.

**Mr Sullivan**—so we will be well aware of it. We certainly have to engage our veteran community because we will not change anything in veteran's affairs without engaging them and we also have to engage the government and the minister as to the plans we would have.

**Senator MARK BISHOP**—Is centralisation of claims processing an option to be examined by the committee?

**Mr Sullivan**—We have come up with some principles which say that we do not see any move away from a senior and significant presence of DVA in each state of this country. We have certainly come up with a principle that says that immediate service delivery to a veteran is where it happens. We have looked at whether in some of our smaller venues we have a scale of operation to justify a unit. We have tested the concept of centres in respect of the Military Rehabilitation and Compensation Scheme, which is done out of Brisbane; our international workload, which is done out of Hobart; and a few other things. We have asked the service delivery framework group to look at the concept of centres of practice, particularly to do the back-end function—certainly not the front-end function. That is part of the task they have been given. I have not had a recommendation on whether we should do that or how we would do it.

**Senator MARK BISHOP**—Mr Campbell told us earlier that the downward moving number of male clients would be 7,000 or 8,000 over the next 10 years and that, in due course, there would be a similar number for females, once they have peaked. Do you anticipate reductions in staffing levels over the next few years or not?

**Mr Sullivan**—I think it would be reasonable that the variable part of our departmental resource base would move roughly in line with our service outputs. The fixed part would not. So in an organisation like ours we have a fixed component where, to a degree, business is not dependent on business numbers and we have a variable component which will move with our business numbers. So I would expect that to move largely in line with our workload reductions.

**Senator MARK BISHOP**—I think that is the right answer actually. But the department would not have—and it would not have had in more recent years—great numbers of veterans applying for particular pensions, would it? Those numbers have been static or in decline for some time now because of the age stratification of those in World War II.

**Mr Sullivan**—Yes, our applications for pensions have been reducing for some time.

**Senator MARK BISHOP**—And your increase in disability pensions has been essentially marginal for some time as well.

**Mr Sullivan**—It has been marginal. Our health work has held up but, as Mr Douglas has said, it is starting to show some evidence of having peaked.

**Senator MARK BISHOP**—Are you hiring great numbers of additional clerical and administrative staff?

**Mr Sullivan**—When you say 'great numbers of additional staff', I point out that we continually refresh the organisation.

**Senator MARK BISHOP**—Turnover?

**Mr Sullivan**—Yes—so we do hire staff. One of the challenges for us in all of this is that we do not want to be seen by anyone as an organisation that has anything but a vibrant future and is anything but a good place to join. First, we can show that there is a commitment by government to us and that there is a commitment, I think, by the alternative government to us. We have very important work to pursue and it will go on for a long time.

So we refresh the organisation. At the same time we look at our age profile in the organisation. We are an older organisation in the Australian Public Service generally, and some analysis of our age profile says that our own naturally diminishing rate will fit nicely with where our workloads might go. So we have some advantage, but I will never, ever say, ‘The way to do this is to stop recruiting and stop doing anything else and can the last one out turn the lights off.’ We will continue to be a very vibrant department of state, working, I hope, to meet the full expectations of this government.

**Senator MARK BISHOP**—But your claim-processing numbers are going to significantly decline in the next few years, aren’t they?

**Mr Sullivan**—They will continue to decline.

**Senator MARK BISHOP**—Yes. They will continue to decline and the decline is going to be significant now.

**Mr Sullivan**—As I say, it is in line with the diminishing population of our veterans, and we have seen that trend already occurring.

**Senator MARK BISHOP**—Tell me: will consideration be given to further amalgamation with Defence service distribution networks in the various states?

**Mr Sullivan**—That would be a question for government, not for me. We now cooperate with Defence on joint projects. Where our expertise fits with Defence needs and they want to negotiate with us, we stand ready, and we work very well with Defence in cooperating. Beyond that—that is, basically, a commercial arrangement between us and Defence—it is a question for government.

**Senator MARK BISHOP**—Right. It had been your predecessor’s clear position, discussed publicly here on many occasions, to seek a lot of work from the Department of Defence in terms of service delivery to that department. Is that no longer a priority?

**Mr Sullivan**—No. Where it makes business sense to our organisation and Defence, those arrangements will be pursued. We have expertise that Defence wants in those areas and we will pursue these arrangements where it makes sense for our business and their business to have them. It does not mean we go looking for any Defence work that they would like to give us. We would make a business decision about it. If government chose more work for us, that would be their prerogative. For instance, when government decided in creating MRCS that Veterans’ Affairs would assume responsibility for service men and women, we took on that work gladly at the behest of government. Where it is two organisations deciding whether one can help the other, the only point I have made—and I do not believe it is that different from Neil Johnson’s at all—

**Senator MARK BISHOP**—With a different emphasis perhaps.

**Mr Sullivan**—is that it has got to be good business for DVA and, I presume, Defence has to believe it is good business for Defence.

**Senator MARK BISHOP**—Yes, the point you are making was probably unstated by Dr Johnson. What do the stats show about the trend of visits to offices as opposed to phone inquiries; is there an increase in the latter and a decline in the former?

**Mr Sullivan**—We are doing more work over the phone and, for some of our physical offices, the number of people visiting is in quite marked decline.

**Senator MARK BISHOP**—But not for all the physical offices?

**Mr Sullivan**—No, not for all of them. We also do some work across other channels, including the internet, because one of the shifts, of course, is that in dealing with World War II veterans, for instance, now we are dealing more and more with the sons and daughters or grandchildren of World War II veterans representing the veterans, as a number of veterans use their family members to contact us—and they use a variety of channels.

**Senator MARK BISHOP**—Mr Sullivan, there was a report in the *Financial Review* of 12 May of an equity injection of \$7.1 million for IT. What is that about and how are the savings derived?

**Mr Sullivan**—They are in three areas. We have some very old desktop operating systems and we need to urgently upgrade our desktop operating systems, largely because they can hardly interact with anything any more. We will take a decision about where we are going forward with our desktop operating systems. The same is true of our network operating systems. Again, it is time—probably a bit beyond time—that they are upgraded and updated. The third area is that we are investigating an applications development framework. We have some major application developments to do, including the final system to support the Military Rehabilitation and Compensation Scheme. There have been what to us have been some exciting developments out there as to how an agency like ours can be assisted in that. We believe—and it was the case we put to government, which was accepted—that, if we went down the pathway of some of these frameworks, we would save a hell of a lot of money in the maintenance of old systems and we would have a good opportunity for savings in terms of the time to take a development from design to actually working. That is where we would make our savings—and, with a more responsive system, some savings in administrative expenses. It is significant without being a lot of money.

**Senator MARK BISHOP**—Are the key aspects of the Curam system that produce the productivity and the savings the replacement of the obsolescent equipment or the attached reworking of the network?

**Mr Sullivan**—I think it is the opportunity to rework the actual applications. Curam is a potential framework we can purchase. We have not made a decision to purchase the Curam.

**Senator MARK BISHOP**—Do you have to make a recommendation to government?

**Mr Sullivan**—No, that is now in our hands. We have to make a decision ourselves as to which way we will go.

**Senator MARK BISHOP**—If you go down that path of purchasing the Curam system, are there benefits accruing to other outcomes? Say you make the decision to purchase the Curam

system. Are there associated or ancillary benefits to other outputs—over in health, for example?

**Mr Sullivan**—Yes. The task we have is basically satisfying ourselves fully that the benefits are deliverable—that we can adopt this framework and pull together the expertise required in it—and that the sorts of productivity gains claimed by the seller are, we believe, something we can do as an organisation. These sorts of frameworks change a little bit in the sense that, to maximise your benefit from them, you probably need to be more willing to make concessions about how perfect the fit is than if you were customising everything you did. The more you demand customisation the harder it is to realise the benefit out of these things.

**Senator MARK BISHOP**—So you have to satisfy yourself that the new system will fit both your compensation side and your health side?

**Mr Sullivan**—Yes, and generally fit our organisational culture. We have been an innovative organisation in respect of IT for a long time—and successful.

**Senator MARK BISHOP**—Apart from organisational improvements and productivity gains resulting in savings across the department, are there hard savings to be made elsewhere as a consequence of going to this system?

**Mr Sullivan**—Not as a consequence. In terms of the range of things that we have to do in respect of our resource base, there would be some very minor additional savings to find, but nothing compared to what our resource framework will look like as a result of our workload changes, meeting efficiency dividends and things like that. There is a very small element where we would have to get some internal savings outside Curam, but it is a small number compared to other things we are doing.

**Senator MARK BISHOP**—Question on notice 26, outcome 2, Health DMIS system, you gave me the answer—it does not say. Can I get an update on that answer?

**Mr Sullivan**—An update on question 26 in the last ones, is it?

**Senator MARK BISHOP**—Question 26, outcome 2, Health, and the topic was DMIS.

**Mr Sullivan**—We will do that.

**Senator MARK BISHOP**—I cannot be more specific. You have a reference in here to June 2004. Give me an update on that.

**CHAIR**—When you have finished, we should get a feel for what Defence officials might say tonight.

**Senator MARK BISHOP**—I have one more issue to pursue.

**CHAIRMAN**—Then we will go back to Defence.

**Senator MARK BISHOP**—The next question is on Anzac Field in Western Australia, Subiaco football oval. Correct me if I am wrong, but I was told that the West Australian branch of the RSL had given support to the whole program and the national RSL likewise. I read in the press over the weekend that the minister has declined to support the application—

**Mr Sullivan**—That is right.

**Senator MARK BISHOP**—on the basis that she thinks it is inappropriate for the acronym ‘Anzac’ to be used on a football field. What is the story?

**Mr Sullivan**—The two elements are the significance of Subiaco Oval to the Anzac tradition, and there is very little linkage between Subiaco Oval and defence. The second is the consideration involved, and the minister was not going to pay a large sum of money to allow someone to call an oval Anzac Park. What we had not got to was whether the owners of Anzac Park understood, even if the minister had approved the use of the name, the requirements that would then be placed on them in respect of that name. So I do not think it was ever going to fly. I am not sure that there was overwhelming support for the naming of the oval. Certainly from the letters to the editor I have read in the last few days—

**Senator MARK BISHOP**—I am agnostic on this.

**Mr Sullivan**—The minister asked us to report on the historical significance of the oval to Anzac, and there is not much. Second, there was this notion that the federal government would be asked to pay a fee for the naming rights. The government is not going to pay money for the naming rights to attach the symbol of Anzac to a football field which has little historical significance to the Anzac tradition.

**Senator MARK BISHOP**—Has the department seen that DVD that is being flogged by the proponents of the name change over in the West? Has a copy been made available to you?

**Mr Sullivan**—No. Certainly three of the four senior people involved in this department on the commemoration side have not seen a DVD.

**Senator MARK BISHOP**—Did you receive a presentation from the proponents of the name change?

**Mr Kelly**—The minister received a written and an oral presentation.

**Senator MARK BISHOP**—She has seen it, has she?

**Mr Kelly**—Yes.

**Senator MARK BISHOP**—And she was not persuaded?

**Mr Kelly**—No.

**Senator MARK BISHOP**—She has the power under the act, doesn’t she?

**Mr Kelly**—She does.

**Senator MARK BISHOP**—How did Anzac Bridge in Sydney get named? What is the story there?

**Mr Sullivan**—I would need to take that on notice but of course the proponents of the bridge certainly symbolised many things about Anzac on the bridge. The commemoration stone, the statues at the ends of the bridge and the involvement in that was a significant element. I can take on notice the background to it if you wish. It was not this minister, of course.

**Senator MARK BISHOP**—No, it was 10 or 12 years ago. I do not question the minister’s decision—I am not criticising it. The minister does not think it is appropriate for a football field to use the acronym Anzac for a couple of reasons that you have outlined, but a previous

minister thought that it was okay to use the acronym in the naming of a bridge in Sydney. I am just trying to find out, apart from the subjective view of ministers as they change, what the difference is between a footy field and a bridge.

**Mr Sullivan**—It may be a test of our archives to see whether we can find what was around at the time of the approval of Anzac Bridge and whether there was a requirement—

**Senator MARK BISHOP**—Senator Faulkner might have been the minister then!

**Ms Blackburn**—It would have been four or five years ago, so we would have some documentation.

**Mr Sullivan**—We will have a look for you.

**Senator MARK BISHOP**—The reason I asked that question was that my understanding of the presentation that was made to the minister—certainly the one I saw—was that it had lots of connections to diggers, World War I, departing from Albany and the dawn service. Anyway, the minister said no and that is it. Thank you, Mr Sullivan, that concludes my questions to the department.

**CHAIR**—We will take a short break and reconvene with Defence.

#### **Proceedings suspended from 8.41 pm to 8.54 pm**

#### **Department of Defence**

**CHAIR**—Mr Smith, I understand you have a couple of answers to questions or clarifications before we recommence. Perhaps I might put on the record that the committee will be confining itself this evening to questions concerning ghost prisoners, rules of engagement, illegal fishing and the status of the DCP. Officers not involved in those can be excused. Thank you very much for attending. We might take another raincheck in the morning about some other issues, but those people will not be needed for this evening.

**Mr Smith**—Mr Henderson has answers to two questions I think, Mr Veitch to two questions and Mr Sharp to one or two.

**Mr Henderson**—I have basically one answer. Earlier today, Senator Ludwig asked questions in relation to the payment of late fees for the Defence purchasing card. The basic answer is that since we introduced the card—a National Australia Bank card—in 2003, we have not paid any late fees because the bank sweeps the accounts, aggregates it all and we pay everything that is due on time. The short answer is that there are no late fees since we introduced that purchasing card.

**Mr Smith**—Thank you.

**Mr Veitch**—Senator Bishop, you asked a question earlier today about expenditure on travel. In 2003-04, we spent \$123.3 million on domestic travel and \$63.1 million on overseas travel. Those figures are as published in the annual report for that year.

**Senator MARK BISHOP**—Thank you.

**Mr P. Sharp**—Senator Bishop, you asked some questions about medals. Firstly, with regard to the Australian national service medal, the entitlement is estimated at 350,000. We

have so far issued 120,000. Applications have decreased significantly this year, with only 2,368 issued to date against applications of 7,289. In relation to the Australian Defence Medal, you asked for a break-up of the funding shown in the PBS. For 2005-06 against a budget of \$3.616 million, \$0.884 million is for staffing, \$2.482 million for manufacturing and \$0.25 million for dispatch. In 2006-07 against a budget of \$3.405 million, staffing is \$0.614 million, manufacturing is \$2.541 and dispatch is \$0.25 million. In 2007-08 against a budget of \$3.473 million, staffing again is \$0.614 million, manufacturing is \$2.609 and dispatch is \$0.25 million. In 2008-09 against a budget of \$2.090 million, the staffing is \$0.614, manufacturing is \$1.301 million and dispatch is \$0.175 million. Ongoing costs thereafter, including dispatch, are expected to be of the order of \$260,000 per annum.

You asked about other medals in that section. The section is 56 full-time equivalents with a salary budget of \$3.48 million. The budget for the remainder of their function is \$0.965 million per annum. You asked about distribution. They will be dispatched by the successful tenderer who mints them and puts the ribbons and packaging together, except in special circumstances. For serving members, they will be dispatched to commanding officers of current units. Ex-service members will be able to choose to have the medal presented by their local member of parliament or sent by registered post.

I advised you we were considering designs. We are considering three and we will have those three options to Chief of Defence Force this week for consideration. From there they go through the Minister Assisting the Prime Minister, the Governor-General and the Queen. The planning for the moment is for all regulations to be completed by the end of July.

I speculated on the issuing of the medals. My speculation was optimistic. I am advised it will not be before the end of the year. This is primarily to take account of the tendering process: it is quite a big tender and then of course the successful tenderer has to tool up, set the dyes and so on to mint the medals. The priority of issue is serving members and then ex serving personnel, with priority given to those over 70. The possible number of those entitled to the medal is 450,000, but we are expecting more applications than that. When we are in full production we expect to have 2½ thousand medals a week. That is 120,000 a year.

**Senator MARK BISHOP**—Thank you, Mr Sharp, for that detailed response.

**CHAIR**—Anything further, Mr Smith?

**Mr P. Smith**—No, they are all the answers we have for now.

**Senator FAULKNER**—Mr Smith, could you or one of your officials please update the committee on those two issues that were raised directly by Defence with the United States embassy here in Australia that we had evidence about in the last estimates round. I wondered if someone could indicate to the committee where those two issues are up to, please.

**Mr P. Smith**—Certainly, Senator. I will ask Mr Pezzullo to come forward and help me with that. These were the two issues that we wrote to the US embassy about in the middle of last year?

**Senator FAULKNER**—Yes. They were identified: one related to Mr Barton and there was a second matter.

**Mr P. Smith**—Correct.

**Mr Pezzullo**—Senator, as you pointed out, we put down certain evidence at the last estimates. I think I heard you say you were seeking an update of what has happened on those two matters.

**Senator FAULKNER**—I thought it might save a little time if you could provide the committee with information about where those issues are currently at.

**Mr Pezzullo**—There is no further information to be provided to the committee beyond what we said back in February on either of those two matters. Sorry, I should qualify that. In relation to the first letter—as you described in your summary, about Mr Barton’s claims—as you well know, there has been a Senate process established. So I should make that clear; there has obviously been that development. But on both of those matters there are no developments to report beyond the Senate taking action in establishing its own inquiry.

**Senator FAULKNER**—This means, firstly, that in relation to the matter pertaining to Mr Barton there has been no further contact by the US with either Mr Barton or Defence here in Australia?

**Mr Pezzullo**—Not to my knowledge, no.

**Senator FAULKNER**—That is a fair enough answer. But you would be aware if there had been any contact directly with Defence, I assume?

**Mr Pezzullo**—I believe I would be. I have to get the chronology right here. Since our meeting in February, other than the public hearings that you would be well apprised of, I cannot recall any internal communication to Defence from the United States government on that matter.

**Senator FAULKNER**—My recollection is that in fact Mr Smith, the secretary, was the signatory of that first piece of correspondence.

**Mr Pezzullo**—The first piece of correspondence? That is right.

**Senator FAULKNER**—He was not of course the signatory of the second piece of correspondence.

**Mr Pezzullo**—No. As you recall from my evidence back in February, I in fact signed the second letter.

**Senator FAULKNER**—I do not know whether it is relevant in these sorts of situations but, given that the Secretary of the Department of Defence has written and you as a senior officer in Defence have written, would you be assuming that responses would be made at the departmental level? Are you able to say that to the committee?

**Mr Pezzullo**—That is a fair assumption. As I said in my earlier answer, I want to satisfy in my own mind the chronology of what has transpired. It may be that I need to refresh my memory from the files overnight, given that my papers are not here. But I do not recall a direct communication from the United States government since the February hearing. But I will check on that in relation to the subsequent hearing conducted by the Senate. I will make absolutely sure that there is no correspondence around that time. If I am in error, obviously I will correct that.

**Senator FAULKNER**—The second complaint related to information provided to you by a military officer, a uniformed officer—that is correct, isn't it?

**Mr Pezzullo**—The second piece of correspondence did.

**Senator FAULKNER**—That is what I am talking about. The first one is obviously Mr Barton, who is in a different category. I think it has been identified what rank and service that particular officer belonged to. I believe that is the case.

**Mr Pezzullo**—I do not know that that is the case. Again, as for the other question I took on notice, I will check overnight. As I recall, I think in my evidence I identified the officer as an ADF officer. I do not think I particularised it any more than that.

**Senator FAULKNER**—Are you able to indicate the rank of the officer?

**Mr Pezzullo**—As I said earlier, I do not really have anything more to add to the evidence that I provided back in February. There have been no developments that I can recall instinctively in relation to the second piece of correspondence. Unless I indicated the rank at that time in February—and I do not think I did—I would not be presuming to go any further than my previous evidence.

**Senator FAULKNER**—I am not entirely sure what the problem is with an identification of the rank of the officer. Can you help me with that, Mr Smith?

**Senator Hill**—It could lead to speculation which could be wrong.

**Senator FAULKNER**—We have regularly, as we have canvassed similar issues in this committee and other committees, identified officers not by name but by rank. I wonder if we can do that in the case of this particular officer.

**Senator Hill**—We did that when there was less public flow of names. Now that there have been a number of names in the public domain as this matter is being looked at every six months I think simply stating a rank could lead to speculation and that speculation might be wrong and therefore unhelpful.

**Senator FAULKNER**—With respect, the only names of officers that are in the public arena that I am aware of are ones that have been put into the public arena by witnesses at the table.

**Senator Hill**—I do not know that that is right.

**Senator FAULKNER**—I think that is true. There have been some named officers because certain evidence has been provided—for example, Major O'Kane is one, but there is a limited number—but generally officers have been identified by rank and their actual identity protected. That is how we have dealt with these matters regularly before this and other parliamentary committees. I would expect in this circumstance that we would do the same in relation to this particular officer. That is why I am asking if the rank could be identified, please.

**Senator Hill**—No. It is still my view that there are a whole range of names and ranks attached to those names and that simply seeking to give a rank could well lead to speculation which could be wrong and, therefore, unhelpful. I think this matter has progressed quite a way since we established that practice. That is my view.

**Senator FAULKNER**—I would not have thought the provision of an officer's rank would lead to any speculation. It is a matter of fact; unless the officer's rank has changed in the meantime, fair enough. I am only interested in the relevant rank of the officer at the time of the reporting or non-reporting of this incident.

**Senator Hill**—I am not prepared to identify the rank for the reasons that I have just stated.

**Senator FAULKNER**—Can you explain then why you have been willing to identify the ranks of other officers before this committee and other committees in relation to these matters as they have been canvassed exhaustively by parliamentary committees but you are not willing to provide that information in this case? It is totally inconsistent, surely.

**Senator Hill**—It is not inconsistent at all. I have just explained it. You obviously were not listening. I said that when there were not a range of names attached to rank before this committee, it was a reasonable method to adopt. But, now that there are names identified with rank, I think it would lead to speculation and that speculation might well be wrong and, therefore, unhelpful.

**Senator FAULKNER**—I do not accept that, but I do not want to get too bogged down in your failure to provide what I think is rudimentary information to the committee. Could someone please indicate to the committee where the officer was posted in Iraq?

**Senator Hill**—What do you mean 'where he was posted'?

**Senator FAULKNER**—What was the posting?

**Senator Hill**—I think that that would have the same effect.

**Senator FAULKNER**—Again, this is information that has been regularly provided in relation to each and every officer.

**Senator Hill**—But this is an attempt to identify an individual and I do not think that that is in the public interest.

**Senator FAULKNER**—It is not an attempt to identify him. This information is not publicly known.

**Senator Hill**—If it was not, you would not be asking the questions: 'What is the rank? Where was the person posted?'

**Senator FAULKNER**—I want to know where the person was posted, which again is information that has been provided in each and every other instance that has been canvassed by this committee and other committees that have been looking at similar matters.

**Senator Hill**—I think it is just an attempt to put a jigsaw together and I think that it will just lead to unhelpful speculation. I cannot see any public interest at all in going down this path.

**Senator FAULKNER**—So you are refusing to answer that question too?

**Senator Hill**—That is correct.

**Senator FAULKNER**—You will not tell us the rank of the officer and you will not indicate where that officer was posted in Iraq.

**Senator Hill**—That is correct, and you can allege cover-up.

**Senator FAULKNER**—You probably said it out of your own mouth.

**Senator Hill**—I am helping you.

**Senator FAULKNER**—Can we now have confirmation that this Australian officer outlined knowledge of ghost detainees in a report to you, Mr Pezzullo? You can confirm that, I assume.

**Mr Pezzullo**—What I would confirm is the evidence that I gave in February, namely that the officer concerned came forward and outlined certain practices that were not necessarily in accordance with internationally recognised standards.

**Senator FAULKNER**—That was confirmed to you, wasn't it?

**Mr Pezzullo**—Knowledge of practices, as I have just described, were stated to me, yes.

**Senator FAULKNER**—Was it stated to you in a face-to-face interview?

**Mr Pezzullo**—Yes.

**Senator FAULKNER**—Do we know why this information was not picked up in what we had thought and what we were assured were an exhaustive series of questionnaires and interviews that had occurred prior to that time?

**Mr Pezzullo**—I was asked that question and we had a discussion about that in the February meeting. I would not propose to add to my evidence of February.

**Senator FAULKNER**—Could you just answer the question?

**Mr Pezzullo**—As I recall, subject to checking the *Hansard* of February when I was slightly fresher on this matter, the officer had come forward in light of the various proceedings that had occurred and had volunteered this information, saying that he had decided to disclose it at that time for his own particular reasons.

**Senator FAULKNER**—Are you able to say—it appears to have been leaked in at least one media article that I have read—to the committee that this officer was seconded to an American unit of some description? Given that Defence sources have told journalists that, it is not unreasonable for someone to provide that information to this committee.

**Mr Pezzullo**—I have heard the guidance from the minister that these questions have a disposition to identify the officer so I would class that as part of that line of questioning. I am not in a position to respond.

**Senator FAULKNER**—Minister, are you going to allow that question to be answered?

**Senator Hill**—No.

**Senator FAULKNER**—Why not?

**Senator Hill**—For the reason that has just been stated.

**Senator FAULKNER**—What is that reason? He is just saying it is because you do not want it to be answered.

**Senator Hill**—This is another attempt to put the jigsaw of identification together and I do not support that.

**Senator FAULKNER**—It is not an issue of a jigsaw. No-one want to identify the officer.

**Senator Hill**—I cannot see that identifying this individual is in the national interest.

**Senator FAULKNER**—I do not want to identify the officer.

**Senator Hill**—You might have a different view.

**Senator FAULKNER**—Be clear: I do not want to identify the officer—

**Senator Hill**—You do.

**Senator FAULKNER**—but I do want to identify what occurred. Given that it appears from reading some media reports that Defence sources are confirming certain information to journalists, it seems to me not unreasonable that certain information be provided to this committee.

**Senator Hill**—No Defence source, to my knowledge, has confirmed any particular information to a journalist.

**Senator FAULKNER**—Mr Pezzullo, have you now been able to discover why this officer did not come forward with this information prior to Minister Hill's statement in the parliament—why this information was not picked up in the questionnaires and interviews process within Defence?

**Mr Pezzullo**—When you ask if I have now been able to ascertain or discover, my state of knowledge in that regard is no more advanced than what it was in February. I said in February the officer had come forward and stated his own good reasons as he saw them for coming forward late. I think I indicated that to the committee in February.

**Senator FAULKNER**—Can you say what those good reasons were?

**Mr Pezzullo**—I think I stated at the time that he was under a certain obligation of confidentiality to the persons or to the means by which he had acquired the information, that he had watched the public debate, including leading up to the announcement by the minister of some additional comments in the Senate, and that he decided on the morning after, literally, to come forward. I think it took a little bit longer last time but I think that is a faithful summary of what I said last time in evidence.

**Senator FAULKNER**—So did this officer tell his Australian superiors about this incident prior to his direct report to you of, I think, June last year?

**Mr Pezzullo**—I think you will find that I indicated that he sought out a superior officer—not his superior at the time contemporaneous to the events but he sought out a superior officer. He had a concern, I think you will find from the *Hansard*, around, as he perceived it, security clearances and the like. I recall us having an exchange about that in February. When he sought out that more senior ranking officer, who was a star ranked military officer, the officer, obviously sensitive to the deliberations that the Senate was going through, referred it to me and I then interviewed the officer concerned.

**Senator FAULKNER**—Yes, but at the time—

**Mr Pezzullo**—Contemporaneous with his knowledge.

**Senator FAULKNER**—Contemporaneous with his original knowledge is what I am talking about. I do appreciate the point that you make about how the reporting through to you occurred, but I am asking whether you are able to indicate to the committee whether this was reported through at the time the incident occurred.

**Mr Pezzullo**—I established as best I could on the morning after the minister's statement, which you will recall was the morning also of us convening estimates last year, and subsequently checked as best I could. There is no evidence of any upwards report at all from the officer concerned up his chain of command and into the operational reporting system.

**Senator FAULKNER**—Can you explain to the committee, please, Mr Pezzullo, what ghost prisoners or ghost detainees are?

**Mr Pezzullo**—My knowledge of those matters would be the same as yours. I have read newspaper reports in relation to certain claimed practices.

**Senator FAULKNER**—I am asking about a broad understanding of what those matters are.

**Mr Pezzullo**—I can summarise newspaper reports like all of us have seen. If you would like me to do that, I am happy to do it.

**Senator FAULKNER**—I would like a very brief explanation, if you are able to give it.

**Senator Hill**—What is the point of asking him to state what he has read in the newspapers? You should be asking him things that relate to his particular knowledge.

**Senator FAULKNER**—I am asking Mr Pezzullo if he is able to explain to the committee—

**Senator Hill**—He could simply ask you to refer back to the newspapers.

**Senator FAULKNER**—You would be aware, of course, wouldn't you, that the practice of having ghost detainees or ghost prisoners is a violation of international law? That is correct, isn't it, Minister Hill?

**Senator Hill**—It depends what you mean by ghost prisoners. You are taking what was said in the public press—

**Senator FAULKNER**—Does it depend on what I mean by it?

**Senator Hill**—Of course it does. You define it and I will give you an answer.

**Senator FAULKNER**—Is this matter something that is defined and dealt with in the Geneva conventions?

**Senator Hill**—I do not know if it is defined or dealt with in the Geneva conventions. It is some time since I looked at the Geneva conventions. But I think that there is an obligation to be able to identify for international authorities prisoners of war and in some circumstances to provide access to those prisoners of war.

**Senator FAULKNER**—You cannot hide prisoners, can you, under the conventions? I am trying to do this in a user-friendly way: you cannot hide prisoners for interrogation.

**Senator Hill**—If you want to know what is exactly in the convention then we will get our legal people up to the table and you can go down that path. But if you ask me would I regard

it as proper to hide prisoners' identity from the ICRC, for example, I would say no, I would regard that as improper.

**Senator FAULKNER**—Right. So what are the obligations, then, on a serving officer if they become aware of such practices? Isn't the obligation of a serving officer to immediately report this through to their superiors?

**Senator Hill**—What do you say, General? What is the obligation?

**Gen. Cosgrove**—Yes.

**Senator FAULKNER**—Let me come back to my question to Mr Pezzullo. In the circumstances of the substance of the complaint of the second letter to the US Embassy, did the officer concerned, at the time he became aware of these circumstances or events, report them through to a superior officer?

**Mr Pezzullo**—As previously stated, no.

**Senator FAULKNER**—Can I ask this—perhaps it is best directed to you, General Cosgrove. In these circumstances, has any form of disciplinary action been taken in relation to the officer who provided the information for the complaint that was forwarded to the US Embassy?

**Gen. Cosgrove**—No.

**Senator FAULKNER**—In the circumstances that are faced in relation to this second complaint, I am very surprised to learn that there has been no further communication from US officials or the post here where this communication has been made. Mr Pezzullo, are you saying to us that, since that time—can you just give the precise date; I do not have it to hand. My recollection is that it was June last year, but just for the sake of the record let us be accurate about it.

**Mr Pezzullo**—The correspondence?

**Senator FAULKNER**—The correspondence that you signed—the second letter that you signed in relation to these matters.

**Mr Pezzullo**—I think you will find that it was 6 July.

**Senator FAULKNER**—Thank you. I apologise; I thought it was June. It was 6 July 2004?

**Mr Pezzullo**—That is correct.

**Senator FAULKNER**—Are you saying that in the ensuing 10 months there has been no further communication on those matters?

**Mr Pezzullo**—I would want to check that to be absolutely precise. It is my recollection, and I think I would know, that that has not been the subject of any further exchange or any return of correspondence, but I would want to check.

**Senator FAULKNER**—I assume that no further matters have been raised directly with the US—that it is just those two outstanding matters?

**Mr Pezzullo**—Further matters in relation to what?

**Senator FAULKNER**—That no further and separate issues have been raised—no other matters. ‘No new matters’ is a better way to describe it.

**Mr Pezzullo**—Not by me.

**Senator FAULKNER**—By anyone?

**Mr Pezzullo**—Not to my knowledge, no.

**Senator FAULKNER**—I assume, again, that you would know if they had been.

**Mr Pezzullo**—We are talking about Iraq detainees, are we?

**Senator FAULKNER**—Yes. Defence has seen fit with these two issues to raise matters directly with the US Embassy here in Australia. I was just asking whether any new matters had been raised.

**Mr Pezzullo**—No.

**Senator FAULKNER**—Since your letter of 6 July 2004 on the second matter, this matter was perceived to be serious enough to take the urgent action that was taken at the time, yet there has been not a word—nothing has occurred since that time: no investigation, no assessment, no communication, nothing.

**Mr Pezzullo**—As I hear your question in terms of action subsequent to 6 July, I said that I would check any follow-up on the first letter—the letter in relation to Mr Barton’s raising of certain issues. I said that I would come back after checking that overnight, because I want access to my files. In relation to the second matter, it may be that, post 6 July, there was an acknowledgment of receipt and I would want to check that as well.

**Senator FAULKNER**—But if there has been anything, it is limited to an acknowledgment—

**Mr Pezzullo**—Subject to checking, I think that is right.

**Senator FAULKNER**—It was described by you to us that these matters referred to a possible US detention practice that may have involved the administration of detainees not in accordance with recognised standards.

**Mr Pezzullo**—That sounds very close to the words I used.

**Senator FAULKNER**—I think they are the words that you used. And you are saying to this committee that, on a matter so serious, there has been no further action taken that Defence is aware of.

**Mr Pezzullo**—Action in relation to that piece of correspondence?

**Senator FAULKNER**—Yes—action in relation to that piece of correspondence and the matter it refers to.

**Mr Pezzullo**—Again, subject to checking, I think the answer to that would be that there has been acknowledgment of receipt. In terms of the matter to which it refers, I would not be inclined to go too deeply into answering that, because it would get me into the grounds of describing the matter to which it refers.

**Senator Hill**—The US has many investigations that are current. I am not wanting to speculate, but it might be that the information, if it is relevant, could relate to a matter that is still under consideration.

**Senator FAULKNER**—But you can confirm to the committee, Mr Pezzullo, whether or not the matters raised by the officer—whom the minister does not want identified by rank, and the minister will not say what the officer's posting was in Iraq—have been further investigated by US authorities? They have not, have they? Has the officer been contacted?

**Senator Hill**—Mr Pezzullo might have further information, but on the extent to which the US authorities found the information that we provided of use, I do not know the answer to that question. They could have chosen to come back and report to us, but they certainly have not chosen to do so at this time. As I recall, I do not think we asked them to report to us. When we heard of information that we believed their authority should have knowledge of, we passed it on to them.

**Senator FAULKNER**—Minister, you are not seriously suggesting to this committee that, if there were a communication by the US with this officer about these matters, Defence would be unaware of it? You cannot seriously say that to us.

**Senator Hill**—I think what we have said is that we are not aware of any communication with this officer. There is a reasonable assumption from that that the officer has not been contacted, but I would want that checked before we said it.

**Senator FAULKNER**—So 10 months later the officer has not been contacted and there have been no further developments on this matter that referred to practices that may have involved the administration of detainees not in accordance with recognised standards.

**Senator Hill**—There has been no further action that has involved Australian Defence.

**Senator FAULKNER**—Read for that what it is. It is very good Defence officials speak from Mr Pezzullo for violation of the Geneva conventions. That is what it means, of course. Isn't it?

**Senator Hill**—I am not going to draw any assumptions on the validity of the evidence. What I am saying is that matters were brought to our attention that we passed on. We can speculate what might have followed from that. It may have been a piece of information that the US authorities already have. I do not know. You could argue—I think you are wanting to argue—that we should be chasing up the Americans on this particular matter. I have not held that view. I think it has been our responsibility to bring this piece of information to the attention of the US authorities because it might have been helpful to them in any investigations that they were undertaking.

**Senator FAULKNER**—Let us be absolutely precise, then. Mr Pezzullo, you used those words, which I quoted to you, to the committee. Did the complaint referred to the US embassy involve matters that may be either a violation or a breach of the Geneva conventions?

**Mr Pezzullo**—I think the formula I used is that they were practices which, if they were occurring, would not be in keeping with recognised standards. I think I have said that before.

**Senator FAULKNER**—You have said that and I am asking now a direct question as to whether those practices, if they occurred, may have involved either a violation or a breach of the Geneva conventions.

**Senator Hill**—That is a question of law. I do not really think that is fair to ask Mr Pezzullo. We have already said that, if these practices occurred, we would regard them as inappropriate to say the least, so much so that we referred the matter to the United States government.

**Senator FAULKNER**—They are so inappropriate but—

**Senator Hill**—I know. You have said that many times.

**Senator FAULKNER**—You have not heard what I was about to say.

**Senator Hill**—You keep repeating what you have already said.

**Senator FAULKNER**—They are so inappropriate that I gather you have done nothing—but you can correct me if I am wrong—to follow the matters up in the last 10 months. Have you or Defence followed these matters up, which are so inappropriate, with the US?

**Senator Hill**—No, I haven't—

**Senator FAULKNER**—No, of course not.

**Senator Hill**—I have not sought to hold the United States to account. What I have noticed is that the United States has a whole range of investigations under way, flowing from allegations of improper or inappropriate behaviour. They are quite able to manage those investigations in a professional way. I do not think they need any help from me or the Australian government to do that.

**Senator FAULKNER**—What is wrong with holding any person to account where breaches or violations of the Geneva conventions are involved? What is the problem with that? Why shouldn't they be held to account, if that is what we are dealing with?

**Senator Hill**—Because they have processes under way that have followed from what has been identified as inappropriate or improper behaviour. They appear to be investigating the various allegations that have been made in a thorough and professional way. It may not be to your satisfaction but, to me, it has actually been quite a comprehensive set of investigations.

**Senator FAULKNER**—Now you have told the committee something different. Now you have said there are processes under way, having said that you did not have a clue what has happened in the last 10 months. Now you have told the committee they appear to be investigating these matters in a thorough and professional way. You just told me a moment ago that you had no idea what had happened. So how are you able to make that statement to the committee?

**Senator Hill**—I will repeat myself.

**Senator FAULKNER**—On what basis do you make that statement?

**Senator Hill**—Why don't you listen for a change? The US has a whole range of investigations under way following up allegations of improper behaviour. It seems to me that they are managing that task—a very difficult task—in a thorough and professional way. I

therefore do not see any need to question them or demand accountability from them. I, unlike you, have faith that they will do that job properly.

**Senator FAULKNER**—I have not commented on my faith or otherwise.

**Senator Hill**—Whether we—

**Senator FAULKNER**—I will just let that go through to the keeper.

**Senator Hill**—It is certainly the implication in the way you are raising these questions. Whether they have found any information that we have provided useful to those investigations, I do not know, and I do not see any reason for us to be hounding them on that subject.

**Senator FAULKNER**—You have no idea at all, do you, about what the progress of any investigation might be—if there is an investigation—in relation to this issue we are speaking of, which was reported to the US 10 months ago and which involves a US officer? Why don't you just say to this committee that you do not have a clue whether it is being investigated or not or whether it is being dealt with seriously or not? That is the evidence we have received.

**Senator Hill**—I am assuming that every piece of information that we provided would be treated seriously. I think that is the difference between me and you. You are assuming that it would not.

**Senator FAULKNER**—I am not assuming anything.

**Senator Hill**—You are demanding that we chase the United States on it—

**Senator FAULKNER**—The difference between you and me is not that at all.

**Senator Hill**—that we demand that the United States be held accountable.

**Senator FAULKNER**—Yes.

**Senator Hill**—They are quite able to manage those issues themselves.

**Senator FAULKNER**—The difference between me and you is that you are making an assumption and I am willing to make no assumptions. So far I have not received a skerrick of evidence from you which puts my mind at rest about such a serious matter. I am amazed that you, as defence minister in the Australian government, when an Australian officer is involved in such a serious allegation, have done absolutely nothing in 10 months to try and find out where it is up to—nothing. You can make all the assumptions you like, but I think it is unwise for anybody to make those sorts of assumptions, and I, for my part, make none.

**Senator Hill**—It just reflects your attitude to the United States.

**Senator FAULKNER**—It reflects no such thing.

**Senator Hill**—I happen to have greater confidence that in the United States at the higher levels of authority proper processes will be followed. From what I have read of the various investigations and the thoroughness of the processes that have been taking place in the United States, I think I have some reason for confidence.

**Senator FAULKNER**—The *Sydney Morning Herald*, which is a major Australian newspaper, has reported:

Yet the officer, when told of the ‘ghost detainees’, did not inform his Australian superiors, Australian military sources said.

Mr Pezzullo, is that true? That is true, isn’t it?

**Mr Pezzullo**—I have given evidence that there was no reporting up the chain—at the time. In other words, we had that discussion before. Contemporaneously with his acquisition of this knowledge, there was no reporting up his chain of command.

**Senator FAULKNER**—Do we know if the officer reported to a superior US officer?

**Mr Pezzullo**—To the best of my recollection, I think he may have had discussions with US military colleagues. Whether one would characterise that as reporting to a superior I would not care to answer on the fly.

**Senator FAULKNER**—Are Australian officers in these circumstances expected to report up the chain of command in Australia? Is that expectation placed on such officers?

**Mr Pezzullo**—My lay answer to that would be, I think, yes, but I would want to defer to the CDF in terms of his view about the military chain and reporting requirements.

**Senator FAULKNER**—Fair enough. If CDF can answer that, I would appreciate it.

**Gen. Cosgrove**—If an officer judges that there is something reportable, he or she would ordinarily take on the responsibility to report that upwards.

**Senator FAULKNER**—Up the Australian chain of command?

**Gen. Cosgrove**—I was listening to your question. You did phrase it that way, I thought.

**Senator FAULKNER**—General, are you able to say to the committee now in relation to those Australians serving in Iraq whether any prisoners are handed over to Iraqi authorities or whether they are handed over to US officers for interrogation, or is it dealt with on a case-by-case basis?

**Gen. Cosgrove**—No prisoners were taken by Australians. They were not handed over, therefore, to any Iraqis or to any US officers.

**Senator Hill**—I think he is asking about current rules, isn’t he?

**Gen. Cosgrove**—No, I think it was a question in the absolute. You wanted to know figures, didn’t you, Senator?

**Senator FAULKNER**—No, I was asking broadly. I appreciate what you have provided. I was aware of that information but I appreciate you providing it. What I am asking is what the current guidance is for serving officers now—so, those who are currently there.

**Gen. Cosgrove**—I will not make a distinction as to officers.

**Senator FAULKNER**—Sorry, personnel.

**Gen. Cosgrove**—If people are detained as security internees or as detainees for, say, a criminal offence, then they are subject to an immediate assessment one way or the other. In the event that they are detained for reasons of potential criminal offences, they would be handed over as soon as possible to the Iraqi police. If they were detained for being security internees—that is, it is considered they might be party to terrorist acts—then after an

assessment to establish their status they would be passed into a detention system. In the case of our people in Al Muthanna that would be the UK detention system.

**Senator FAULKNER**—When you indicated to the committee that no action had been taken against the officer concerned, you provided a very clear one-word answer to that question I asked. Could I ask you this: were there any disciplinary proceedings in relation to the officer?

**Gen. Cosgrove**—I will not canvass the internal considerations. I will simply say that no disciplinary action was undertaken against the officer.

**Senator FAULKNER**—I think, General, that is a less frank answer than the very direct one that you gave me earlier. I should not say ‘less frank’—

**Gen. Cosgrove**—I do not know how you can say that, Senator.

**Senator FAULKNER**—it is not very clear.

**Gen. Cosgrove**—I think it is very clear. What is unclear about saying, ‘No disciplinary actions were undertaken against the officer’? It is the same as no.

**Senator FAULKNER**—I accept that there is no—

**Gen. Cosgrove**—I thought it was pretty clear.

**Senator FAULKNER**—I completely accept that, but my question went to whether there were any proceedings, which may have, obviously, ended with no disciplinary action being taken. I think there is a distinction, and I am sure you are aware of it.

**Gen. Cosgrove**—Define ‘proceedings’ for me, Senator—thoughts, investigations? You define it for me.

**Senator FAULKNER**—Actions or investigations in relation to disciplinary matters relating to the officer; any action—

**Gen. Cosgrove**—I am not going to canvass with you, Senator, what considerations might have been taken. The fact for you is that no disciplinary action was undertaken against the officer.

**Senator FAULKNER**—Let’s not talk about considerations then; were there any disciplinary hearings?

**Gen. Cosgrove**—No, that is it. I think you have had your answer, Senator. You want us to lay out for you the considerations that might have taken place or not in relation to this case and how many others.

**Senator FAULKNER**—I do not want to talk about considerations. I am just asking about any processes that took place; I am not asking you for your thought processes. I am talking about actual procedural processes.

**Gen. Cosgrove**—Actually, no.

**Senator FAULKNER**—Thank you.

**Senator MARK BISHOP**—I want to talk about the incidence of increasing numbers of fishing vessels illegally entering our waters up north and the role of Navy in that activity. Has there been an identifiable increase in the number of vessels entering our waters for the purposes of illegal fishing over the last 12 months or so?

**Vice Adm. Shalders**—Yes, there has been a slight increase as has been evident in the past six months.

**Senator MARK BISHOP**—What sorts of figures are we talking about? One or two a month?

**Vice Adm. Shalders**—No, it is more than that—20 a month on average.

**Senator MARK BISHOP**—Coming down from Indonesia across to Thailand or exclusively from Indonesia?

**Vice Adm. Shalders**—No, the vast majority of vessels are Indonesian.

**Senator HOGG**—What size vessels are you talking about?

**Vice Adm. Shalders**—They vary. They are categorised, as I think you are aware, as type 1, 2 and 3.

**Senator HOGG**—That is why I am asking.

**Vice Adm. Shalders**—The majority of these vessels are small vessels.

**Senator HOGG**—Traditional type 1s.

**Vice Adm. Shalders**—No. The majority are type 1s. The remainder are type 3s and some larger ones are what are known as ice boats because they catch—

**Senator HOGG**—So larger than the type 3s.

**Vice Adm. Shalders**—They are type 3s but they are called ice boats.

**Senator MARK BISHOP**—Because they can do a bigger catch.

**Vice Adm. Shalders**—The reason they are called ice boats is that they have ice on board to go off and do a catch. We have recently conducted an operation called Clearwater in the Gulf of Carpentaria and during the course of that operation, which was a combined Customs-Navy activity, 29 vessels were apprehended. I think it was a 15-day period.

**Senator MARK BISHOP**—When you say apprehended, what do you mean by that? Physically taken?

**Vice Adm. Shalders**—Correct.

**Senator MARK BISHOP**—Taken into Darwin port.

**Vice Adm. Shalders**—No. Depending on where they were caught, some were taken to Darwin and some were taken to Gove.

**Senator MARK BISHOP**—But all were taken to the Australian mainland.

**Vice Adm. Shalders**—Correct. There is a facility where the gear can be confiscated—known as an administrative seizure—and the vessel is allowed to proceed. There were some administrative seizures, but the majority were detained.

**Senator HOGG**—How many were detained?

**Vice Adm. Shalders**—Twenty-nine in the course of Operation Clearwater.

**Senator HOGG**—Did any of those resist?

**Vice Adm. Shalders**—Not during that activity, no.

**Senator MARK BISHOP**—Is Navy making do with current resource allocations up there for these illegal entrants or are you allocating additional resources?

**Vice Adm. Shalders**—No. We have a longstanding arrangement to provide a certain number of patrol boat days and P3 hours to this activity. On this occasion, it was a concerted surge activity—Operation Clearwater—where Customs vessels, Navy vessels and a couple of army landing craft were engaged as were regional force surveillance units. But that was a surge activity.

**Senator HOGG**—Were any of these picked up through Coastwatch?

**Vice Adm. Shalders**—Yes, a lot of them were.

**Senator HOGG**—Surveillance.

**Vice Adm. Shalders**—Coastwatch was engaged very closely in that activity, so the detection was likely in most cases made by Coastwatch. The vessels were then vectored onto the scene and the apprehension was made. So it was very much a joint activity with Customs and Coastwatch.

**Senator MARK BISHOP**—Did Customs and Coastwatch have the major role or did you?

**Vice Adm. Shalders**—No. The activity was led by Coastwatch and Customs but, under the new arrangements, the Commander of Joint Offshore Protection Command is dual-hatted and is the Director-General Coastwatch and Commander JOPC.

**Senator MARK BISHOP**—This will probably sound like a statement of the obvious. What is the coordinating agency that brings together you, Customs and other agencies if necessary to address this issue of illegal entrance from Indonesia?

**Vice Adm. Shalders**—That is Coastwatch. Coastwatch has that coordinating responsibility. That is one and the same as the Commander, Joint Offshore Protection Command; it is the same officer.

**Senator MARK BISHOP**—The same person?

**Vice Adm. Shalders**—Yes.

**Senator MARK BISHOP**—Yes, we had this discussion once before. Coastwatch are the coordinating agency and they bring together you, Customs and other agencies as necessary.

**Vice Adm. Shalders**—For a variety of different agencies of course, not just AFMA—the Australian Fisheries Management Authority. Depending on the task, if it was a quarantine task or a task that the Federal Police might have, Coastwatch remains the one coordinating agency.

**Senator MARK BISHOP**—In those joint exercises coordinated by Coastwatch—and Clearwater was an example—are the rules of engagement for both Navy and Customs used or do you have a separate set of rules of engagement for such exercises?

**Vice Adm. Shalders**—No, Defence rules of engagement are separate to Customs rules of engagement. In the normal course of events, the Defence Force operates under standing rules of engagement for an activity such as fisheries surveillance.

**Senator MARK BISHOP**—What do standing rules of engagement mean?

**Vice Adm. Shalders**—These are rules that are in force all the time for standard activities.

**Senator MARK BISHOP**—Standard Navy activities on the coast?

**Vice Adm. Shalders**—Correct. There will be certain operations or activities where a separate and distinct set of rules of engagement are struck—for example, the rules of engagement that we are using in the gulf are quite different, for obvious reasons, to the rules of engagement that we would use in a fisheries surveillance activity.

**Senator MARK BISHOP**—When you say we use them, do you mean Navy?

**Vice Adm. Shalders**—Defence.

**Senator MARK BISHOP**—Does Defence comprehend Coastwatch?

**Vice Adm. Shalders**—No, Coastwatch in this sense belongs to another agency—Customs. We do not set rules of engagement for that other agency.

**Senator MARK BISHOP**—Customs via Coastwatch have their own rules of engagement and Navy via Defence have their own rules of engagement.

**Vice Adm. Shalders**—That is correct.

**Senator MARK BISHOP**—In an exercise like Clearwater—and we will talk firstly about a joint exercise—which rules of engagement apply?

**Vice Adm. Shalders**—It depends which platform is conducting the activity. Obviously, if a naval patrol boat is conducting the activity, then it follows its own rules of engagement. If a Customs vessel is conducting the apprehension, then it follows its rules of engagement. That means of course that the trick is to try and get the two sets to be as aligned as possible and this of course is something we do in coalition operations in other parts of the world.

**Senator MARK BISHOP**—Let us talk about a joint exercise by Coastwatch with both agencies—Navy and Customs—with two separate rules of engagement. When are those rules of engagement given down? Is it prior to the operation commencing or are they just standard rules of engagement that each agency has for its routine work?

**Vice Adm. Shalders**—For fisheries surveillance activities, our forces work under what are known as standing rules of engagement. These are rules that are in existence for any naval platform or any Defence platform. The standing rules of engagement are in force for this type of activity. If we were to become engaged in a different operation, then different rules of engagement could be struck for that different operation.

**Senator HOGG**—Do the rules of engagement allow force to be used?

**Vice Adm. Shalders**—Yes.

**Senator HOGG**—To what extent?

**Vice Adm. Shalders**—You would understand that I do not want to go into the detail of the rules themselves because they do set limitations and constraints on the operations that we conduct, so excuse me if I do not go into the detail.

**Senator HOGG**—I understand that. I am trying to get a broad assessment.

**Vice Adm. Shalders**—In this instance, the rules of engagement will allow graduated use of force with various levels of permission required to be sought for various levels of force that may be being used or may want to be used.

**Senator MARK BISHOP**—By either agency?

**Vice Adm. Shalders**—I cannot speak for Customs but I can certainly speak for Defence.

**Senator MARK BISHOP**—That is why I asked you before about the rules of engagement by Coastwatch when you have got the two agencies working together, because there are different rules of engagement. What happens if a platform identifies an illegal fishing boat in our waters engaged in what we believe to be illegal activities and gives it a warning to cease or stand to, and it refuses to do so and attempts to flee our waters? Is there a different reaction on the part of the Navy platform as opposed to the Customs platform?

**Vice Adm. Shalders**—There could be, yes.

**Senator MARK BISHOP**—Could you outline generally what would be standard operational procedure for the Navy platform in such an instance?

**Vice Adm. Shalders**—I will in general terms, if you do not mind, rather than specifics.

**Senator MARK BISHOP**—Yes.

**Vice Adm. Shalders**—There would be a graduated series of warnings and instructions backed up by a graduated application of force. You would hope that on most occasions before you reach the end of that graduated application of force the vessel would have stopped.

**Senator MARK BISHOP**—If the vessel, despite repeated, successive warnings and moving up the scale of graduated force response, chose to continue fleeing our waters, what would SOP be for the Navy platform?

**Vice Adm. Shalders**—You then become involved in what is known as a hot pursuit. The hot pursuit can continue to the territorial waters of another nation.

**Senator MARK BISHOP**—Would the Navy commander of our platform be entitled to fire on the ship under those circumstances with a view to the ship being disabled?

**Vice Adm. Shalders**—He would be subject to the rules of engagement in force at the time.

**Senator MARK BISHOP**—Would they permit such activity?

**Vice Adm. Shalders**—They could but I do not really want to go into the detail of what is or is not allowed.

**Senator MARK BISHOP**—Without telling me what is or is not allowed, why don't you want to discuss publicly what the Navy commander is permitted to do at that extreme end of force implementation?

**Vice Adm. Shalders**—They describe the limitations and constraints that our commanders have to operate under. If those limitations and constraints were made public, we could have the risk of mission failure at the lower end of the scale or possibly put our people into danger at the upper end of the scale.

**Senator MARK BISHOP**—Okay.

**Senator HOGG**—You mentioned before that 29 type 1s, 2s or 3s had been arrested over a period of time. How many have got away—any?—and, if so, what type of vessel?

**Vice Adm. Shalders**—I do not have the precise details but vessels have escaped and one quite recently, which was subject to press reporting. That was a large ice boat in the Gulf of Carpentaria area. It refused to heed warnings to stop and it was tracked in this hot pursuit mode that I mentioned.

**Senator HOGG**—This is tracked by a Defence platform as opposed to a Customs platform.

**Vice Adm. Shalders**—By HMAS *Wollongong*, in fact—one of our patrol boats. It was tracked until it entered waters that our patrol boat could not get into and it escaped.

**Senator HOGG**—Given that it is an ice boat, it probably had a fairly reasonable capacity. How come it could escape into waters where the patrol boat could not go? Has it got a much larger draught?

**Vice Adm. Shalders**—No. The captain of the *Wollongong* is responsible for the safety of his ship. He made the judgment in that instance that it was not safe to continue tracking this vessel into what he felt were unchartered waters. So he did not continue.

**Senator HOGG**—That is one recent example. Are there any other recent examples? If you can find out for us how many there have been, say, in the last 12 months.

**Vice Adm. Shalders**—A rough figure would be less than five.

**Senator HOGG**—That is a help. So there would be less than five. Would they mainly be the larger type of vessels?

**Vice Adm. Shalders**—Yes.

**Senator HOGG**—What enables them to elude arrest by our patrol boats?

**Vice Adm. Shalders**—Obviously, they failed to heed the warnings and failed to respond to the graduated force being applied to the incident.

**Senator HOGG**—Is it their speed? Is it the sophistication of their radar, or something else?

**Vice Adm. Shalders**—No. It is a combination of the solid construction of those vessels. They are far more solid than a patrol boat. It would be foolish for a patrol boat CO to put his boat into contact with some of those iceboats, so they have an ability to bluff their way out of it, I suppose.

**Senator MARK BISHOP**—Do those iceboats have weapons?

**Vice Adm. Shalders**—Knives and those sorts of weapons?

**Senator MARK BISHOP**—Not knives or pistols but cannons and things of that nature.

**Vice Adm. Shalders**—Not that we have seen, but they could have, of course.

**Senator HOGG**—How will the pursuit capacity of Defence be changed with the new patrol boats coming on stream? Will that enable these boats that are currently eluding capture to be captured?

**Vice Adm. Shalders**—The new patrol boats will have better weapons and sensors than the current Fremantle class. In the way of sensors, they will certainly have a much better and more comprehensive sensor suite to know where the boats are. In terms of weapons, they have a much more upgraded weapons system than that which is on the Fremantle class.

**Senator MARK BISHOP**—But I detected from your previous answers that there has been a reluctance or unwillingness on the part of the commanding officer of the platforms to use his weapons on these fleeing iceboats. Is that a fair comment?

**Vice Adm. Shalders**—That is correct. It is not reluctance. There are rules of engagement, as we were discussing and, in the majority of cases, the rules of engagement might not allow weapons to be used on the fleeing vessel.

**Senator MARK BISHOP**—The rules of engagement do not automatically permit the commander to fire upon a fleeing vessel?

**Vice Adm. Shalders**—No, they do not. There is a series of graduated responses. Each level of response requires approval from a higher authority.

**Senator MARK BISHOP**—A higher authority than the commanding officer?

**Vice Adm. Shalders**—Correct, at the upper end of the scale.

**Senator MARK BISHOP**—Correct me if I am wrong, but I had gained the impression that there had been a fair working-up of the graduated set of responses by the commanding officer of the platform in instances of these iceboats fleeing our waters. Is that not correct?

**Vice Adm. Shalders**—That is correct. Commanding officers are allowed to go to a certain point on the graduated scale and, beyond that, they must seek approval.

**Senator MARK BISHOP**—And they seek approval from shore?

**Vice Adm. Shalders**—Yes.

**Senator MARK BISHOP**—In this case, approval was not given.

**Vice Adm. Shalders**—Approval was not sought in the case of the *Wollongong*, if that is the case we are talking about.

**Senator MARK BISHOP**—Yes. And that is a call for the commanding officer on the spot—not to seek permission to go higher up the response chain is?

**Vice Adm. Shalders**—No. Of course the commanding officer can seek approval.

**Senator MARK BISHOP**—He chose not to seek approval.

**Vice Adm. Shalders**—Again, without getting into the specifics, approval was not sought to fire on the vessel, as you put it.

**Senator MARK BISHOP**—And that is a proper exercise of the commanding officer's judgment—not to seek that approval?

**Vice Adm. Shalders**—Or his shore authorities.

**Senator Hill**—We do not detail the rules of engagement because we do not really want to tell the other side the steps that need to be taken in terms of graduated circumstances.

**Senator MARK BISHOP**—I am trying to avoid doing that.

**Senator HOGG**—I think that is appreciated.

**Senator MARK BISHOP**—The only thing I am trying to find out here is that the commanding officer of the platform in pursuit of a fleeing vessel does not have to exercise his discretion to seek authority from shore to apply force at the higher end of the scale.

**Vice Adm. Shalders**—At the upper end of the scale he does have to seek approval. At the lower end of the scale he can apply graduated force subject to the situation.

**Senator MARK BISHOP**—You misunderstand the question, Vice Admiral. The commanding officer of the platform can make a decision that he does not want to seek approval from shore to go any further in terms of his higher graduated response. Enough is enough. In his wisdom he makes that call; he has that right.

**Vice Adm. Shalders**—He does.

**Senator HOGG**—There seems to be increased activity in that northern area. Has there been increased tempo in terms of the sea days for the patrol boats?

**Vice Adm. Shalders**—We are running at the historical average of about 1,800 days and we have done for the last four or five years. I have the specific days but they are all around that 1,800 figure.

**Senator HOGG**—I accept that, but it seems to me that there has been increased activity. There have been a fair number of arrests. Having participated, as you know, in a certain inquiry a number of years ago, this seems to me to be a higher level of activity than was experienced a number of years ago. I am curious as to whether Navy have responded to either a Coastwatch request or another request to improve the surveillance in that area or increase the tempo in that area.

**Vice Adm. Shalders**—It is risk managed, of course. As you would understand, you need to have enough assets to cover the wide territory that we have to cover. So it is risk managed in terms of applying the resources that you do have, whether it is Customs or Navy, to the task at hand. We do conduct and have conducted for many years now an analysis of normalcy patterns, fishing patterns. That is conducted by Northern Command in Darwin. In terms of the recent trends, it is not that different from the normalcy patterns and the seasonal variations that we have been monitoring now for I think five or six years. There does seem to have been an increase in the last six months, but, as to the significance of that increase over a lengthy historical period, I am not quite sure it is as significant as it is sometimes portrayed in the media.

**Senator HOGG**—So there is no indication as to why there might be an increase in that period of time?

**Vice Adm. Shalders**—Not that I am aware of. Fisheries may have a different perspective on that but I am not aware of the reasons why there has been an increase, if in fact there has been a significant increase.

**Senator HOGG**—In terms of the 29 boats that have been arrested, have all those arrests been done by Navy?

**Vice Adm. Shalders**—I am not sure of the split. I could find out for you and let you know tomorrow.

**Senator HOGG**—I would be interested to know how many have been done by Navy. If you can give some sort of indication as to how many are type 1, how many are type 2 and how many are type 3, that would be interesting as well, because that is an indication. I presume they are not the traditional type 1s coming that far across.

**Vice Adm. Shalders**—My expectation is that there would be very few, if any, type 1s. Probably the majority would be type 2s and type 3s. I can get that information for you tomorrow.

**Senator MARK BISHOP**—Were some apprehended by Customs?

**Vice Adm. Shalders**—Some would have been apprehended by Customs, some by Navy. I will get that split for you tomorrow.

**Senator HOGG**—Where were the majority of these arrested: in the Gulf of Carpentaria area, to the north-west of Melville Island or where?

**Vice Adm. Shalders**—The focus of Clearwater was actually the Gulf of Carpentaria and across the northern part of Arnhem Land. The reason we conducted the operation in that area was based on the normalcy patterns that we have been observing and we knew that at this time of year—particularly, for example, around the Wessell group of islands on the western side of the Gulf of Carpentaria—ice boats operate in the area. So it was a risk managed exercise in order to try and catch as much as we could.

**Senator HOGG**—These boats, when arrested, were placed in tow and, as I think you said, taken to either Gove or Darwin?

**Vice Adm. Shalders**—In this instance Gove or Darwin, but we can also take them to Thursday Island, and have done so, and also to Weipa on occasion.

**Senator HOGG**—Who takes over when they are brought into the port?

**Vice Adm. Shalders**—Fisheries.

**Senator HOGG**—And the control of the arrested people?

**Vice Adm. Shalders**—Fisheries take responsibility for the boat and the people.

**Senator MARK BISHOP**—In a joint exercise like Clearwater, if Customs attempts to apprehend a fleeing vessel, do the rules of engagement of Customs permit the use of force?

**Vice Adm. Shalders**—Again, I cannot really speak for Customs, but the general answer to your question is yes, they do.

**Senator MARK BISHOP**—And in exercising the application of that force you would assume that they use their own rules of engagement.

**Vice Adm. Shalders**—They do use their own rules of engagement, yes.

**Senator MARK BISHOP**—Thank you.

**Senator HOGG**—We want someone to give us a run-down on where the DCP is at.

**Mr Smith**—I will ask Lieutenant General Hurley and Air Vice Marshal Clarke to come forward and assist with that.

**Senator HOGG**—Can you give us an update of where the DCP is at this stage, please.

**Lt Gen. Hurley**—What do you want to know?

**Senator HOGG**—We have a table on page 70 that says virtually nothing.

**Senator Hill**—‘Where is it up to’ is a very vague question.

**Senator HOGG**—I thought we might let the officers at the table give us an appreciation of where they believed the DCP is at this stage, and then we might ask them some questions specifically on page 70.

**Senator Hill**—It is not a fishing exercise.

**Senator HOGG**—It is not a fishing exercise.

**Senator Hill**—That is what you are trying.

**Senator HOGG**—Go to page 70 yourself and have a look. It is not very informative.

**Senator Hill**—The question is vague and ambiguous. You should be more specific.

**Senator HOGG**—That is a bit unfair.

**Senator Hill**—That is my view.

**Senator HOGG**—I think you will find that the PBS—

**Senator Hill**—You are supposed to do some work as well, you know.

**Senator HOGG**—I know. I do. You would be surprised.

**Senator Hill**—What is the specific question?

**Senator HOGG**—I have asked my question. I have asked where the DCP is at.

**Senator Hill**—I do not understand your question; therefore, he cannot answer it. What do you mean ‘where is it up to’?

**Senator HOGG**—Has there been any revision of the DCP?

**Senator Hill**—Have there been any additional projects or projects deleted?

**Senator HOGG**—Yes.

**Senator Hill**—Since when?

**Senator HOGG**—Over the last 12 months.

**Senator Hill**—Have there been any projects added in the last 12 months?

**Lt Gen. Hurley**—Only the budget measures, Minister.

**Mr Smith**—And the additional patrol boats.

**Lt Gen. Hurley**—The additional two patrol boats. That is part of an approved project.

**Mr Smith**—Maybe they are not under the DCP.

**Lt Gen. Hurley**—No, they have just been added to the existing approved project.

**Senator HOGG**—So what has been added to the approved list?

**Senator Hill**—Which programs have received government approval in the last 12 months? Do you have a list of those? Is this first pass or second pass, Senator?

**Senator HOGG**—I understand that some have been through the first pass; I understand some have been through the second pass. As I said, Minister, I am just trying to get some appreciation of what has taken place in this area.

**Senator Hill**—The ASPI report had a go at it.

**Lt Gen. Hurley**—There have been two: the second phase of the LAND 125 soldier combat system and the joint deployable health systems project, JP 2060. That is this financial year.

**Senator HOGG**—So those are the additional approvals.

**Lt Gen. Hurley**—No, those are the ones approved since the start of this calendar year. This is not complete. We will just check the full list.

**Senator Hill**—I think it would be better if we got you a list, Senator. You want a list of those who have received first-pass approval in the last 12 months.

**Lt Gen. Hurley**—Do you want the financial year to date? It depends what sort of time frame you are looking at.

**Senator Hill**—I thought you said the last 12 months, Senator.

**Senator HOGG**—I am sorry; I mean this financial year. I am not talking about going back into the previous financial year.

**Senator Hill**—It is almost the same thing.

**Senator HOGG**—That is what I mean.

**Senator Hill**—You also want a list of those that have received second-pass approval during the last 12 months.

**Lt Gen. Hurley**—I think it would be better if we provided that list.

**Senator HOGG**—Provide us the list; that is fine. Pages 69 and 70 of the PBS refer to projects to be considered in 2005-06—is that correct?

**Lt Gen. Hurley**—You are talking about table 3.2?

**Senator HOGG**—Yes, table 3.2. What stage of development are these projects at? I presume that some of them have not even been through to first pass—is that correct?

**Air Vice Marshal Clarke**—We wanted to run down the list from the top. AIR 5376 phase 2.3—the jammers component of the EWSP FA18—will go to combined first and second pass this financial year. AIR 5376 phase 2.3BF—the additional airframes—is not a project that will go forward this year; it is one that is contingent on the numbers that we need and will be approved in financial year 2006-07.

**Senator HOGG**—So that is not this year at all?

**Air Vice Marshal Clarke**—It will change as a result of the numbers. There are two phases to that. The first phase has been approved for the first pass and the second part—the additional numbers of airframes—will go forward when we know what the numbers will be in terms of the life of that type of Hornet. In other words, it is a prudent provision. We talked about that at the last hearing, you will recall, when we talked about FA18 structural refurbishment in the context of F111 replacement.

**Senator HOGG**—So that is possibly 2006-07?

**Air Vice Marshal Clarke**—Yes. With AIR 5405, the MROC will go forward this year. AIR 5418, follow-on stand-off weapon capability, will go forward very shortly. The tender evaluations are under way right now.

**Senator HOGG**—That is tender evaluations.

**Air Vice Marshal Clarke**—That is correct. JP 129 phase 2 for airborne surveillance is in the same condition—tender evaluations—right now. The first pass for 2048 phases 4A and 4B, amphibious deployment, will be very shortly and the second pass within a year of that.

**Senator HOGG**—Just before you proceed, what is the time frame on those two that are going to tender evaluation?

**Air Vice Marshal Clarke**—They are in tender evaluation now. We would expect results shortly.

**Senator HOGG**—Okay. That is good.

**Air Vice Marshal Clarke**—We expect to have first pass for 2077 phase 2B, improved logistics, within a couple of months.

**Senator HOGG**—What does that seek to do? Because that was mentioned recently in another hearing that I was in, although not this phase in particular.

**Lt Gen. Hurley**—It seeks to improve the current system we use to provide us with a deployable logistics information system and to address some of our financial statement requirements to underpin that system.

**Senator HOGG**—That is right.

**Mr Smith**—It is the successor to SDSS.

**Air Vice Marshal Clarke**—Do you want me to continue?

**Senator HOGG**—That project, from what I understood at another hearing, seemed to have gone into a lapsed phase for a period of time. Is that a real—

**Air Vice Marshal Clarke**—There has been a deal of work on what solutions set we will take forward in that context. The department internally has been discussing the path forward before giving advice to government.

**Senator HOGG**—But that is going forward now?

**Lt Gen. Hurley**—Yes, it is.

**Senator HOGG**—And that will get first pass this year?

**Air Vice Marshal Clarke**—We expect first pass shortly and second pass almost immediately after that. I have the dates for that if you can just give me some time to find them.

**Senator HOGG**—Yes. That would be helpful.

**Lt Gen. Hurley**—I will continue. Project 2097 phase 1 will go up for first pass this year; JP 2098 phase 1, joint coalition training capability, will do so similarly; JP 5408 phase 2B should go up for first pass in the latter part of this year; and similarly for SEA4000 phase 3.1—

**Air Vice Marshal Clarke**—I believe LAND 144, counter mine capability, is first pass this year as well.

**Senator HOGG**—So, with the exception of two that are up for tender evaluation currently, the rest are up for either first or second pass—the majority seem to be at least first pass, some will go to second pass and one may be deferred until next year depending on how circumstances emerge throughout the year.

**Air Vice Marshal Clarke**—Perhaps I could clarify that in relation to the new processes. Under the Kinnaird model, a lot of projects will get to tender evaluation prior to second pass. In other words, to provide tender quality information at second pass for government to make the decision, a lot of projects will in fact be at that quality at the stage of second pass. While I have pointed out those two specifically, anything that is getting second pass will have that sort of quality information about it. But your summary is in essence correct.

**Senator HOGG**—Again, is this a slowing down in the number of projects or an increase in the number of projects coming forward?

**Air Vice Marshal Clarke**—No, I do not think it is either. The ground rules shifted slightly under the Kinnaird model. As I said, previously we would have had project approval prior to tender evaluation. Under the Kinnaird model, to get tender quality information for government to make accurate decisions, second pass occurs later in the project cycle than you might have expected previously. So, while on the surface it might appear as though it has slowed down, the effect is that the IOCs are, in the broad, sustained. But where a project is approved in its life, that changes. It is moved slightly further down to the right as a result of the Kinnaird model.

**Senator HOGG**—So, as a result of that changeover, there has been a hiatus period, if I can call it that, where things, in your words, have slowed down—you will correct me, of course, if

I have misquoted you. Can I assume that that slowdown has now been picked up by the system?

**Air Vice Marshal Clarke**—I did not say ‘slowdown’.

**Lt Gen. Hurley**—It is not a slowdown; it is a reordering of the work and the approval process. So the same work is being done in the same time frame, but second-pass approval occurs at a different point in terms of definition of the data.

**Air Vice Marshal Clarke**—At a later point in time.

**Lt Gen. Hurley**—For example, in 2003-04, I think we did 37 projects, first and second pass. When we present you with the list for 2004-05, you will see that we have done 21 up until the PBS was published; nine of those were second pass approvals and the rest are pre second-pass approvals. That is starting to transfer that weight of work through the Kinnaird review process.

**Senator HOGG**—Is that process having any effect on the outlays in terms of the budget?

**Air Vice Marshal Clarke**—I do not understand your question.

**Senator HOGG**—Is it deferring the spending of money—and projects?

**Air Vice Marshal Clarke**—Not necessarily. Perhaps a small illustrative example might help you. Under the old system, say we went to government in November for project approval, subsequent to that the DMO would then go to tender. Then we would select a preferred tender—for example, in June of the following year. So you would have seen a project approved in November but the real work would have been going on subsequent to that and the actual selection of the item or equipment would have occurred in June. What we are seeing under the new process is that that second pass now occurs in the June time frame. So, while on the surface it looks like it has slid to the right, in practical terms it is no different to what it was before in terms of time scales.

**Senator HOGG**—So this is still putting into operation the government’s commitment to added expenditure of I think it is about three per cent?

**Air Vice Marshal Clarke**—Absolutely. It is three per cent in real terms.

**Senator HOGG**—So three per cent real-term expenditure in these areas.

**Air Vice Marshal Clarke**—That is correct.

**Mr Veitch**—Perhaps I could expand on that. On page 24 of the PBS we provide some information on the capital program, the DCP and indeed the whole white paper funding allocations. You will see a table on page 24. You might recall that, when we looked at this last year for the budget sittings, we had deferred some expenditure in the DCP. But in this budget we are actually bringing back \$300 million of that money. As we have started to work through the Kinnaird model, we are starting to catch up. There has been \$300 million brought back into the budget this year. All up, there is something like \$335 million allocated for new project starts this year in the DCP.

**Senator HOGG**—Yet in the out years 2009-10, 2010-11 and 2011-12, you are showing some major withdrawals from the program.

**Mr Veitch**—The point I am trying to emphasise is that that was the reference point 12 months ago, but we are starting to catch up.

**Senator HOGG**—That is why I am asking the question. Is that the sort of trend that we will see now, over a period of time, as fluctuations in these programs occur?

**Mr Veitch**—I hope that the trend you will see is a spending of the money in accordance with the time frames that are allocated now, or some bringing forward of that. But the deferrals we made, or the reprogramming, last year reflected the state of play at that time. I guess what I am saying is that we have started to make some improvements on that as we catch up with the throughput of projects.

**Senator HOGG**—Can I take you to the notes under table 3.2—and thank you for the explanation of that part of table 3.2; it is a little bit more expansive than what is there. Note 1 says:

... it is planned to consider first pass approvals for a variety of projects—  
and it lists them there. What status do those projects actually have?

**Air Vice Marshal Clarke**—At first pass, Senator.

**Senator HOGG**—Are they going to get to first pass this year?

**Air Vice Marshal Clarke**—Yes, including pilot training and multi-mission unmanned aerial vehicles; enhancements to special operations capability, yes; artillery replacement systems, yes; soldier combat systems, yes; and the air warfare destroyer, yes. That is an indicative list, not exhaustive.

**Senator HOGG**—Right, that is what I wanted to know. So there could be other projects that may still make it onto the list for the 2005-06 year.

**Air Vice Marshal Clarke**—For first pass, that is correct.

**Senator HOGG**—Note 2 under table 3.2 says:

Capability and Technology Demonstrator projects, Project Development activities and some sensitive projects are not included in the list.

Is there a reason for that?

**Air Vice Marshal Clarke**—There are two parts to that. There was some discussion on CTDs this morning, where it was explained how the government's money is being spent more broadly across that.

**Senator HOGG**—Yes.

**Air Vice Marshal Clarke**—Project development funds are similarly allocated on an annual basis to provide finance for us to work towards first-pass activities. So there is PDF work prior to first pass.

**Lt Gen. Hurley**—These are funds for studies, risk reduction studies and so forth, relating to projects coming up, before they have actually got any approval.

**Senator HUTCHINS**—In the figures here, has any money been brought forward for the DCP? Has any money that has been allocated for the next few years been brought forward to this period now?

**Air Vice Marshal Clarke**—You are referring to the \$300 million brought forward from 2005-06—that is correct, yes. There is an additional \$300 million.

**Senator HUTCHINS**—What are the implications of that money being brought forward? Is there anything in the future that you have put on hold as a result of that, if that is the right way to frame the question?

**Air Vice Marshal Clarke**—No. Mr Veitch will correct me on my accuracy here, but the intent was to recover moneys unspent in earlier financial years. We are now in a position where we are able to spend the money at the rate at which it was previously programmed to us by government, and this is the first evidence of improved performance as a result of that.

**Mr Veitch**—Yes, that is right. The \$300 million relates solely to timing changes.

**Senator HUTCHINS**—Thank you.

**Senator HOGG**—All right. I have no further questions.

**CHAIR**—There being no further business, the committee stands adjourned.

**Committee adjourned at 10.38 pm**