



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## **SENATE**

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION  
COMMITTEE

ESTIMATES

**(Budget Estimates)**

TUESDAY, 31 MAY 2005

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE**

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

**Tuesday, 31 May 2005**

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

**Senators in attendance:** Senators Mark Bishop, Faulkner, Ferguson, Hogg, Hutchins, Johnston, Sandy Macdonald and Payne

**Committee met at 9.05 am**

**DEFENCE PORTFOLIO**

**Department of Defence**

Consideration resumed from 30 May 2005.

**In Attendance**

Senator Hill, Minister for 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

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Ms Shireane McKinnie, Head Electronic and Weapons Systems Division  
Mr Peter Croser, Head Industry Division  
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

Ms Janet Stodulka, Director-General, Defence Community Organisation

**CHAIR**—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I welcome back Minister Hill, Mr Smith and officers of the Defence organisation. Before we commence today, I know that Vice Admiral Shalders wants to make a couple of statements or respond to a couple of matters raised yesterday. Also, Senator Bishop is able to give us an idea of who he will need for questioning today. I will call on Senator Bishop first.

**Senator MARK BISHOP**—I thought I might just identify the issues that the opposition wishes to pursue in questioning today, as an indication, Mr Smith and General Cosgrove, so that your people know who is going to be the subject of questioning. I will start with ADF work force management; personnel satisfaction within Defence; some very brief stuff on the white paper; logistics systems; a range of equipment purchasing issues; Seasprite helicopters; the Army vehicle replacement program; the MRH 90 helicopter purchase; the Armidale patrol boat project; air warfare destroyers; the 2005-06 ADF exercise program; civilian contractor support to military operations, essentially lessons learnt out of the Solomon Islands; upgrade of the frigates; Army preparedness; Army hardening, the doctrine there and associated work; and the JSF-F111 air combat capability gap.

There are some questions on the Darwin waterfront development—the alleged dispute with the Northern Territory government up there. I also want to raise the property lease for 1 Commando Regiment in Sydney; Defence Force properties, the program of release over the next three years; some further issues on beryllium, which I explored yesterday in Veterans' Affairs; radiation exposure; Laverack Barracks; some issues relating to child care; the

progress with respect to the cleansing and mapping of depleted uranium in the province in Iraq; some issues arising out of military justice, particularly going to costing on legal fees for some protagonists and none for others; and Defence medical services, going to the appointment of the new two-star and where the Department of Defence sees that issue heading in terms of the responsibilities of the new operation.

**Senator Hill**—Is that all!

**Senator MARK BISHOP**—And Senator Hogg has some questions on the swap program. They are the issues. I thought we would just work through them sequentially.

**Senator Hill**—It sounds as if you want another week.

**Senator MARK BISHOP**—About another four hours should do it.

**Vice Adm. Shalders**—Last night I was asked to respond to a couple of questions in relation to Operation Clearwater, an activity which was conducted in northern Australian waters between 11 and 22 April. You asked how many apprehensions were effected. There were 29 apprehensions during that period. You asked what was the split between Navy and Customs apprehensions. Naval vessels effected 21 of the 29 and Customs Coastwatch vessels effected the remaining eight apprehensions. Thirteen of the apprehended vessels were Indonesian type 3 shark boats; 15 were Indonesian type 3 ice boats; and there was one Indonesian long-liner. I think that responds to most of the questions I took last night.

**Senator MARK BISHOP**—Thank you. General Cosgrove, when you appeared before the Joint Standing Committee on Defence, Foreign Affairs and Trade earlier this year—in March, I think—you provided a document that outlined some 21 separate employment categories and you identified the pressures and the progress in resolving employment shortages within the ADF. Can you give the committee an update on whether there has been any change in the period between then and now in terms of resolving the shortages and retaining staff or whether any new strategies have been devised and implemented to address the ongoing shortcomings issue?

**Gen. Cosgrove**—Let me make some general remarks, and then Air Commodore Lee Roberts and Mr Peter Sharp will step in. In many respects, we are a microcosm of the wider Australian community. Where there are shortages of skilled labour throughout the community, that will reflect, generally, in shortages in the ADF. Of those 200 employment categories that exist in the ADF, 21, as you refer to, have been identified as suffering personnel shortages. We are giving them high priority for risk mitigation reporting. I should remark, though, that the overall shortages are not affecting our ability to meet current operational commitments or our requirements to be prepared. Most category shortfalls are in specialist and technical fields such as electronics technicians, marine and electrical engineering officers, medical officers, air traffic controllers and linguists.

We are taking a whole-of-Defence approach to recover these critical trades, with defence personnel policy agencies working closely with the individual services. Each of those critical categories has been analysed to identify the particular areas requiring action. Typically these involve a combination of targeted initiatives to enhance retention, recruiting, training and trade management. For example, and my colleagues may enlarge on this, a recent targeted

initiative has been the establishment of a tiered package that pays up to an extra \$15,000 per annum to enhance the retention of Navy marine and weapons electrical engineers.

The government continues to recognise the pivotal importance of people to deliver defence capability and that they should receive priority. In the recent budget, the government allocated to Defence an additional \$139 million to cover increases in salaries and an additional \$18 million to be paid to improve the quality of housing and rental assistance to defence members. They were across-the-board measures. There has also been from the government another \$48 million to fund new initiatives in the defence people plan towards enhancing child care and other support to defence families, to help with better career management, to deal with recruitment initiatives and in relation to some targeted retention bonuses. With that preamble, I will turn to Mr Sharp.

**Mr P Sharp**—As CDF has alluded to, the work force market is tight and in our analysis of how to deal with it in Defence we look at both retention and recruitment. Let me start with the second one first because in a sense it generates the demand for the first—that is, retention generates demand for recruitment. In our work force planning we take a risk managed approach to the work force. In the current year and year coming we have identified two priority risks: priority 1 risk is retention of people at certain points in their career and priority 2 is what the CDF was focusing on, which is the recruitment and retention of people in our critical trades.

If I take the first group, we know that our people at certain points in their career look very seriously at whether they going to leave the service. Typically, it is at what is called the end of the first enlistment period. In Army and Navy that is about four to six years. It depends on how much training they have had to undergo and what their return of service obligation is. For Air Force it tends to be more dispersed. That first enlistment point is the point where, if I could categorise it, people address the question: I joined the service for a job and do I want to go to another job or is it time to convert my job into a career?

The second crucial retention point is around the 10-year mark. These are the more middle-ranking officers, senior NCOs, who are asking a different question: firstly, is this the life I want for my family; and, secondly, is this the point where, if I leave the service, I am young enough to start another career? These retention points are crucial for us in our work force planning. There is a third point around the 20-year mark, partly a function of pension schemes and partly a function of people still asking the question: am I young enough to start another career? Much of our efforts are focused on addressing those crucial points. The retention rates at the present time are mixed. Firstly, for officers the retention rate is excellent. The separation rate is running at about eight per cent, which is excellent and healthy.

**Senator MARK BISHOP**—Across all services?

**Mr P Sharp**—Across all services. There are a couple of small percentage points either way but it is roughly eight per cent. For the other ranks, Air Force retention rate is also around eight per cent and is also very healthy. For Navy and Army it is higher—over 11 per cent. From a historical perspective that is still a good rate. A rate of 11 or 12 per cent compares favourably with rates of the past and very favourably with some rates of over 14 per cent that we had a few years ago.

From the Public Service side, the retention rate or separation rate is below eight per cent and, in a sense, is a bit too low. If you do not have it at about eight per cent you do not get a decent flow through and decent promotion opportunities, and our Public Service retention rate is a little too high. Therefore, a lot of our efforts are focused on improving retention. The single services are very active—Chief of Army, Chief of Navy and Chief of Air Force—in improving retention. At the whole of Defence level, a number of our initiatives are also focused on retention, particularly in the category of 10 years plus.

Relatively speaking, as a rule of thumb, a one percentage improvement in retention in the ADF is worth 500 people. If you lower your separation rate by one per cent, that is 500 people. That is either 500 people you do not have to recruit or—and this applies particularly to Army, which is in a growth phase—a little less of a burden on recruiting targets. That is the retention picture and, as the CDF mentioned, the defence people plan is heavily focused on addressing that, but it also has some provision for retention and recruitment. I might ask Air Commodore Roberts to speak to the recruitment side of this equation.

**Senator MARK BISHOP**—Before you do that, I have one question for you, Mr Sharp. You identified the officer retention rate in the ADF across the board and in each of the three services as being particularly satisfactory. I think that was what you were saying.

**Mr P Sharp**—‘Excellent’ was the word I used.

**Senator MARK BISHOP**—When I look back at the document that General Cosgrove provided to the joint committee, it essentially identified shortages in trades, technical areas and skills areas—essentially, occupational shortages.

**Mr P Sharp**—Correct.

**Senator MARK BISHOP**—There were a couple of comments on captains and majors in the Army, but elsewhere it was not necessary to comment in terms of officers. What lessons from your excellent retention rate, as you describe it, of your officer cadre within the ADF would have general application, if any, across the board to those areas of the shortages?

**Mr P Sharp**—Although the overall retention rate is excellent, as the CDF alluded to, we still have some difficulties in certain employment categories—critical trades. I do not want to leave the impression that retention category by category is excellent throughout the officer group, though overall it is a good rate. There are certain categories where we are short, where the market in particular is putting strains on our ability to recruit and retain and where we have to apply different strategies to try and deal with it.

Your broader point about where the lessons are for the officers from the other ranks is a good question. I do not think I have the answer to that. To be fair, I do not think we have ever really thought about that too hard. The officers have a career; they join as career people. Some of the considerations that perhaps influence the other ranks as to whether they will, in my words, convert a job to a career apply less to the officer ranks. It might be that we are talking about a different sort of person here.

**Senator MARK BISHOP**—Officers clearly have command and leadership responsibilities and different levels of activity and they find themselves a career path that satisfies their aspirations within the ADF. The fact that you may be NCO or have a career based around

other skills or other functions at non-officer level does not necessarily mean, I would have thought, that you are not interested in a career per se and advancement and progression per se. Officers do not have different desires to enlisted men and women, do they?

**Gen. Cosgrove**—I might offer some opinions here. It is difficult to be prescriptive about this but there are a few issues here. Officers generally have an established and fairly rapid-fire series of developmental activities which typically start with their precommissioning training and continue for 10 or 12 years until perhaps there is a plateau for a number of years, wherein they are well trained and widely employable in a range of jobs. Up until that point, we are seeking always to upskill them. For many in the enlisted ranks of the Army, Navy and Air Force, although there are a number of career courses for them as well, there are more plateaus that develop in their early career.

I overheard the secretary considering this subject and I totally agree with him that, for a lot of our younger sailors, soldiers and air men and women in the enlisted ranks, their early career will be characterised by intensive training and then quite possibly these days an operational tour of duty. This would normally occur around about the four- or five-year mark that they have done these things—perhaps a little later, up to six years. After that, they say: ‘The world is my oyster. I’ve done these things. I wonder if anything will be that exciting anymore.’ Perhaps a plateau of service awaits them—a tour of duty doing things that they have done before. There is that breaking point.

I might point out that in the Army there is this open-ended enlistment but with a four-year minimum obligation. So again that creates an horizon for our men and women, who say, ‘I’ve done four years and now, with six months notice, I can depart.’ I have got two sons in the Army, both soldiers. While they are good young men, I expect they will probably—from what they have said to me—just do their four years. One fellow will have been to Timor and Iraq, and he wants to return to university and do something else. I think the Army would consider itself very lucky to have had a good young soldier for four years doing a good job. The other fellow is a year or so away from that but my expectation is that he too will do something else. To populate the expert, other rank categories that we really must struggle with to ensure that we retain their interests in a highly competitive labour market.

**Senator MARK BISHOP**—So you have an attractive recruitment package for officers or persons wanting to be officers, an attractive retention regime for officers and mostly between satisfactory and excellent retention rates, subject to the officer shortage related to occupational skills that Mr Sharp referred to.

**Gen. Cosgrove**—I just want to make sure that I put down the marker that we would like our officer recruitment rate in some of the services to improve. It is very good in Air Force. We would like it to be a little better in the Royal Australian Navy and a lot better in the Army.

**Senator MARK BISHOP**—I see. So those figures of around 11 per cent for Navy and Army are not satisfactory?

**Gen. Cosgrove**—They are wastage rates. At the outset you said our recruiting was all right for officers. It is, but it should be better, certainly in the Australian Army.

**Senator MARK BISHOP**—I understand the correction. CDF having given that wider view, Mr Sharp, I come back to the question I had for you: are there any lessons from the

apparent success in your total package of recruitment and retention for the officer class—officer cadre—down the line for the areas of manpower shortage in your technical and other areas or not? Are they just too different?

**Mr P Sharp**—I will just complete the retention story and then turn to recruitment. I said the overall retention rates were good. That is, the separation rates of officers are about eight per cent and the other ranks of Navy and Army are about 11. That is no grounds for saying that we are satisfied with them. We are not. Nor is it grounds for being complacent about them—because we are not. So our efforts are focused on retention of officers and other ranks through a range of measures that apply to both, and our efforts are focused on retaining officers and other ranks in critical trades. I will take an example. An important retention issue for an officer or another rank is their family circumstances. Initiatives that we have in place to support the families of members—principally to support them in ameliorating the impact of locational turbulence—are common to officers and other ranks.

**Senator HUTCHINS**—Mr Sharp, do you have the breakdown of the separation of the officer group—the eight per cent, eight per cent and 11 per cent? Say you have become a lieutenant colonel in the transport section and you are never going to be a brigadier or a major general because you have plateaued. Does that 11 per cent include the categories that are not the ones that you do not want to retain?

**Gen. Cosgrove**—It includes everybody who leaves. If Mr Sharp was referring to an eight per cent wastage rate of officers, that would include men like me retiring through to people who were invalidated out for any reason and, in the middle, people who retired for more conventional reasons.

**Senator HUTCHINS**—I do not mean this to be offensive, but could it be the fact that, in those categories, the more skilled officers that you want to retain are leaving because private industry offers them a better career, better pay or better conditions?

**Gen. Cosgrove**—It is not offensive at all. We are in the marketplace. We understand that. Part of our concern within critical trades or critical professions is the market forces that we have to take into account, where people simply love what they are doing with us but the money is in another environment.

**Senator HUTCHINS**—In the 11 per cent, eight per cent and eight per cent, there could be a category of skills—say, engineers in ships or whoever you have identified—where it could be that 50 per cent of positions are in need of being filled rather than eight per cent.

**Mr P Sharp**—That is correct. That 11 per cent is an average, so there are some higher—particularly those which have attractive prospects in the community—and some lower.

**Senator HUTCHINS**—In the other ranks area, do you have the same figure for the retention rates that you had for officers?

**Mr P Sharp**—I do—somewhere. I said about 11 per cent for Army—

**Gen. Cosgrove**—That is wastage.

**Mr P Sharp**—Yes, so subtract that from 100. It is 89 per cent retention.

**Senator HUTCHINS**—That is other ranks?

**Mr P Sharp**—Yes. I may have confused the record on that.

**Senator HUTCHINS**—So the officer rank represents the same as other ranks in terms of wastage?

**Mr P Sharp**—Let me go around it again. In the officer ranks, the separation rate or the turnover rate is around eight per cent for all three services—that is the overall rate. That is a retention rate of 92 per cent. In the other ranks, from memory—and we are still looking for the information—Air Force is about eight per cent separation. That is a retention rate of 92 per cent. Navy is 12 per cent and Army is 11.9 per cent separation. So they have retention rates of 88 per cent and 88.1 per cent respectively.

**Senator HUTCHINS**—Do you know from your information whether in the other ranks that separation rate represents men and women who do the minimum service of four years and then get out? Do you have figures available? Is that higher than the average eight, 11 or 12 per cent?

**Mr P Sharp**—Very much so. We know that the peaks on separation occur at the end of that first enlistment period, which might be four to six years, and then there is another one around the 10- to 13-year mark and there is a further one around the 20-year mark.

**Senator HUTCHINS**—So the officer retention rate would represent the fact that in that eight per cent a number could go out after the first four to six years; I am not sure how long they sign up for as officers.

**Gen. Cosgrove**—It is slightly different there. They do not have a fixed period of engagement except that they do have a return of service expected from them to counterbalance the investment in training. But there is no fixed term. In certain very narrow circumstances we can apply fixed terms to people, but the vast majority of officers are open-ended until a nominal retirement age.

**Senator HUTCHINS**—I am sure the figures are available and that we would be able to get the three categories that you nominated, Mr Sharp, and compare them to other years. Do you have those figures available for officers and other ranks?

**Mr P Sharp**—Not today, but we could get them. We do keep them as part of our work force planning. We follow ranks, categories, length of service, separation rates and recruitment rates.

**Gen. Cosgrove**—We do that further analysis to assist us to understand the decision points, why people leave then and what is to be done about it.

**Senator HUTCHINS**—For the other ranks in that first period, can you give us an indication of what percentage leave after the four years? Is that available? And is it different between the Army, Air Force and Navy, as the figures already demonstrate elsewhere?

**Gen. Cosgrove**—If you broke a service person's service up into blocks, those who leave at the end of that initial period would be higher in that block than, say, the next block. We would have to get you the percentages.

**Senator HUTCHINS**—In that first block, or even in all the blocks, is there a different separation occurring now than there was five years ago, three years ago or two years ago? Is

there a trend concerning not just the professional or technical skills but the able-bodied seaman or general soldier? If there is, you may wish to say what you are doing about it.

**Air Cdre Roberts**—I might try and lead it a little bit away from the officers and the other ranks at the moment because we really do our work force planning and our people planning more along the lines of the bulk of the organisation with bulk type policies and then the critical trade groups. The critical trade groups are both in the officer ranks and in the general entry ranks. When we talk about the separation rates of eight per cent and 11 per cent across the board, we have policies that go across the board for everyone. That is where we start looking at initiatives such as child care, posting stability—all of these things that affect everyone in the Defence Force. We monitor those trends to see what big-picture initiatives we need to put in place. Part of that is also these points at which the bulk of the organisation leaves. We have recognised the three points we mentioned today. If I take the end of the initial period of service, it does vary between the services. As a generality, the peak is around four years for Army, reflecting that the initial period of service for a large portion of the Army is four years.

**Senator HUTCHINS**—Have you got a percentage on what that figure is? Is that available?

**Air Cdre Roberts**—Yes, we can provide that. For the Air Force and Navy, recognising that many of their people do longer courses in technical training, the peak ends up closer to seven years, but the reasons for those people leaving are the same. So we actually look at why those people are leaving and apply across-the-board measures that would apply to all service personnel.

The second area that we really concentrate on, certainly at the strategic level, are the critical trades. As we mentioned, we assess those every six months—we have just recently gone through it—and we have 21 critical trades. That is looking at a particular employment category, a particular type of person and a particular career structure. We then look at initiatives to tackle both recruiting and retaining those people according to their individual characteristics and the characteristics of the group, the way we employ them in the service, the way we promote them and the way we post them around.

**Senator MARK BISHOP**—That critical trades group we are talking about—and that is the central feature of this discussion—theirs was the document that General Cosgrove tabled at the joint committee earlier this year. You say you review it every six months. I do not want to go through that document line by line. Are all of the classifications that you identified in the document before the joint committee—the 21 classifications—still areas of concern now, some two or three months later?

**Air Cdre Roberts**—They are all areas of concern. Some of them are definitely on the way off the list. The seamen officers will probably be within 12 months. The trends in both recruiting and retaining seamen officers have improved, which is obviously a critical area for the Navy. In the other areas we have Navy weapons engineers, weapons electrical and marine engineers and officers. Both those categories have just had bonuses applied to them. But it is not just paying money. In each of these cases, as we mentioned, we are creating a very holistic

plan. It includes a different career structure, education opportunities and overseas postings, treating that particular group differently from the bulk of the other ranks.

**Senator MARK BISHOP**—So you have designed a set of individual packages for identified shortage areas or a single package to apply across all of the shortage areas?

**Air Cdre Roberts**—They are individual to each critical trade.

**Senator MARK BISHOP**—You have identified the shortage area, you have identified a remediation package and you are in the process of implementation. You identified four or five categories around engineer where there is already improvement to date. Is that a fair summary?

**Air Cdre Roberts**—That is correct.

**Mr Sharp**—I think it is fair to say that we are working down the list. So we might not have a mature package for all those yet. We are working from the top down.

**Senator MARK BISHOP**—All right. So that was the engineers, the seaman officers, the weapons electrical. What is the time frame for the area of the technicians, combat systems operators, communication information systems people—the next generic group?

**Mr Sharp**—I think some of these might be best addressed to the chiefs of service, who are in the driving seat on the timing of these in particular.

**Senator MARK BISHOP**—Navy?

**Rear Adm. Hancock**—Senator, I got the gist of what you said, but could I have the specifics, please, so I can make sure?

**Senator MARK BISHOP**—Yes. Air Commodore Roberts identified four or five classification areas where there was a significant degree of progress in addressing labour shortages by dint of particular packages for recruitment and retention. Mr Sharp then said that the rest of the classifications in the document provided by General Cosgrove were a work in progress. I have asked for an up-to-date report on the next generic set of classifications, which appear to be around technician level—electronics technician, marine technician, combat systems operator, communications and information systems people within Navy—for you to update us on. First, do the shortage areas still exist; second, what remediation plan have you devised, if any; and third, what is the progress of that plan?

**Rear Adm. Hancock**—I will iterate what Mr Peter Sharp said: some of these plans have not been completed and are not quite ready for implementation. But, most specifically, with the electronic technicians and marine technicians—Navy's most critical hurt at this point—we are well advanced. We have concluded a very comprehensive survey of almost the whole population of that group. We expect Navy to take a proposal to the Defence Personnel Executive by August this year, subject to the DPE, the Defence Personnel Executive, agreeing that that is a satisfactory proposal with a good strategy to stop the drain and to be able to measure it. We expect to be able to take that to government by September. That is the key one.

Levels of combat system operators and communications and information systems sailors are not quite as dire. However, they are both critical. We expect, by the end of September, to have strategies again to take to the centre, which will support the whole of Defence

remediation. Meanwhile, some of the recruiting issues, retention issues, training, support and professional help are already being implemented as we speak. The packages I talked about were much larger, much grander and more comprehensive.

**Senator HUTCHINS**—I have a question in relation to filling these vacancies. Would I be right in thinking that, if and when the vacancies are filled—and possibly Mr Sharp would be more appropriate to answer this—whatever the categories, they will be on different rates of remuneration and conditions than the people that are currently doing those jobs? Is that what is being offered?

**Mr P Sharp**—The retention strategies that we may apply to an employment category vary from category to category. They were informed by several sets of data—general data, such as the attitude survey, and general data, such as the exit survey of people leaving the service. There has been some help from the census which we conduct every so often. It is also informed by what we call a human resource decision support system. It seeks to model a range of factors that might influence someone to stay in the service and to draw from that some conclusions on the best-shaped package to apply to that particular employment category. As Admiral Hancock and Air Commodore Roberts have alluded to, some of the things in that package are more readily delivered than others. Mostly there is some pay or remuneration type provision, either in the form of a retention bonus or a completion bonus. But also there will be other parts of the package, which we have learnt from the surveys, that people feel would sustain them and keep them in the service. We have learnt over time that just throwing money at it is not the answer. People's needs are greater than that.

**Senator HUTCHINS**—If you have these identifiable skills shortages and try to recruit for them, do you offer a package to entice someone to go into the service that is different to the one that someone who is in the service now is working under?

**Mr P Sharp**—At this point, we have not done that.

**Senator HUTCHINS**—So the strategy for here is—

**Mr P Sharp**—to retain people. I have been talking about retaining people. Of course, people who join those employment categories with an enhanced package will participate, usually, in the package.

**Senator HUTCHINS**—So the aim is more retention.

**Mr P Sharp**—Yes.

**Gen. Cosgrove**—There have been a couple of approaches—I will not call them novelties, but certainly lateral thinking initiatives—applied over the years. I think Army, for example, has looked at going to apprentice training organisations to see if, in a partnership sense, some of those young men and women could be attracted, not out of their apprenticeships but as part of their apprenticeships, to join the Army or the Army Reserve. I recall an arrangement with an apprentice organisation in the Newcastle area—I do not know whether Chief of Army would have any of that at his fingertips—but it is that sort of thing which is attempting in niche areas to apply recruiting initiatives to get a critical mass in these trades.

**Mr P Sharp**—Air Commodore Roberts might add to that. We do run scholarship schemes.

**Air Cdre Roberts**—Particularly on the recruiting side we are just starting to expand, first of all, our access to young people. Traditionally we have just targeted the group of people we want to join us, which is effectively those from 17 to around 27 years of age. That does not mean we do not take people older—we take them right up to 50 or 51 years of age. However, that age group of 17 to 27 is where we mainly target our advertising, our web sites and the way we go about doing our business. That has kept us in pretty good stead for quite a number of years, particularly since about 1999. We are finding now that with the economy, with the other options people have, we are very much competing with other industries outside and other employers. We need to expand the number of young people we get contact with at an earlier stage.

We have a number of proposals coming up within the next six months that will have us being seen by young people in virtually all the high schools in Australia from year 10 onwards. We will be seen in youth forums outside of the school system to get people used to the idea that the military is still a part of Australian society. That is the more general way we are getting the message out. We are then starting to—and particularly with these critical trade groups—target specific initiatives to actually compete with other employers.

We have an undergraduate scheme at the moment, for instance, where we take university students in their second year of university, then we sponsor them and they actually get a rate of pay. We have other conditions, if they need them, such as housing conditions and things of that nature. Once they complete their degree, they come into the service, go through officer training and become officers. We want to expand that. You have probably read that we are considering issues such as HECS. At the moment for those undergraduates we do pay their HECS, but we are now looking at people who may wish to join us just prior to graduation or just after graduation, when they suddenly realise it is a serious time—it is time to get a job; it is time to earn some money. So they are roughly some of the areas we are looking at.

We are looking at various schemes—not necessarily apprenticeship schemes but sponsorship of trade training for people who are perhaps younger than 17, without actually taking them into the military. So there is a broad range of these initiatives coming along. Some of them are, as we mentioned, for the broad group of people joining the Defence Force. But, realistically, we can get most of the numbers we want for most of the categories in the Defence Force. It is back in those critical trades where we are competing with the rest of society.

**Senator MARK BISHOP**—This is probably a question for you, General Cosgrove, as it has to do with Army. Are there any changes in respect of the middle-ranking officers—captain and major—and then the more dedicated areas of linguist specialist duties and economic and intelligence analysts? You identified them as shortage areas and you had established working groups to remedy the problems. Has there been any progress there?

**Gen. Cosgrove**—I will ask the Chief of Army to answer that.

**Lt Gen. Leahy**—In relation to the middle-ranking officers—captains and majors—there has been no substantial change; there remain shortages in those areas. Unfortunately, it takes a long time to solve those sorts of issues, which is one of the issues in relation to rank-trade imbalances. We might be short overall on the trade, but when we put people in at the bottom

end it takes some time for them to gain the skills and then to gain the rank and for that to work its way through. That is essentially where we are with the two officer ranks. We can deal with that by employing people in different areas, but I need to say that it is an issue for us at captain and major level and it is one we are working on. One of the strategies we have employed there is employing warrant officers and senior warrant officers who are skilled in those sorts of areas to look at our establishments to see whether or not we need particular ranks to do those jobs.

We are looking very clearly at lateral recruiting and right now Army has a team with support from Defence Personnel Executive in the United Kingdom. We have had a number of walk-in approaches from soldiers and officers in the United Kingdom—from the British Army. It has now got to the sort of level where we think it is worthwhile putting in a team over there. We have psychologists, doctors and people to do interviews. I am hopeful we will pick up a few out of that, and we will try and plug those sorts of holes.

Similarly, in relation to electronics, intelligence and so on, it is not so much a matter of the gross numbers, but it is getting them to the skills that they require at the level of corporal and sergeant. Again, we are working our way through that. We are looking at more internal issues of lateral recruitment. One of the things that we find really works for us is to talk to soldiers about changing their trade. We have a solid program called Stay Army. We have something like 270 different trades in the Army. If a soldier feels as though he has made a full contribution, let's say as an armoured crew man or an infantryman, we will say, 'Let's retrain you. We can keep you in the Army.' It is normally something that people like doing, but they look for other opportunities. Adult training for apprentices is very popular. We find a lot of our infantrymen, a lot of our armoured crew men and artillery men and so on go off to the Logistic Training Centre at Bandiana where we have, I think, currently about 700 soldiers in training. Many of them are apprentice carpenters, plumbers, electricians, vehicle tradesmen and so on. We look at filling those with soldiers who are already proven, who clearly like the Army and who are looking for other opportunities.

**Senator MARK BISHOP**—Thank you for that. Mr Sharp, do you have the figures for personnel levels across the three services readily available or would you rather take that on notice?

**Mr P Sharp**—You can go to the PBS for that. I think page 188 may be best. It is a summary.

**Senator MARK BISHOP**—Thank you. Mr Sharp, there have been recent reports of a Defence attitudes survey indicating that a large portion of ADF personnel are planning on leaving the ADF in the near future. The numbers that have been provided to me—Navy, 37 per cent; Army, 32 per cent; Air Force, 24 per cent—make it a different type of theme to the one you were discussing earlier in terms of your current retention rates. I am advised that this was a survey that was sent to around 8,000 personnel and the response rate was very high: Navy, 37 per cent; Army, 27 per cent; Air Force, 62 per cent; and civilians, 58 per cent. Are you aware of that survey?

**Mr P Sharp**—Yes. Those numbers are similar to previous years. I am a bit surprised they are not a bit higher, but, for some of the reasons I have alluded to up to this point, we would

expect our people to be thinking seriously about other possibilities. That is the characteristic of generation Y. A lot of these people are generation Y, I am told. I am not. I am working on it though.

**Senator HUTCHINS**—What generation would you put yourself in?

**Mr P Sharp**—Do not ask.

**Senator Hill**—Up in the higher part of the alphabet, with the benefit of wisdom!

**Gen. Cosgrove**—Generation A?

**Mr P Sharp**—That is enough of that! We take a lot of trouble to recruit intelligent and capable people. We put a lot of time into their development and we expect them to be thinking about this.

**Senator MARK BISHOP**—How do those numbers I gave you—Navy, 37 per cent; Army, 32 per cent; Air Force, 24 per cent—compare with previous years' figures?

**Mr P Sharp**—About the same.

**Senator MARK BISHOP**—Across each of the three services?

**Mr P Sharp**—I do not know if I have that here. Let's take Navy. In this survey, the figure is 37.2 per cent. It was 38.5 per cent in 2003—a little lower back in time. Army was 32.3 per cent this year and 29.4 per cent last year. Air Force is 24.2 per cent compared to 22.4 per cent last year. Air Force might have a better set of figures.

**Air Marshal Houston**—In 2001, we had 28.5 per cent looking at actively leaving the service. Over the last three years that has trended down quite nicely. In 2004, it went up a couple of points. I am not surprised by that: about 60 per cent of our people are very highly skilled, we have a booming economy with a very high operational tempo and I think it is quite healthy. Indeed, we do not have any problems. Recruitment is running at 97 per cent. Retention is at eight per cent and, essentially, we are in good shape. There is nothing abnormal in these figures at all, and what was in the media last week was just a beat-up, particularly if you take a close look at the figures and analyse them.

**Senator MARK BISHOP**—So, as far as Air Force is concerned, there has been a gradual decline in more recent years, you have a high retention rate and you do not express any concerns to this committee about that?

**Air Marshal Houston**—If you go back to 2001, we had a separation rate of the order of 15 per cent. We have been down over the last couple of years to as low as six per cent and we virtually had to shut down the training system. It was not a healthy situation to be in. We were not getting a turnover of people. We were not getting enough young people through the system. We are now at eight per cent, and that is a very healthy state to be in. I am not alarmed by any of these figures.

**Senator MARK BISHOP**—Understood. Thank you.

**Gen. Cosgrove**—I will weigh in here, because you can imagine that we got a bit excited about what Chief of Air Force correctly characterises as a bit of a beat-up. We notice that, as is usual in these things, there was somewhat selective reporting of some of the statistics that were in the survey. What was neglected in the reporting, because I suppose it did not suit the

trend of the article, was that service life was considered to be enjoyable. These are all responses: people care about the future of their service, people are satisfied with the military way of life—that is in the three services—and people are positive about working in the ADF and the APS. They are very positive about their supervisors, they like their work and they feel well prepared for operational duties. Now, this is an important one: people feel service employment is more attractive financially than civilian employment. That is quite interesting. People are satisfied with their standard of living. They express confidence about occupational health and safety, they are confident about our handling of the environment and they are positive about their training.

This is not to say that from time to time there are not things in there that we take notice of in terms of being worried and wishing to correct. But certainly the numbers in there are what most civilian employers would give their right arms for, and that is a whole raft of positive trends in the way people regard what they are doing.

**Senator MARK BISHOP**—General, the air vice marshal gave a very big rap in this context to his own service, and the figures that I quoted led him to make those comments, I presume, quite properly. What is your take on the difference in the satisfaction levels across the board—Air Force being down at 24, having essentially remedied their problems over the last four or five years, and the other two services being up between 32 and 37, while change over the last five years appears to have been marginal? Why are they different?

**Gen. Cosgrove**—I think it is possibly to do with the organisational arrangements and the lifestyle issues in the three services. These are characterised in the Royal Australian Air Force by more stability, given that the service, which is about the same size as Navy, is organised into a number of larger bases. This does permit a more ordered lifestyle for many—not all. I think what has assisted Air Force to achieve even higher levels of retention has been those issues and what I would say is a very high level of public regard in relation to its operational necessity over the last few years. So Air Force was good and has been doing even better in the last few years.

The other services are the same in terms of public regard and operational relevance, but, just because of the lifestyle and the functional or organisational realities of those services, people tend to be away from home a lot. It goes with the territory. I would suggest to you we could thrash away looking to ameliorate some of the stressors within those services and maybe achieve some marginal improvements, and we should do that, but we cannot fundamentally change the way in which the services operate. We did not keep these survey statistics beyond about the mid-nineties, not in the detail that we do now, but I think were we able to go back over time you would find that these differences and the opinions that describe them would be classic, because they go with the nature of the service activity.

**Mr P Sharp**—I would make one other point on this particular area. It is a reminder to us not to get complacent, and it is no coincidence that the third highest risk in our work force plan is the risk of complacency. This does remind us that our people are capable and competent and they are looking out there. The challenge for us is to ensure that we have a whole range of measures so that at least two-thirds of them, which is currently the case, do not look any further—they stay with us.

**Senator MARK BISHOP**—This task force that has been established, comprising the three service deputy chiefs, looking at recruitment and retention—who else is a member of that task force?

**Mr P Sharp**—The minister assisting has the three deputy chiefs providing advice on recruitment. I do not know whether I am aware that there are other members of that group; I will take that on notice if I may.

**Senator MARK BISHOP**—All right. When was that established?

**Mr P Sharp**—I think it was about a month ago.

**Senator MARK BISHOP**—Can you firm that up and take it on notice if it is incorrect. What are its goals and aims? We have had a lengthy discussion for the last hour or so on recruitment and retention strategies across the services and particularisation within the services. I just wonder where this task force recently established by the minister assisting fits into the scheme of things.

**Gen. Cosgrove**—I would have an attempt at the goals and aims of the group, which is that it is a focus group to look at personnel issues, with particular emphasis on recruiting and retention.

**Senator MARK BISHOP**—Is it the same work that you have been discussing for the last hour and that you have been reporting on to various committees for the last few months?

**Gen. Cosgrove**—Yes. I think it is the minister's intent to gain the best possible visibility for that and in that senior group to look laterally at what alternatives and strategies might also be incorporated. The head of the Defence Personnel Executive is also a member of that group, of course.

**Senator MARK BISHOP**—That is what this discussion has been about for about the last three-quarters of an hour: retention, recruitment, lateral strategies, particular packages and shortages in particular areas. General, I know that you have the minister assisting and you do what is requested by the government, but how is that task force different from or adding value in a different way from the work that you have been doing for a long time and that we have been discussing in this context for the last hour?

**Gen. Cosgrove**—I should correct something. I think it is the minister's intent to widen that group. I do not think at this stage, after an initial set of consultations, the head of the Defence Personnel Executive has yet participated. I think that the intention is to air issues and examine alternative strategies with a view to ensuring that there is no stone left unturned in relation to improving recruiting and retention.

**Senator MARK BISHOP**—But you have been outlining for the last hour your implementation strategy to address labour shortages from the bottom of the services to the top, essentially. Apart from educating the minister and us, how is this different?

**Gen. Cosgrove**—I would welcome any initiative which gave us, if you like, greater scrutiny and potential assistance in this regard. This is not something where we say that we have the only body of wisdom on what we are doing. I am quite prepared to listen to anybody who, within certain realistic limits, can assist the Defence Force to keep and attract the best Australians that we can.

**Senator MARK BISHOP**—I have asked the question three times; you have given me the answer. Does the committee take public submissions or is it an internal review committee?

**Gen. Cosgrove**—It is the focus group of the minister assisting. I do not think it is designed to have public hearings. Again, that is probably a matter for her; but certainly my impression is that they would welcome any bright ideas from any direction.

**Senator MARK BISHOP**—Are terms of reference available?

**Gen. Cosgrove**—It is not structured that way. It is her calling together people who are directly involved in the personnel functions within the three services for what might be called a focus group. I think it is not the sort of thing that functions best with terms of reference. We certainly did not seek to suggest those and we expect her to direct the conversation of the group into the appropriate areas.

**Senator MARK BISHOP**—What is ASPI's role then?

**Gen. Cosgrove**—I am unaware of that.

**Senator MARK BISHOP**—Mr Sharp, are you the chair of the committee?

**Mr P Sharp**—No, I am not a member of the focus group, but I am the chair of the Defence People Committee and the deputy chiefs are members of that.

**Senator MARK BISHOP**—Let us agree what we are talking about. I am talking about the task force recently created by the Minister Assisting the Prime Minister. Are you talking about that? General Cosgrove referred to it as a focus group.

**Mr P Sharp**—I think the CDF has better characterised it as a focus group.

**Senator MARK BISHOP**—That is what we are talking about?

**Mr P Sharp**—Yes. I should add that the Chief of Joint Logistics has reminded me that he is a member of that focus group as well.

**Senator MARK BISHOP**—You might take on notice, Mr Sharp, and give us a response in writing on when the task force comprising the three service deputy chiefs was created, who else is on that committee, what its function is, who it reports to, what its relationship is, if any, with ASPI, what work ASPI has been commissioned to do and when it will deliver that report. You might advise us whether that committee is the same committee that General Cosgrove characterised as the focus group. That might be the best way to bring it to a head.

**Gen. Cosgrove**—We are only aware of one group, so my characterisation is one I mentioned here trying to get it away from the notion it is a committee. I do not think it is a committee as such; I think it is actually a group of people that are attending the minister to present to her their perspective on the issues involved in recruiting and retention.

**Senator MARK BISHOP**—To the extent that you have discussed them here this morning and it has been supplemented by your senior officers, we have got a pretty good picture of your view of recruitment and retention within the services, I would have thought. The survey we were discussing, on the basis that it has been beaten up, as you said, in the press, would you make available a copy of the survey and the results to the committee? Take that on notice if it—

**Gen. Cosgrove**—I thought you might be able to go to the *Australian* newspaper. They seem to have a good copy!

**Senator MARK BISHOP**—If they do have a good copy, General, it is a copy you have expressed some displeasure about.

**Gen. Cosgrove**—No, the thing about these surveys is that we know when we do them whether eventually one will wander its way into the public domain, simply because it is not something that is highly classified and secretive. But it is an internal organisation document, so of course we do not go and wallpaper the newspaper offices with them. We do understand they will get out there. What galls us a little is where a very selective reading of one of the entries therein characterises the next round of reporting on it. I read out some of the conclusions which, had the Australian people seen those conclusions as well, they would have been pretty happy about, and I think a lot of other corporations would have been somewhat jealous.

In relation to providing the survey to the committee, it would be a deliberate act of putting it in the public domain because these things are obviously then on the record. That would lead to an expectation that each one of those we would in some way table. I am torn between allowing members to browse it and tabling it. Can you assist me there, Chair? I do not want to be reticent, but the next best thing would be to actually put it out there and just leave copies in the foyer of the parliament.

**Senator MARK BISHOP**—If you provide a copy of the survey to the committee, that is a public document that goes on the net and people can access it.

**Gen. Cosgrove**—Yes.

**Senator MARK BISHOP**—The only reason I want a copy of the survey to be tabled is that you have been quite warm and expansive in your description of its findings, which is quite contrary to the public material I have seen and the briefing I have received. They are a long way apart. My attitude is that, unless it has got confidential information or some matters of military secrecy, put the damn thing out in the public domain and let it speak for itself. Who cares?

**Gen. Cosgrove**—Yes, but if we did that every time, there would be a duty or an expectation that we would put these out.

**Senator MARK BISHOP**—But let us go down your path. Let us assume that is the case and every year I or one of my colleagues asks you for the copy—

**Gen. Cosgrove**—It is just the forum, Senator. I wonder if it could be something that could be given to the Joint Standing Committee on Foreign Affairs, Defence and Trade with some minor caveat that it was for the parliament and not—

**CHAIR**—There is a compromise, I think, Senator Bishop. It could be provided to the Senate Foreign Affairs, Defence and Trade Legislation Committee and not the estimates committee. It would then not be a public document.

**Senator MARK BISHOP**—I am not particularly looking to leak the damn thing. I am not persuaded that issues of recruitment, retention, child care, satisfaction with leadership—those

sorts of things—are necessarily so private and confidential that they should not be out in the public domain.

**Senator Hill**—What I would propose to do is to take the question on notice—but not notice for a long period of time. I have got the document but I have not read all of it. We conduct these attitudinal surveys on a regular basis. They help internal planning. They are designed to be internal documents but, to be frank, we also release parts of them from time to time that we think would be of interest to service personnel. The *Australian* obviously released a bit of it that they thought was particularly newsworthy. It creates a bit of a dilemma in those circumstances. I would say, ‘Put it out,’ except that would, as the general said, become the precedent to put all of these things out, and that might not be productive in terms of internal use and planning of these documents in the future. I would just like to have a look at it and think about it.

**Senator MARK BISHOP**—That is fine. I accept that.

**Gen. Cosgrove**—Thank you, Senator.

**Senator MARK BISHOP**—Could we have a brief discussion about the white paper. Someone asked me whether it was capability or strategy. The answer is strategy.

**Gen. Cosgrove**—It is strategy if it is a white paper.

**Senator MARK BISHOP**—I wanted to have a discussion in that context, not about capability—which, as you know, comes later. I suppose this is initially a question for you, Minister. Is the government giving any consideration at the moment to commissioning a new white paper?

**Senator Hill**—No.

**Senator MARK BISHOP**—You are satisfied that the parameters that gave rise to the previous white paper have not been so changed by latter events that there should not be a new effort made in that respect?

**Senator Hill**—That is correct, because, in part, the last white paper categorised a rather uncertain strategic environment, and we assess the situation as still being a rather uncertain environment. It mentioned looming challenges in terms of terrorism and WMD issues and also concerns about the possibility of failing states in the region. All of those concerns have come to pass. They were developed further in an update that we did in 2003. We are planning to do another update this year. But I do not think there has been sufficient core change to warrant throwing out the strategic guidance of the beginning of this decade and starting again. My view differs from that of ASPI, the ANU and other people whose business is full-time focus on these issues.

**Senator MARK BISHOP**—I am not going to comment on that.

**Senator Hill**—I think that, if you simply rewrite white papers too often, they lose their value.

**Senator MARK BISHOP**—The government identifies the strategic situation as not having changed so radically from 2001 that it warrants a full, detailed, new investigation.

**Senator Hill**—That is correct.

**Senator MARK BISHOP**—When you say ‘update’, is that an internal, private ADF process or is it a whole-of-government process to be made public?

**Senator Hill**—The 2003 one was a whole-of-government process.

**Senator MARK BISHOP**—And the next one will be a whole-of-government process?

**Senator Hill**—I expect so. At the moment we are working at the Defence end of it. The full whole-of-government processes have not been settled.

**Senator MARK BISHOP**—When do you think that planning process will be—

**Senator Hill**—Well, I want the whole process to be completed later this year.

**Senator MARK BISHOP**—In terms of its report to government or in terms of the planning for the report?

**Senator Hill**—No. I want another update completed and what we can release publicly released later this year.

**Senator MARK BISHOP**—All right then. Why do you think there is a need for an update? What has changed in your thinking, if anything?

**Senator Hill**—I think it is useful in terms of assessing how we have dealt with those emerging issues and what lessons can be learnt from that. Even since 2003, in relation to the war against terror, a lot has occurred. There have been very significant contributions by Australia and the ADF. There is that and WMD, of course, and, again, the development of the proliferation security initiative—a whole range of activities have been undertaken in examination of those. In relation to states in difficulty in the region, we had the Solomon Islands intervention and the further assistance to PNG that has run into some constitutional issues. So I think reflection on these matters is useful without there being a substantial strategic change that justifies something at the level of a white paper.

**Senator MARK BISHOP**—Are your concerns directed to developments of a local and regional nature more than to the big-picture issues like WMD, the war on terror and the involvement in overseas conflict, or is it an update on all of the above?

**Senator Hill**—I regard terrorism as the big-picture issue.

**Senator MARK BISHOP**—No, I am not saying that. I am saying: is the update more—

**Senator Hill**—The update is focused more on our reaction to these challenges as they have evolved.

**Senator MARK BISHOP**—The big-picture challenges or local developments?

**Senator Hill**—Well, I do not like the way you distinguish between the two.

**Senator MARK BISHOP**—When I say ‘local developments’ I mean developments in—

**Senator Hill**—I see WMD as big picture. I see terrorism as big picture.

**Senator MARK BISHOP**—No, you misunderstand. When I say ‘local or regional developments’ I mean the involvement in the Solomon Islands and the more recent developments in PNG which have Defence implications, as opposed to the big-picture issues of international terrorism, wherever it might be located. I am asking you what is driving the

need for the update—the regional developments of late or the continuation of the war on terror? That is the distinction I make.

**Senator Hill**—I still find it hard to see. There is nothing I would isolate that has occurred that would drive me to say an update is immediately essential. What I am saying is that the last update focused on those three areas of emerging threat. As it turns out, Australia has become very involved in addressing each of those during the last couple of years. I do not think any of them have gone away. I think an exercise whereby officials in particular give thought to how we have responded, see if there are lessons that we can learn for the future and put those down to engage a broader government process of, in effect, evaluation and analysis is a healthy thing.

**Senator MARK BISHOP**—Thanks. You have answered the question.

**Proceedings suspended from 10.30 am to 10.54 am**

**CHAIR**—These estimates hearings are now back in session. I understand the minister will be back shortly. I think, General Cosgrove, you wanted to make a couple of comments about a question asked yesterday.

**Gen. Cosgrove**—I would like to amplify a response made yesterday in relation to ADF leave. As I recall, the gist of the remark was that we did not mandate the taking of leave. I thought I would explain the position on leave and surplus credits held by individuals. We have a policy within the ADF that leave in excess of two years or credits can lapse but we have extended that to three years. That would mean that, for somebody who at the end of three years had failed to take all their credits then that part, which was from year 1, ostensibly would lapse. That is similar to many other industries and their policies; however, given the pressures on ADF people, I have been reluctant to impose that policy and have instead required it to be intensively managed so that people approaching that position with their superiors negotiate the taking of leave so that we prevent leave lapsing off their records at the end of that third year. That is working very well. We have reduced the numbers from several hundred people being over and above the required no more than two years worth of credits in our book at any particular time to a handful, and that number will continue to come down.

**Mr Smith**—I want to clarify a comment I made on a related matter yesterday. I said that we do not have a ‘take it or lose it’ policy. That is so for the Public Service members of the Defence organisation. It was not a comment that applied to the ADF, whose circumstances CDF has now explained.

**Senator MARK BISHOP**—I wish to turn to the longstanding project JP 2077, the improved logistics information systems. I understand it has been recently discussed by the joint committee. Could we have a brief update on the status of the SDSS Get Well project?

**Mr Smith**—Brigadier McGahey is our expert on the subject of the JP 2077 joint project—that means 2077—and Dr Gumley is well apprised of that end of the Get Well program as well. Before either of them speak, I should just say that JP 2077 is at the stage where over the next couple of months we will be seeking government approval for it, and so my colleagues may be a little constrained in what they say about our options because they are included in the advice to government. Short of that, they are certainly very willing to speak about it.

**Senator MARK BISHOP**—You have been doing a review for a couple of years now, haven't you?

**Brig. McGahey**—In terms of requirements determination, yes, for the future logistics information systems.

**Mr Smith**—It is very important to distinguish between SDSS, the box with the software in it, on the one hand and SDSS, the system gathering data, on the other. Perhaps either Dr Gumley or Brigadier McGahey can make that distinction. That is a point I think we did not bring out well enough with the joint committee recently.

**Dr Gumley**—The SDSS Get Well Program was principally about the software, the network and elements of training and communication but the business process that goes around it is still a work-in-progress issue. So, when we talked about the SDSS Get Well, we were talking about, if you like, the more limited version of SDSS. The total business process system is still a lot of work in progress.

**Senator MARK BISHOP**—Mr Smith outlined at the beginning that you would shortly be taking a recommendation to government for a decision. What was he speaking about?

**Brig. McGahey**—He was talking about a submission to improve the logistics information systems and to address the key capability issues that we have with our current information systems—that is, a financials framework, the ability to deploy the system in support of operations communications interrupted anywhere in the world, a fully integrated in-transit visibility system so that we could see where the materiel was moving through our supply chain and an upgrade so that we have a world-class information system that is web enabled and objects based—a contemporary system.

**Senator MARK BISHOP**—Is that the software issue that Dr Gumley referred to?

**Dr Gumley**—It is a software issue relating to a lot of support to military operations and to a better financial package and how it links into our other financial packages in Defence. In and around that, we are going to have to do a lot of business process work and a lot of training. I would not want the committee to be misled that, just by doing JP 2077, all those other issues get fixed automatically.

**Senator MARK BISHOP**—So, as far as you are concerned, the review you have conducted to date—and it is ready to go to government for decision making—is about all of the work around the software package, the software systems and the associated implementation and training, and the other issues that you just discussed are works in progress for resolution later?

**Dr Gumley**—That is correct.

**Senator MARK BISHOP**—With regard to the distinction Dr Gumley makes between the software work and the business processing work, the software work that you have been doing for the last few years is really the heart and soul of the project, is it not?

**Brig. McGahey**—Are you referring to JP 2077 or the Get Well Program?

**Senator MARK BISHOP**—The Get Well Program.

**Brig. McGahey**—As Dr Gumley has pointed out, Get Well addressed some of the core issues of the software but, in reality, what we seek is alignment between the policy, the process and the software. Just fixing the software issues in terms of the data and how well the system operates will not give us the supply chain or maintenance system that we want, so we clearly have to have alignment between the policy and the processes, bearing in mind that, as part of the project, the aim was to get Army, Navy and Air Force on one common joint supply chain management system. That is not just about having the software in place; it is about having the business processes in place and about having the business policies in place so that we take a joint view of how supply chain management occurs. That is the work that has been done over the last three years.

**Senator MARK BISHOP**—And that work is virtually concluded in terms of recommendations for decisions by government?

**Brig. McGahey**—That work is about the current system. The recommendations for government were about how we could take this current system and turn it into a world-class logistics information system. We did a lot of work separately in a parallel process to identify where the capability gaps are in the current system in terms of its deployability and around the financial framework, because the existing system is not a financial system per se. In identifying those gaps we looked at in-transit visibility because, in a global supply chain, we clearly need the ability to monitor the flow of materiel through that supply chain. We worked to build those into a proposal to upgrade the technology so that we have a modern information management system.

**Senator MARK BISHOP**—Can you briefly tell me the work you have concluded in terms of the Get Well project?

**Brig. McGahey**—With regard to the Get Well Program, essentially what we have looked at is a number of work streams. They were to resolve what we felt were some of the deficiencies of the current system. That was business process. We have done an extensive review of our current business processes in concert with ANAO to see where issues were and we have identified some 132 recommendations that we are currently working through with management action plans. Like all IT systems, there were issues of data quality within the system. We put some fairly extensive work into fixing the data, but part of the data quality issue was also ownership. We flagged yesterday in our discussions that supply customer account ownership was an issue of data, and that has been resolved. We are chipping away at those issues to have a system with good quality data in it.

There was an issue of training. As I flagged in the move towards a joint supply chain management system, we clearly had to train everybody on a common curriculum. We have now established a common curriculum. I have been appointed the manager of joint training for these particular systems, so there is a core view of what training is required, and that curriculum is now implemented across DMO and the services.

With regard to financial reporting, the system had to be able to provide financial reporting into the core financial system, ROMAN. We have put some 17 reports in place that will provide that core financial reporting into the ROMAN system. There was a perception post the SDS upgrade that the system was not operating at a speed that the users found easy to use

or productive. So some related work has been done through the infrastructure division to put into place an upgrade; and all of those upgrades have been completed, except for the Amberley site, so the system is operating at a speed which the users find user friendly and it is also productive.

**Senator MARK BISHOP**—If the government signs off on the recommendation going forward in a couple of months time—accepts your recommendations and instructs you to implement—what is left to be done in terms of the Get Well project?

**Brig. McGahey**—As Dr Gumley has flagged, the issue now for Get Well, given that we have put the quantity of work into system performance and into ensuring that the system, in a software sense, does what we want it to do, is that we are now going to focus our efforts on compliance and business process work, which will cover the 132 recommendations for business process. We have had a recent ANAO audit of our compliance framework and some issues have been found there, so we will now put a program of work in place to address those compliance and control issues.

**Senator MARK BISHOP**—Is that work of the scale that you have just recently concluded in terms of the SDSS project?

**Brig. McGahey**—We have just received the report. We are currently analysing it. I cannot comment on the scale of the work, because we have to work our way through it.

**Senator MARK BISHOP**—Dr Gumley, can you comment?

**Dr Gumley**—Yes. ANAO made about 20 recommendations. We agree with about a third of them, we partially agree with about a third, and we disagree with about a third. Now we have got to go through and scope those recommendations and the amount of resources to fix them; but there are also some that get down to almost policy or principle as to what is the best way to run your business. So we have got to have those discussions as well.

**Senator MARK BISHOP**—So there is still a fair amount of time to go and a fair bit of work to be done.

**Dr Gumley**—Yes, there is. And it all becomes a question of balancing compliance against efficiency. We are going to have to make some hard choices on these issues over the next 12 months.

**Brig. McGahey**—That work essentially—whether it is the current system or the future system—is required to be done. So we have to sort out these compliance and business projects.

**Senator MARK BISHOP**—It has to be addressed.

**Dr Gumley**—Yes, and to address it properly we have got to work closely with ANAO and get an agreement on the way forward.

**Senator MARK BISHOP**—Okay. What is the total expenditure to date on the Get Well project?

**Brig. McGahey**—\$11 million.

**Senator MARK BISHOP**—Over what time frame?

**Brig. McGahey**—Over 18 months.

**Senator MARK BISHOP**—In its entirety, or is that just the reviews and the upgrading?

**Brig. McGahey**—That is the core work that was project managed, but there were other issues. Every IT system has sustainment and upgrade, so whilst there is \$11 million we did not get, other dollars were spent in just running the system and fixing bugs that normally occur within IT systems.

**Dr Gumley**—So that \$11 million is an incremental additional cost. Nor does it cover the cost of public servants and military people actually using the system.

**Senator MARK BISHOP**—Over what sort of time frame was that \$11 million spent?

**Dr Gumley**—We started at the end of March 2004, through to roughly now.

**Mr Smith**—I should say, Senator, that that is not one project in the sense that we might talk of JP 2077 or LAND 125 or a project like that. It is several activities taken together. To try to give things impetus in our organisation, we often give them a project or program label, and that is what we have done here, but it is activities drawn from several different areas that we have bumped together to try to push them forward.

**Senator MARK BISHOP**—I understood from the report that it was across a range of activities across the services. So you have spent about \$11 million since March 2004. How much have you allocated over the forthcoming financial year?

**Brig. McGahey**—In terms of the ongoing, sustainable work, it is \$4 million.

**Senator MARK BISHOP**—Do we anticipate further significant outlays in the forward financial years?

**Dr Gumley**—There will be further outlays. I see processes as something you are continually trying to improve on. I do not see it as a project that has an absolute, clear end because we are continually improving and getting better at what we are doing.

**Mr Smith**—There is an endless amount of work on training people and getting disciplines and controls in place but, as to what we actually spend on the software and box itself, we just cannot go on spending on that because it has a finite life now.

**Senator MARK BISHOP**—I might just bring to an end the conceptual discussion. What is the final outcome the services are seeking from the Get Well Program and the JP 2077?

**Dr Gumley**—That is an excellent question because it actually differentiates between the two quite different needs we find in the ADF. You asked a specific question: what are the services looking for? That is a slightly different slant from: what does the financial side of the organisation look for? So perhaps Brigadier McGahey can talk about the logistic side of it.

**Brig. McGahey**—Essentially with 2077 we are aiming to, as I pointed out, achieve an upgrade across a number of capability gaps that we see. A critical issue is to have a world-class financial system that underpins our maintenance, engineering and supply chain management system. We seek to have a supply chain management system that includes, as I said, an element of deployability because clearly we have to deploy this system, and have deployed this system, anywhere in the world. We want to design into the system the ability to deploy it without consuming too much of the bandwidth in terms of communication. We are

designing—whilst this sounds fairly simplistic, this is cutting edge stuff in terms of global supply chain systems—a fully integrated in-transit visibility system so that we can actually plot the movement of materiel through our supply chain system.

Similarly, because the supply chain management, engineering and maintenance are quite tightly coupled events, we want to ensure that our systems can talk to each other—I guess I would use that phrase—and exchange data so that we have a fully integrated system for Defence.

**Senator MARK BISHOP**—I understand the logistics there. What is the—

**Dr Gumley**—The financial then is to ensure that the correct quantities and the correct prices are in for each element and also things like picking up the value added that you are doing in the repair chain. So we have to ensure that all of this logistics work flows back into the financial statements. That is stage 1. Stage 2 is making the adaptations required to meet the new international accounting standards that are coming.

**Senator MARK BISHOP**—So this financials work is related to the discussion we had yesterday on the costings and evaluations—

**Dr Gumley**—Exactly.

**Senator MARK BISHOP**—and the integration of items into the system so that not only can their location be identified but also their value is recognised.

**Mr Smith**—Quite so. Many years ago when SDSS started its life, it was a logistics management system. Then with the introduction of new accounting methodologies, accruals, AEIFRS and so on, we have had to migrate it into being part of our integrated financial management system as well. That is what a lot of the upgrade work and the Get Well work has been about.

**Senator MARK BISHOP**—So you can integrate it into your financial management system.

**Mr Smith**—With regard to JP 2077, whatever decision government makes on that, that will be its first aim—to be able to do both of those things.

**Dr Gumley**—So it has two quite separate parts. It has logistical work like deployables, as Brigadier McGahey has talked about, and it has financial stuff like working with the international standards.

**Senator MARK BISHOP**—Understood. The ANAO, on page 13 of its report No. 5 of 2004-05, advised DOFA that some of the studies associated with JP 2077 concluded that migration to a different system would have been more expensive than the options chosen. You chose one of the other options. Why did you go down that path in terms of the costs being higher that way?

**Mr Smith**—The issue you raise is actually related to the choice of new systems into the future. That is what will be the subject of government decision and tenders and so on, so we would sooner not intrude too far down that path, if you do not mind. There are different views about which systems are best for this.

**Senator MARK BISHOP**—Is the recommendation that goes to government a decision of yours, Mr Smith, or of the service chiefs?

**Mr Smith**—It will be a recommended position that comes out of our Defence Capability Investment Committee, which I chair. We then recommend a submission to the minister who, if he agrees with it, will refer it to government.

**Senator MARK BISHOP**—Has the committee which you chair, which is really the instrument, made its decision on a recommendation?

**Mr Smith**—We have taken a position which we have put to ministers, then that will go to government through the normal process of the secretaries committee.

**Senator MARK BISHOP**—In your thinking, that would have addressed the options of high cost, low cost, a new system, migration to existing system et cetera.

**Mr Smith**—The different alternative systems.

**Senator MARK BISHOP**—But you say that is the end of the discussion.

**Mr Smith**—Thank you.

**Senator MARK BISHOP**—Has it gone to the minister or will it go to the minister?

**Mr Smith**—It has been to the minister once; there is more work to be done.

**Senator MARK BISHOP**—Is it fair to characterise the system that you are sending off to the minister—

**Mr Smith**—Government.

**Senator MARK BISHOP**—as a commercial off-the-shelf system or is it a major departure?

**Brig. McGahey**—As near as possible to a commercial off-the-shelf system. I guess one of the issues that I would characterise with the current system is that it has been heavily customised—there are some 700 user exits—so it makes it quite a difficult system to maintain and to grow forward. So the decision strategically is to wherever possible purchase a commercial off-the-shelf system. Having said that, there are some unique requirements in terms of Defence and operations where parts of the system will have to be modified to meet Defence's needs.

**Senator MARK BISHOP**—The modifications you are going to have to do to meet Defence's needs are part of the costings attached to the recommendation, aren't they?

**Brig. McGahey**—That is correct.

**Senator MARK BISHOP**—Presumably the minister will in due course sign off. Is that then the subject of internal implementation or contract tendering for implementation?

**Dr Gumley**—We will have a project office with a program manager. It will be run through the DMO with our new program management framework. We will be running it for cost and effectiveness the best way we can. We will be engaging various contractors to do the work, obviously, and buying an off-the-shelf system as close as we can get to it, but it will be a DMO project.

**Senator MARK BISHOP**—Can we now talk about the Seasprite helicopters. Air Vice Marshal, we had an overview discussion last time about the Seasprite helicopters. From memory, in the order of 11 were delivered in October 2003—some years late because of problems with weapons software—and there have been further issues since then. What is the overall status of the project in terms of delivery times to the services?

**Air Vice Marshal Rossiter**—Just to correct your recollection of the previous engagement, at that stage we had received under interim configuration conditions eight of the 11 and I was foreshadowing that we were expecting to receive the ninth and 10th in the not-too-distant future. The ninth aircraft has completed its acceptance testing and, except for the fact that it had one component unserviceable and they have to replace that component before we finally accept it, that one is ready for acceptance as well. The 10th one is due to be accepted around the June-July period.

**Senator MARK BISHOP**—How many are outstanding after the 10th is delivered?

**Air Vice Marshal Rossiter**—That is the last of the production ones. There is one still over in the States completing the software development program testing.

**Senator MARK BISHOP**—When the one in the States has the software work concluded and it is delivered to Australia, does that conclude all of the requirements to be provided by the contractor?

**Air Vice Marshal Rossiter**—No, because they will be in the interim configuration, so the software load that is fitted to that is suitable for commencement of initial pilot training and general utility flying but it does not have all of the tactical systems operational. That is the remaining software development work that is being undertaken at the moment.

**Senator MARK BISHOP**—Is it just for that particular helicopter or is it for all of the helicopters delivered to date?

**Air Vice Marshal Rossiter**—It will apply to all of them.

**Senator MARK BISHOP**—When will that weapons software development be concluded?

**Air Vice Marshal Rossiter**—At the moment the contracted date is September for delivering the final one, but I would have to say that the schedule remains a challenge for the current contractor and the rate of progress of concluding some of the software development activity would suggest that that schedule is under threat.

**Senator MARK BISHOP**—At best it is likely to blow out to next year.

**Air Vice Marshal Rossiter**—We hope to contain it into this year, but I think your assessment of that two-to-three-month schedule risk is not unrealistic.

**Senator MARK BISHOP**—In terms of that weapons software development, does that mean that the weapons that are currently fitted to the other platforms are not capable of being used for the purpose for which they were designed?

**Air Vice Marshal Rossiter**—It means that most of the tactical systems are not operational in the current software release that is flying today.

**Senator MARK BISHOP**—Most of the tactical situations: does that mean if they were required to engage the enemy in conflict they would be unable to use the weapons systems? Those engagements by definition are tactical, are they not?

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

**Senator Hill**—Now.

**Senator MARK BISHOP**—That is what he said.

**Senator Hill**—But they are not at that stage.

**Senator MARK BISHOP**—That is what I am asking.

**Air Vice Marshal Rossiter**—Yes, in the interim configuration you are quite correct. The full configuration will be delivered later this year.

**Senator Hill**—We decided to take the interim configuration to allow training to take place in terms of flying the aircraft, all those basic essentials that would have to be built up in any event.

**Senator MARK BISHOP**—Yes. Once the pilots are trained in operations and flying, the responsible person would then have to be trained to implement the weapons options via the new software system. That is going to occur late this year or early next year.

**Air Vice Marshal Rossiter**—Correct.

**Senator MARK BISHOP**—When do you think all of the helicopters will be fully mission capable for all forms of unrestricted military flying?

**Air Vice Marshal Rossiter**—I think that will occur in 2006.

**Senator MARK BISHOP**—Is that early next year?

**Air Vice Marshal Rossiter**—It is hard to give you more precise timing until we see how this software development activity concludes. When they have completed the software development, they will offer to us an aircraft in the final configuration. We will then conduct another flight test program to fully test that aircraft to determine whether we believe it has satisfied the contract. Assuming that there is not too much remediation work required as a result of that test program, it will occur earlier in the year than otherwise.

**Senator MARK BISHOP**—Once you have signed on for delivery of that particular craft, do the other crafts previously delivered have to be then finally reconfigured?

**Air Vice Marshal Rossiter**—Yes, but at that stage it should be just a software upload. The period from the time we finally accept it and have a fully functional aircraft in the first aircraft to having the whole fleet in that configuration, assuming it is just a software fix, is not a long period of time.

**Senator MARK BISHOP**—Understood. When the final craft is delivered and you have concluded your training, the software has been inserted, the men have been trained how to operate it and the machine is operational and carrying out its military purposes, will you do an evaluation of the merit of the contract process, the delivery timetables and the overall worth of the project?

**Dr Gumley**—We will most definitely be doing a review of where the project has taken us. There are a lot of project management areas for this particular project where we know we could have done better. We are working intensively at the moment, and we will certainly do a review when we get to the end.

**Senator MARK BISHOP**—So there are a few lessons to be learnt.

**Dr Gumley**—Absolutely.

**Senator MARK BISHOP**—Off the top of your head—I do not want to prolong the discussion—what are the key issues of concern in terms of potentially learning from past errors?

**Dr Gumley**—Probably not intensive enough management of software development and our visibility of everything that is going on in the software development cycle.

**Senator MARK BISHOP**—Is it just too complex?

**Dr Gumley**—It is complex. Most military software is very complex. If you look at a common theme across all the projects we have, the software is usually the hardest thing to complete on time.

**Senator MARK BISHOP**—When you do your negotiations for the software component and the training, do you use in-house expertise or do you retain contractors to advise you at that relatively high level?

**Dr Gumley**—At this stage, it is a mix of both.

**Senator MARK BISHOP**—Do you have a preferred option?

**Dr Gumley**—I would prefer to have a highly skilled group inside DMO who can do this work. I think it is core business for our organisation and as we develop the organisation over the next few years, I want to capture some of those skills in-house where possible.

**Senator MARK BISHOP**—Do you think that is one of the capabilities that your organisation should be building over the next few years?

**Dr Gumley**—Yes, I do.

**Senator MARK BISHOP**—Because it is the future?

**Dr Gumley**—Yes, and I do not see military equipment getting any less software intensive in the future.

**Senator MARK BISHOP**—Or less complex.

**Air Vice Marshal Rossiter**—I think we have done a much better job, for example, on the more recent projects like the AEW&C. That is a very software intensive project as well, but it is performing very well.

**Senator MARK BISHOP**—Is that the destroyers?

**Mr Smith**—No, the airborne warning and control system—the AWACS.

**Senator MARK BISHOP**—Let us turn to the Army vehicle replacement project. I want to talk about Project Overlander. I am told—and I do not necessarily hold it out to be true—that much of the Army's fleet is approaching, if not past, its replacement date—is that correct?

**Mr C Sharp**—I believe that is correct.

**Senator MARK BISHOP**—Is that why Project Overlander has been devised and is being implemented?

**Mr C Sharp**—That is correct.

**Senator MARK BISHOP**—Briefly, could you tell us what Project Overlander is, what it is designed to achieve, what its timetables are and what its implementation process is?

**Mr C Sharp**—To avoid any confusion, Project Overlander consists of phases 2A, 3A and 3B. Essentially, you have been talking about phases 3A and 3B: the replacement of the B vehicles in current service. Phase 2A is a range of discrete projects to upgrade the current in-service. That is about \$80 million, whereas 3A and 3B is about \$3 billion. I guess we will concentrate on 3A and 3B?

**Senator MARK BISHOP**—‘Upgrade current in-service vehicles’—what is that?

**Dr Gumley**—Bulk leaded fuel transporters, heavy recovery vehicles, Mack in-cabin noise reduction, Unimog and Mack gun tractors, Land Rover personal safety and Land Rover handling.

**Senator MARK BISHOP**—But they have not come to the end of their useful life; they just need to be modernised.

**Dr Gumley**—We are upgrading them—mid-life refit. It is about an \$80 million project and it is going pretty well. It has got green flags all the way.

**Senator MARK BISHOP**—We want to talk about the big ticket money.

**Mr C Sharp**—Phases 3A and 3B seek to replace the current B vehicle fleet, which can be described or characterised as a heavy medium segment, a light vehicle segment, and trailers and modules integrated onto the trucks or coming with the trucks. It is in two phases, as I said: 3A and 3B. The cost of 3A is around \$500 million, and this will replace the field vehicles and trailers in 3 Brigade in Townsville, Sydney and RAAF Amberley. An invitation to register has already been released—that was in August 2003. We got responses from 18 companies and we have short-listed the medium and heavy segment to nine companies. We are in the process of preparing three RFTs, requests for tender, in three segments. The heavy medium segment will go to the nine short-listed companies. The B vehicle light segment will go to an open RFT open tender and the trailer segment will go to open tender as well.

**Senator MARK BISHOP**—What was the first tender? Was that open or restricted?

**Mr C Sharp**—No, that was restricted to the heavy medium sector.

**Senator MARK BISHOP**—Why was it restricted?

**Mr C Sharp**—On the basis of the ITR, it was restricted. We went out to the market in an open sense to see what their capability was and then we reduced it to nine and restricted that. That reduces the workload on the project and prevents unnecessary effort by industry. We got from 18 to nine on the basis of—

**Senator MARK BISHOP**—And then you are doing a restricted tender.

**Mr C Sharp**—Yes, we are doing a restricted tender for that nine.

**Senator MARK BISHOP**—Do you invite a number to make a final submission?

**Mr C Sharp**—Yes, that is right.

**Senator MARK BISHOP**—Is that process in train?

**Mr C Sharp**—Yes, it is.

**Senator MARK BISHOP**—When will that be concluded?

**Mr C Sharp**—We expect to issue the RFT in November 2005 for the restricted part and we will go concurrently with the other two segments. That will give industry about six months to respond and then we will have about six months of evaluation. This is a prior second pass approval process, so we are going for tender quality information to second pass so that government can make a decision on all these.

**Senator MARK BISHOP**—So at the earliest—

**Mr C Sharp**—We are looking at the end of 2006.

**Senator MARK BISHOP**—End of 2006, beginning of 2007 for a recommendation to go to government.

**Mr C Sharp**—I will just correct you: the second pass and government announcement no later than June 2007.

**Senator MARK BISHOP**—That is for all three phases.

**Mr C Sharp**—Yes, it is.

**Senator MARK BISHOP**—What is the total spend forecast on the 3A and 3B—\$3 billion, you say?

**Mr C Sharp**—The 3A and 3 B will be in the order of \$3 billion.

**Senator MARK BISHOP**—At current dollar prices.

**Mr C Sharp**—Yes.

**Senator MARK BISHOP**—The heavy medium, the more restricted tender—what is that worth?

**Mr C Sharp**—I have not got the detail on how it is broken up. I have got it broken up by phases but I can get it for you. The RFT will settle a lot of the questions about what capability for what price and how many vehicles.

**Senator MARK BISHOP**—The \$3 billion you are spending on the 3A and the 3B, the heavy medium and the light—have the services requested specific designs or are you taking appropriate commercial vehicles off the shelf?

**Mr C Sharp**—We are taking a current capability view—off the shelf and military or commercial.

**Senator MARK BISHOP**—You call it current capability—

**Mr C Sharp**—In other words, we are not looking for a development project. We are looking for current capability, what is available in the world's best practice, coming with modules, and integrating the trailers to those vehicles.

**Senator MARK BISHOP**—We might turn now to the MRH 90 helicopter purchase. Where is the government at in terms of signing a contract for the acquisition of MRH 90 helicopters?

**Air Vice Marshal Rossiter**—We expect to sign both the acquisition and the in-service contracts very shortly. We are concluding negotiations at the moment and we will be signing both those contracts this financial year.

**Senator MARK BISHOP**—So there is no need to go back to the minister or to cabinet for further decision?

**Air Vice Marshal Rossiter**—No, that is done.

**Senator MARK BISHOP**—So we are in implementation phase.

**Air Vice Marshal Rossiter**—Yes.

**Senator MARK BISHOP**—What is the value of that contract?

**Air Vice Marshal Rossiter**—I do not want to give you a precise value at the moment because we are still in negotiations, but it is within the DCP figures.

**Senator MARK BISHOP**—What were the DCP figures?

**Air Vice Marshal Rossiter**—At the upper end of it, in the 2004-14 DCP the figures were \$750 million to \$1 billion.

**Senator MARK BISHOP**—We are in that ballpark. Are you still engaged in final price negotiations?

**Air Vice Marshal Rossiter**—No, but we have not signed a contract.

**Senator MARK BISHOP**—How long was the slippage in signing the contract? When did you originally anticipate that you would be ready to sign contracts?

**Dr Gumley**—I think the contract has taken about the length of time we expected.

**Senator MARK BISHOP**—When you first went into planning?

**Dr Gumley**—When government made its announcement on source selection—I think it was last August. We always knew it was going to be about an eight-, nine- or 10-month contract negotiation period because we wanted to negotiate the in-service sustainment contract as well as the acquisition contract. In fact, it has been the in-service contract that has taken a lot of effort in recent months.

**Senator MARK BISHOP**—Is that essentially the work that has to be done after the platforms are delivered—the maintenance and training?

**Dr Gumley**—Yes, and it is rather important to negotiate the sustainment contracts before you find the acquisition because government only has leverage to work with the contractor while you still have on the hook that you might buy the helicopters.

**Senator MARK BISHOP**—So after last August you took both the contract negotiations forward contemporaneously?

**Dr Gumley**—Yes, and we hope to sign both contracts at the same time or very close together.

**Senator MARK BISHOP**—Was the contract delayed by Defence's request of EADS and Sikorsky to bid on the supply of an additional 12 troop-lift helicopters as well as the replacement or upgrade of the Army's Black Hawks?

**Air Vice Marshal Rossiter**—No, I do not think it has been delayed as a result of that. Right from the start in the RFP process we always were exploring a phase 2 option, the 12-aircraft option, an independent phase 4 option plus a combined phase 2 and phase 4 option. We have taken that through and at each stage looked at those options. It would be correct to say that there was a requirement for them to negotiate on price and readjust price based on some scope changes around the edges in order to provide a value for money option, but that is typical with every negotiation.

**Senator MARK BISHOP**—How much did the additional 12 troop lift helicopters add to the contract price in the end? They were an addition to the project partway through, were they not?

**Mr Smith**—Sometimes we call the project 'additional troop lift helicopters'. Air 9000 phase 2 is called ATLH—additional troop life helicopters—and that is the 12.

**Senator MARK BISHOP**—I am sorry.

**Mr Smith**—It is just our quirky thing about naming it.

**Senator MARK BISHOP**—Right. Where will the helicopters be assembled?

**Air Vice Marshal Rossiter**—Eight out of the 12 will be assembled in Australian Aerospace's facility at Brisbane—the same place that the Air 87 aircraft are being assembled today. The other four will be taken out of the production line over in France. That was required in order to meet the in-service date and to provide a training base for the Australian Aerospace people who will be assembling the aircraft in Australia.

**Senator MARK BISHOP**—Taking four fully assembled from France was satisfactory as far as Defence was concerned?

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

**Senator Hill**—The contract has not yet been signed; therefore, I think we need to be a little—

**Senator MARK BISHOP**—That is correct.

**Senator Hill**—I am expecting it will all progress satisfactorily in accordance with what the Air Vice Marshal is saying but it is never a done deal until the deal is done and the ink is dry.

**Air Vice Marshal Rossiter**—That is quite correct. I am predicting an outcome there.

**Senator Hill**—If that is the outcome, that will be a very good Australian defence industry outcome. I will be the first to congratulate the negotiators.

**Senator MARK BISHOP**—It leads to a range of questions.

**Senator Hill**—I see.

**Senator MARK BISHOP**—It does. You make the obvious point: if they are going to be assembling eight up there, how many people are going to be employed? Have you done that sort of work?

**Senator Hill**—I do not know. We probably have done some estimates of that but it will complement the Tiger assembly line. You are then really starting to build a degree of mass in the helicopter assembly and support industry in Queensland. This is at the highest level of technical capability in terms of helicopters. I think that bodes well for the future in terms of the Australian defence industry in this field.

**Dr Gumley**—And it gives us skilled workers for the in-support phase as well.

**Senator HOGG**—Will the through-life maintenance support be delivered through the company that does the assembling of the helicopters in Brisbane?

**Air Vice Marshal Rossiter**—Yes.

**Senator HOGG**—So it is a total package.

**Air Vice Marshal Rossiter**—Separate contract; same company.

**Senator HOGG**—That is what I mean.

**Senator MARK BISHOP**—When you purchase 12 and they are all assembled, how many will be in active service at any one time?

**Air Vice Marshal Rossiter**—Of the 12?

**Senator MARK BISHOP**—Yes.

**Air Vice Marshal Rossiter**—Eight to 10 would be our expectation.

**Senator MARK BISHOP**—That is roughly two or three for repairs and upgrading—that sort of thing.

**Air Vice Marshal Rossiter**—That is correct. More in the early years before you get into the deeper maintenance requirements that come with age but, yes, in that order of magnitude.

**Senator MARK BISHOP**—What is the expected life of these 12 troop lift helicopters?

**Air Vice Marshal Rossiter**—Typically, Aerospace platforms have two lives. You have a structural life that typically goes out 25 or 30 years.

**Senator MARK BISHOP**—That is the frame, isn't it?

**Air Vice Marshal Rossiter**—That is the frame. The avionics systems—the smart part of the aircraft—tend to have an upgrade life in the order of 15 years. They are crude figures.

**Senator MARK BISHOP**—These platforms are no different from that?

**Air Vice Marshal Rossiter**—I would not expect them to be different.

**Senator MARK BISHOP**—The discussion so far has been on the contract signing of the 12 troop lift helicopters. Where are we at on the upgrade of the Black Hawks up there?

**Air Vice Marshal Rossiter**—That is a totally different phase and not yet approved for contract.

**Senator MARK BISHOP**—Has Army concluded its work to date?

**Air Vice Marshal Rossiter**—I think all of that is being pulled together in a more strategic review of the helicopter capabilities across the ADF at the moment. That is still a work in progress.

**Senator MARK BISHOP**—That is not yet a responsibility for Dr Gumley's organisation, is it?

**Air Vice Marshal Rossiter**—No, it is still with capability development.

**Senator MARK BISHOP**—Are we upgrading or replacing the Black Hawks? Has that decision been made yet?

**Lt Gen. Hurley**—No, we are still in the study and development phase looking at the way ahead for phase 4, which is the phase you are talking about, and whether we will replace or upgrade the current fleet of Black Hawks.

**Senator MARK BISHOP**—When will your thinking be concluded on that decision?

**Lt Gen. Hurley**—We have written a major study paper on it, got some comment back from the minister on that and we are doing some work over the next few months. We want to come back for a first pass for phase 4 by the end of this year.

**Senator MARK BISHOP**—Is a first pass for phase 4 the decision on replacement or upgrade?

**Lt Gen. Hurley**—The first pass for phase 4 will be when we come forward to government with options that we wish to then consider to develop further with industry.

**Senator MARK BISHOP**—You have to develop the range of options to take to government for its consideration?

**Lt Gen. Hurley**—Yes.

**Senator MARK BISHOP**—If that goes forward, say, towards the end of the year, how long will that work have taken?

**Lt Gen. Hurley**—Separately thinking about phase 4, working on from the decision in August last year—so August to August—plus another few months, it will take about 14 or 15 months.

**Senator MARK BISHOP**—You are working up the options now. We really are the best part of a couple of years away from government being ready to make a decision.

**Lt Gen. Hurley**—It will be in the 2006 period. I think we can move fairly quickly on this. We have a lot of data. We just have to develop the options now for government to consider and some more interaction with industry post that, and we can come back next year.

**Senator MARK BISHOP**—The government will sign off on a series of options, you will come back with a further recommendation and that final recommendation then goes to the issue of replacement or upgrade, doesn't it?

**Lt Gen. Hurley**—That is correct.

**Senator MARK BISHOP**—We would hope to have that decision made by the middle of 2006?

**Lt Gen. Hurley**—I do not have the exact date right in front of me, but I can come back with the second pass due date for you. I believe it is in 2006.

**Senator MARK BISHOP**—How many more passes are there after that?

**Lt Gen. Hurley**—That is it.

**Senator MARK BISHOP**—After the second pass is signed off, is it then a matter of determining the specifications consistent with other upgrades or replacements?

**Lt Gen. Hurley**—By the time we get to the second pass, we will have engaged with industry, gone out to tender, come back to government with tender quality pricing and so forth for the preferred option. We would then have government approve that recommendation if they so desire. Under the Kinnaird process, that means we can move quite quickly into contract and start the delivery of aircraft or upgrading, whichever the solution might be.

**Senator MARK BISHOP**—Understood. When do you look to have the Black Hawks either fully refurbished or replaced?

**Lt Gen. Hurley**—The in-service date I think is about the 2012 period, but again I will come back on that matter.

**Senator MARK BISHOP**—Did Defence publish an aerospace industry sector plan last year?

**Air Vice Marshal Rossiter**—That is probably a question for the minister. That was approved last year, that is correct.

**Senator MARK BISHOP**—Did that address the issues of further investment, employment opportunities and growth of the helicopter assembly industry up in Queensland?

**Air Vice Marshal Rossiter**—I do not think it was specific about a particular industry. It was a broad strategic document that attempted to define the way ahead for the aerospace sector as a whole.

**Dr Gumley**—The thrust of it has led to us negotiating fairly robustly to get the new helicopters made in Brisbane.

**Senator MARK BISHOP**—Is that a public document?

**Air Vice Marshal Rossiter**—Yes, it is.

**Senator MARK BISHOP**—Can the committee be provided with a copy of it?

**Air Vice Marshal Rossiter**—Absolutely.

**Senator MARK BISHOP**—Okay. I now turn to the Armidale patrol boats. I have been given some figures that were initially put about when the contract was first under consideration back some years ago and the more recent escalations in costs. I am advised that the initial unit price for the patrol boats was around \$29 million back in 2000 and it appears to now be up to about \$50 million per vessel as of this year, the government having announced that two additional vessels would cost over \$100 million in the recent budget. Firstly, are those figures correct? Secondly, what are the reasons for the significant blow-out in cost over the last four or five years?

**Rear Adm. Ruting**—I cannot confirm either of those particular unit prices you quote. The overall contract price for the acquisition of the first 12 patrol boats plus their in-service support for 15 years for each of those boats was contracted at \$553 million in December 2003 prices. That particular cost has been increased and the project approval also was increased as

a result of both escalation in the Australian dollar and some small exchange rate factors over time. But the approval very recently by the government in this budget for additional patrol boats includes quite a range of other factors in that price. It is not just for two patrol boats and their whole-of-life support. Because it is one integrated contract, the individual unit price of each patrol boat is not separated out from the total contract price nor the overall government approval.

**Senator Hill**—In other words, there has been no cost blow-out. I do not think there has been any real cost increase at all.

**Senator MARK BISHOP**—I asked if the figures were correct.

**Dr Gumley**—On a like versus like basis, the total real cost increase of this project is sitting at \$2 million.

**Senator MARK BISHOP**—What are the dates for the comparison of those figures?

**Dr Gumley**—December 2002 till now.

**Senator MARK BISHOP**—And you say the cost has blown out by—

**Dr Gumley**—There has been a real cost increase of about \$2 million.

**Senator MARK BISHOP**—Per boat or per contract?

**Dr Gumley**—Total project.

**Senator MARK BISHOP**—You say there has been no cost increase effectively between December 2002 and the present time.

**Dr Gumley**—I was a bit surprised by this question, because of all the projects we have got this one is running very tightly.

**Senator MARK BISHOP**—I did not say where I got the first figures from. The first figures I was advised were forecast prices. Anticipated cost of the project in the year 2000 was forecast to be likely to be between \$350 million and \$450 million. That is correct, isn't it?

**Rear Adm. Ruting**—That was the price indicated in the Defence capability plan just for the acquisition component. The through life support component is part of the total package and, as I had identified to the last SLC, the total contract price for the first 12 boats was \$553 million. That includes the support and the acquisition.

**Senator MARK BISHOP**—Of that \$553 million, how much is for acquisition and how much is for support? Is that private?

**Rear Adm. Ruting**—It is not separated out in definitive terms because it is an overall contract.

**Senator MARK BISHOP**—Give me a discreet ballpark percentage figure.

**Rear Adm. Ruting**—About two-thirds is acquisition. That is a very rough estimate.

**Senator MARK BISHOP**—They are industry standards. I am asking you for industry standards. What will the purpose of these patrol boats be? What purpose does Navy seek them to carry out? How are they different from the Customs patrol boats up there?

**Mr Smith**—Perhaps we could ask Rear Admiral Hancock, the Acting Chief of Navy, to address that.

**Senator MARK BISHOP**—Rear Admiral, could you tell us what purpose the Navy seeks to have achieved through the purchase of these patrol boats and how they differ from the work carried out by Customs up there?

**Rear Adm. Hancock**—By and large, the role of these patrol boats will not be changed from those that they replace, which is the Fremantle class. Significantly, they have longer legs, have better sea keeping, have more capability, can deliver more capability throughout the whole year and will be able to be tasked for longer than the Fremantle class patrol boats they will replace.

**Senator MARK BISHOP**—When you say ‘deliver more capability’, what does that mean?

**Rear Adm. Hancock**—One specific key element of capability delivery is their ability to operate in high sea states. They can operate in much rougher weather than the ones they will replace. For example, it may mean in an operation like we are conducting in the north, rather than having to shelter when the weather gets very rough they could stay out there and continue to do the business.

**Senator MARK BISHOP**—Are high seas a feature of the coast across the north and coming down the upper north-west?

**Rear Adm. Hancock**—Rough seas. Not necessarily high seas in terms of absolute wave or swell height but the seas can get very rough.

**Senator MARK BISHOP**—Will they be able to operate in high seas as well?

**Rear Adm. Hancock**—To an extent greater than the ones they replace in the Fremantle class, yes.

**Senator MARK BISHOP**—But only a marginal increase in terms of operating in high seas.

**Rear Adm. Hancock**—You will get an extra sea state, probably from sea state 4 to sea state 5, which is significant. But they are not designed to operate a long way from the coast in waters deep south, for example.

**Senator MARK BISHOP**—You would not send them down to the Southern Ocean chasing illegal poachers or the like.

**Rear Adm. Hancock**—No.

**Senator MARK BISHOP**—They are essentially coastal patrol and interception craft in the north and north-west.

**Rear Adm. Hancock**—Pretty much but we could extend the term ‘coastal’ in the Australian context because they are really capable. They can go out to the edge of our economic zone.

**Senator MARK BISHOP**—Are questions about the P3C Orion maritime aircraft patrols appropriate for you?

**Gen. Cosgrove**—Either the Vice Chief or, if it is a capability question—

**Senator MARK BISHOP**—It is the purpose of the Orions in terms of their patrol—the purpose of the aircraft in terms of their function and how that interacts with and relates to the patrol function that the patrol boats carry out.

**Gen. Cosgrove**—Probably the Chief of the Air Force can answer these and, if you get into the ops side, we will get the Vice Chief up.

**Senator MARK BISHOP**—What is the operational relationship between the patrol boats and the Orions that are out in the air all the time?

**Air Marshal Houston**—I presume you are talking about what happens in our northern approaches.

**Senator MARK BISHOP**—I am, yes.

**Air Marshal Houston**—Essentially, P3s perform surveillance as part of a team which also includes Coastwatch aircraft. If they spot something while they are out doing their surveillance—they might spot something on a radar or visually—they can identify the contact and request a response from service forces, which might be patrol boats. That is essentially the concept.

**Senator MARK BISHOP**—So that is the basic relationship between the two. Do we have any work going on using unpiloted aircraft for border protection—for surveillance, for observation?

**Air Marshal Houston**—Not at this time.

**Senator MARK BISHOP**—So we have not commissioned any work?

**Air Marshal Houston**—Going back about three years, we ran some Global Hawk trials here in Australia. But it was a more generic trial and it was not specifically targeted at maritime surveillance in the way I think you are inferring.

**Senator MARK BISHOP**—I am raising it in the context of surveillance and observation—in terms of this discussion on the function of the two different platforms.

**Lt Gen. Hurley**—There is a trial planned for UAVs over the North West Shelf. It would probably be at the end of the cyclone season, coming up in this December-January period. We will trial an aircraft over the North West Shelf, probably operating from Learmonth. It is to trial the platform sensor link back to our key C2 nodes.

**Senator MARK BISHOP**—Is that related to the upgrading on air security in the budget allocation? It was about \$70 million.

**Lt Gen. Hurley**—It is included under the North West Shelf surveillance measure.

**Senator MARK BISHOP**—So you are going to do a trial to see how they work.

**Lt Gen. Hurley**—Yes.

**Senator MARK BISHOP**—Does Customs have an interest in that trial? Regarding the trial over the oil and gas producing areas up there in the north-west, which agencies have an interest in the outcome?

**Lt Gen. Hurley**—It is primarily a Defence trial. It is in the early days of being put into effect now. I do not run it. I am speaking on behalf of the Chief Defence Scientist, who is responsible for it. But I believe we will be involving other agencies in it.

**Gen. Cosgrove**—We would meet that interest readily through the joint offshore protection command, which has some high levels of operational responsibility for those regions. It is an amalgam, as you know, of the military and Coastwatch, which leads straight into Customs. I am sure the commander JOPC will be watching the trial with great interest.

**Senator MARK BISHOP**—Has the government made the decision to purchase the five Airbus A330 refuelling aircraft? Has that been finalised yet?

**Air Marshal Houston**—Yes, a decision has been made.

**Senator MARK BISHOP**—When was that made?

**Air Marshal Houston**—The decision was made in May last year, as I recall.

**Senator MARK BISHOP**—That is what I thought. Where are we at in terms of progressing that?

**Dr Gumley**—The contracts are signed. We have a project team in Spain. The design work is being done. The Green Tail aircraft are under production by Airbus, so it is all starting to come together.

**Senator MARK BISHOP**—When will they be delivered?

**Dr Gumley**—The first aircraft right at the end of 2008, early 2009. Then they come progressively, with the last aircraft by the end of 2010.

**Senator MARK BISHOP**—So thereafter essentially every six months?

**Dr Gumley**—Every six months or so, yes.

**Senator MARK BISHOP**—What are we going to do in terms of refuelling until we have sufficient to do that job?

**Air Marshal Houston**—We will continue to use the three Boeing 707 tankers.

**Senator MARK BISHOP**—Have they been supplemented in more recent times by additional craft?

**Air Marshal Houston**—On occasion we have had access to US Air Force tanking capability. For example, when we deployed our Hornet squadron to the Middle East in 2003, we used US Air Force tankers to deploy over and to deploy back.

**Senator MARK BISHOP**—But not to refuel whilst engaged in operations?

**Air Marshal Houston**—The refuelling on operations was provided by coalition tankers. I think all of them were US Air Force tankers.

**Senator MARK BISHOP**—How long have we had the 707 refuellers? How long have they been in operation?

**Air Marshal Houston**—They have been in operation now for about 25 years. They were formerly owned and operated by Qantas. The air-to-air refuelling modification was done in the early 1990s.

**Senator MARK BISHOP**—Will they have to be upgraded or remodified between now and the delivery of the final new craft?

**Air Marshal Houston**—There are no plans to modify the aircraft at this point.

**Senator MARK BISHOP**—So between now and the beginning of 2010 or 2011 plans are currently just for routine servicing and maintenance?

**Air Marshal Houston**—That is correct. It is a very maintenance intensive aeroplane, because it is very old.

**Senator MARK BISHOP**—By that time they are going to be close to 30 years old, aren't they?

**Air Marshal Houston**—Yes. By the time they finish their life they will be a very old aeroplane. I do not have the exact age of the aircraft because they were formerly operated by Qantas, but I think they are late 1960s vintage, so getting on for 35 to 40 years—which, by the way, is exactly the same as most of the US Air Force fleet and most of the RAF fleet of tankers at the moment.

**Senator MARK BISHOP**—Do the tankers have a longer life than most other aircraft? I know the F111s have been around for a long time, but 35 to 40 years strikes the layman as being an extraordinarily long effective life.

**Air Marshal Houston**—Essentially there are aircraft around that have operated for close to 50 years. We can keep them going, but the problem with old aeroplanes is that, as each year passes, they become more expensive to maintain.

**Senator MARK BISHOP**—Their maintenance cost blows out dramatically in the last few years of their operational life, doesn't it?

**Air Marshal Houston**—That is correct, yes.

**Senator MARK BISHOP**—Have the maintenance costs of the 707s started to blow out dramatically now?

**Air Marshal Houston**—Yes. I think it is true to say that they are a lot more expensive to maintain now than they were when they were young.

**Senator MARK BISHOP**—What do you do in terms of aircraft wings? Will they have to be replaced in the next five years?

**Air Marshal Houston**—No. To a large extent the Boeing 707 was an aircraft that was built to a very robust design. In terms of replacement, there will be no requirement to replace wings. If we got to that stage, we would withdraw the aircraft from service. Rather, it is a question of doing extensive repair of cracks and other issues that we identify during the maintenance process.

**Senator MARK BISHOP**—As the planes get older and as they get more tired, over the next five years, do you increase the inspection regime to identify potential problems?

**Air Marshal Houston**—That is a general characteristic of ageing aircraft. As aircraft age, there are more inspection requirements and more maintenance requirements; and, of course, that costs money.

**Senator MARK BISHOP**—Is that standard operating procedure—to increase the inspection rate?

**Air Marshal Houston**—We accept the recommendations of the original aircraft manufacturer and the recommendations of our technical airworthiness authority. It is something that is worked out in a very comprehensive way.

**Senator MARK BISHOP**—Was the original life of these platforms expected to be 35 or 40 years or was it expected to be less?

**Air Marshal Houston**—I cannot answer that question with any precision.

**Air Vice Marshal Rossiter**—Every aircraft is managed under a structural integrity management program where we look at the fatigue accrual rates of the aircraft, the environments they operate in and the degree of corrosion that they may accumulate over their life, and establish appropriate inspection regimes that apply to assure the continued airworthiness of each aircraft.

**Senator MARK BISHOP**—Air Marshal, I might just ask you some questions on those matters I foreshadowed to you in the break. Is it okay if we do it now?

**Air Marshal Houston**—No problem at all.

**Senator MARK BISHOP**—Just to benefit everyone, we had a length discussion yesterday in the DVA estimates on the SHOAMP matters, and evidence from DVA last night indicated that there were two sticking points in the progressing of the compensation issue for RAAF and civilian employees—firstly, exposure to toxic substances, and secondly those physically and mentally affected in the F111 deseal-reseal program. I understand the reasons given for the delay in terms of the second, with the matter being referred off to the SOPs and the RMA to do that work and report back. I understand that response. But in terms of the exposure to toxic substances, with respect to the lump sum, it is not so clear. In the evidence, as I recall it, it was said that the reason for not finalising the lump sum payments to all those who might have come into contact with those substances was a difficulty in the relationship between the proposal and Queensland state workers compensation law. We were also told that the proposal affected only 25 civilians out of a total of around 680 personnel. My question is this. Why can't the issue with respect to the 25 civilians and the conflict of laws issue with the Queensland workers compensation law be excised and the resolution of the issue with respect to the former Air Force employees go forward. I—I suspect like a number of other members of parliament—am being inundated with correspondence by former employees as to the delays? Why can't they be excised?

**Air Marshal Houston**—We are talking about a large number of people here. I think at the moment, in terms of the core group that worked in the tanks, we have about 457 people on the books. Of those 457 people, 25 are civilians—25 people who worked as contractors on one of the deseal-reseal programs. Everybody who worked on those tanks was exposed. It is really a matter of equity and fairness. They all need to be treated in the same way. That is why we are proceeding on the basis of an inclusive approach rather than one that excises a small group of people out. In terms of the interaction between Queensland law and Commonwealth law and so on, Secretary Sullivan essentially handled that last night, and I cannot add much to that because they are the experts on compensation and they are the experts on the legislation that

supports compensation. Further questioning on that issue should perhaps be directed to them on notice.

**Senator MARK BISHOP**—Coming back to the first issue then, you said there were 457 people involved. I thought it was a couple of hundred more than that, but we will take that as read. There are 25 civilian contractors. But the major sticking point is the issue of the relationship between Commonwealth law and Queensland state workers compensation law. As I understand it, there is no dispute about the relationship between the various Commonwealth statutes and the Commonwealth issue as it affects former service personnel in the Air Force. Isn't it a bit of a case of the tail wagging the dog? I understand your desire to be inclusive and to treat all with equity—that is entirely laudable—but there is clearly a significant problem with the operation of the Queensland workers comp law. Why can't that be excised and the two issues forwarded concurrently, hence not disadvantaging the former personnel from Air Force?

**Air Marshal Houston**—As I said, it is a matter of equity. If you go back to the announcement the two ministers made in December last year, they indicated then that this would be a payment for exposure and that it would apply to all of the people, including those who were covered under the Queensland arrangements.

**Senator MARK BISHOP**—Do you know what the specific problem is with respect to the Queensland state law? Is there a double compensation issue?

**Air Marshal Houston**—I am not an expert on compensation. These questions need to be addressed to the experts in compensation, and that is the Department of Veterans' Affairs.

**Senator MARK BISHOP**—Thank you for that advice. Is that right, Mr Smith? Should questions on this issue—more detailed or technical questions—solely go to DVA?

**Mr Smith**—I believe so, yes. I certainly do not claim expertise on it.

**Senator MARK BISHOP**—The problem I have is that they will go so far and then they say, 'This is an Air Force responsibility affecting Air Force employees or former Air Force personnel. That is a Defence matter.'

**Air Marshal Houston**—In terms of compensation, that is a DVA responsibility. In terms of Air Force, these are ex-Air Force people and Air Force people. Yes, we are acutely aware of our responsibilities for them, particularly those that are still in the service. But when it comes to compensation for a health condition or whatever, that is quite clearly the province of DVA.

**Senator MARK BISHOP**—But do not Minister Hill and Minister Kelly in her capacity as minister assisting have responsibility for carriage of this issue from the government's perspective? I was speaking to Mr Sullivan yesterday, and her capacity as Minister for Veterans' Affairs was stressed to me on a number of occasions, not her capacity as minister assisting.

**Air Marshal Houston**—The two departments, Defence and the Department of Veterans' Affairs, are working together on this. But essentially the source of expertise for anything to do with compensation comes out of Veterans' Affairs; it does not come out of Defence.

**Senator MARK BISHOP**—And you concur with that, Mr Smith?

**Mr Smith**—Yes.

**Senator MARK BISHOP**—That both the problem issues I have identified for the air marshal and the compensation issues in terms of resolution are appropriate for DVA?

**Mr Smith**—DVA for the compensation issues, yes.

**Senator MARK BISHOP**—What about for the conflict of laws issue between the Queensland state law, the various Commonwealth laws and the compensation package? Is that a DVA issue or is that a Defence issue?

**Air Marshal Houston**—Veterans' Affairs own the legislation for compensation, so, if that is the case, I would think that, if there are any legislative issues, they would rest with DVA.

**Mr Smith**—I believe that is the case.

**Senator MARK BISHOP**—Will you check that over the lunch break for me.

**Mr Smith**—Yes.

**Senator MARK BISHOP**—I am not challenging you, but I was told on a number of occasions yesterday, 'That is not a DVA matter. Go and ask the relevant line department.' Could you just confirm that your assessment is correct and let us know after lunch.

**Mr Smith**—Yes.

**Senator MARK BISHOP**—Thank you, Air Marshal. I want to move to reclassification of civilian employees across the three services and the DMO from civilian employees to supplier expenses and the consequent significant increase in costs identified in the PBS.

**Mr Smith**—Mr Veitch, Dr Gumley and Dr Williams may be able to comment on this.

**Dr Williams**—I am happy to answer your question.

**Senator MARK BISHOP**—There is a reclassification of the costs of consultants and PSPs, professional service providers, from civilian salaries allocation to admin expenses in the PBS. Sums are considerable—Navy \$353 million at page 121, Army \$389 million at page 138, and Air Force \$402 million at page 153, with DMO having a minus figure of \$314 million. Can you explain what that is about?

**Dr Williams**—Yes. The model for the prescription of DMO involved the issue of determining where employees would reside. In the case of civilians, those civilians who work in DMO are members of DMO; they therefore are paid normal employee expenses. Their entitlements are on the DMO balance sheet, and you will see that reflected in the statements here. In the case of military personnel—

**Senator MARK BISHOP**—Just stop there, because that sounds relatively straightforward. Does that figure of \$314 million on page 192 relate to start up transfer costs for civilian employees transferring over to DMO?

**Dr Williams**—The 4,500 civilian employees who currently reside in Defence but who work in DMO will become part of the DMO agency as of 1 July. All of their employee entitlements will come across as a liability on the DMO balance sheet. They will be paid out of employee expenses on the DMO operating statement, et cetera. With the military, however, there was some consideration of how they would best be managed. It was decided that, for the

purposes of the model, they would be treated in DMO somewhat like contractors. In other words, they would remain employees of the Department of Defence, they would be posted to DMO and DMO would pay a fee while they are with DMO. So Defence would continue to pay their salaries; DMO would pay a fee to compensate for those people being posted into DMO.

**Senator MARK BISHOP**—Is that because they are only going to be temporary transfers?

**Dr Williams**—In essence they still belong to Defence and their entitlements would sit on the Defence balance sheet et cetera.

**Senator MARK BISHOP**—Are they service people?

**Dr Williams**—These are service personnel. It is merely the way the model has been run. In essence, it means that the salaries are paid by Defence rather than being paid directly by DMO; however, for military personnel who are deployed to DMO, DMO will pay a fee which is equal to their salary but will pay that back to Defence. Because it has been paid to Defence rather than directly paying their salaries—so it is an indirect route—it is recorded as a supplier expense on the DMO books. It really is just an accounting arrangement that reflects the model.

**Senator MARK BISHOP**—So it is a transfer cost within the accountancy?

**Dr Williams**—Yes. Essentially it is just the way we have treated military employees. Given the nature of their employment, it was a simple way of dealing with it from an accounting perspective.

**Mr Veitch**—If I could just add something, the intention is, by doing it that way, to be able to show the full costs of operating the DMO so that the direct cost of the military employees that are working in the DMO is actually seen as a cost to the DMO function.

**Senator MARK BISHOP**—Defence will pay them and DMO will reimburse Defence?

**Mr Veitch**—That is correct, yes, so across both agencies it is a nil sum game in terms of the total cost.

**Senator MARK BISHOP**—And the purpose is simply to identify real and actual costs that DMO incurs in carrying out its work.

**Mr Veitch**—Precisely.

**Senator MARK BISHOP**—As opposed to having them disguised or hidden in the overall set of books.

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—Going to the figures that I referred to—Navy \$353 million, Army \$389 million and Air Force \$402 million—can you take on notice to give us a breakdown by each service and group of the amounts that have been reallocated from civilian salaries to supplier expenses?

**Mr Veitch**—Could you give us the reference in the book, please?

**Senator MARK BISHOP**—Navy \$353 million at page 121, Army \$389 million at page 138, and Air Force \$402 million at page 153. You will see that there is a paragraph on each page which identifies that it is the reclassification of civilian cost to supplier.

**Mr Veitch**—When you say a breakdown, are you after the rank or classification of the employees?

**Senator MARK BISHOP**—Yes. Do it in bands.

**Mr Veitch**—Okay. We can take that on notice.

**Senator MARK BISHOP**—We are talking about military people, aren't we?

**Mr Veitch**—Yes.

**Senator MARK BISHOP**—So just pull it out of the computer if you can.

**Dr Williams**—Can I suggest something rather than taking it on notice. The number of military employees who will come across to DMO are reflected in the DMO part of the book. There will be a break-up there. I am not sure whether that gives enough detail.

**Senator MARK BISHOP**—Where is that?

**Dr Williams**—On page 208, the work force summary for DMO. Table 5.1 on page 281 will tell you the number of military personnel by each of the three services who will be within DMO.

**Mr Veitch**—Then, if you go over to table 5.2 on page 283, you actually get a breakdown of that by the various classifications.

**Senator MARK BISHOP**—Breakdown of personnel numbers by service and rank in the services or those who are going to be working in DMO?

**Dr Williams**—Those who will be working in DMO. This part of the book relates to the DMO—this chapter.

**Mr Veitch**—That in effect answers the question that you were asking us to take on notice.

**Senator MARK BISHOP**—Can you do another column in terms of the quantum of salaries for those people in table 5.2?

**Dr Williams**—Quantum savings—

**Senator MARK BISHOP**—No, quantum of salaries for those people on each of the lines in table 5.1.

**Mr Veitch**—We could do that, but we would have to take it on notice. It would take us some time to do it.

**Senator MARK BISHOP**—Take it on notice. Thank you. We might turn now to the 2005-06 exercise program for the ADF.

**Gen. Cosgrove**—Is that worth starting at this stage? What time is the break?

**CHAIR**—We will take a break now.

**Proceedings suspended from 12.29 pm to 1.46 pm**

**CHAIR**—We are now back in session. I understand Senator Hill will be back shortly but in the meantime I think Mr Sharp has an answer to an earlier question.

**Mr P Sharp**—Before the break you asked about the possibility for compensation vis-a-vis the Department of Veterans' Affairs and the Department of Defence. In the SHOAMP issue, two Commonwealth compensation schemes apply to Commonwealth personnel and there is one state scheme. The first of the Commonwealth schemes is the Veterans' Entitlement Act, which applies to people with qualifying service. The Veterans' Entitlement Act is the responsibility of the Department of Veterans' Affairs. The second Commonwealth scheme is the Safety, Rehabilitation and Compensation Act, which covers both military members and Commonwealth public servants. The Safety, Rehabilitation and Compensation Act is the responsibility of the Department of Employment and Workplace Relations. With regard to the military members, it is administered again by the Department of Veterans' Affairs; in relation to Public Service members, administration is by Comcare.

All this amounts to in the SHOAMP issue is that the lead agency in terms of compensation is the Department of Veterans' Affairs, but clearly in consultation with other departments. No people in SHOAMP are covered under the new act, the Military Rehabilitation and Compensation Act 2004.

**Senator MARK BISHOP**—So the question, in future, is to the DVA.

**Mr P Sharp**—Yes.

**Senator MARK BISHOP**—Thank you.

**Senator HOGG**—I have a number of questions in respect of the FFG upgrade.

**Gen. Cosgrove**—I think we are still getting back some of our capability people from a recent press conference about the announcement of the AWD outcome. Those gentlemen will be with us shortly.

**Senator HOGG**—I will ask a question arising out of your opening statement. It may well go to the capability people again. You reported that we were keeping some forces in East Timor in the new UNOTIL group. Is that correct?

**Gen. Cosgrove**—Yes. It is probably a small number, possibly three.

**Senator HOGG**—It is as small as that?

**Gen. Cosgrove**—Yes, and they will be military observers working under, I think, a lieutenant colonel, who will be the senior person, from another nation. So I am imagining our folk will be perhaps equivalent to majors or captains.

**Senator HOGG**—So it is not something that is going to impact on the budget for 2005-06?

**Gen. Cosgrove**—It will actually be one of our smaller unit commitments.

**Senator HOGG**—Yes. I did not get the full appreciation of what you were saying the other day. The other thing was the two Solomon Islands patrol boats you mentioned in your opening statement. I had the pleasure of visiting there prior to our forces going in initially, and I think the boats were in a state of disrepair at that stage. You now say that one is working and the

other is being refurbished. Is that being refurbished under the Defence Cooperation Program or some other program?

**Gen. Cosgrove**—I think so. I will get a better answer than that, but I think it is part of our DCP arrangement in the Pacific. One is the Royal Solomon Islands Police vessel, the *Auki*, and the other is the *Lata*—that one will be on line later this year.

**Senator HOGG**—Is that in addition to our normal contribution to the program in the Solomon Islands?

**Gen. Cosgrove**—I think it is. There was a period, when things were not going so well there, where we were reluctant to undertake the repairs of the vessel without knowing it would be properly used. You might recall there was quite considerable concern about ethnic violence there—tribal violence—but, as part of RAMSI, it was undertaken. It is just the funding of it, whether it comes under the funding line for RAMSI or the funding line for DCP. I will need to take some advice on that. It is under DCP, I am told.

**Senator HOGG**—The other question then is: where are the repairs being carried out? Do we know?

**Gen. Cosgrove**—In Townsville.

**Senator HOGG**—Thanks very much. Do we now have those people for the FFGs?

**Gen. Cosgrove**—We have an FFG man, yes.

**Senator HOGG**—My concerns arise out of a recent ANAO report. I understand that the first ship for upgrade, the HMAS *Sydney*, was due to be delivered on 4 August 2003 and still has not been completed. Can you give us an update of where the program is at?

**Rear Adm. Ruting**—The first ship, HMAS *Sydney*, had all of the hardware installed into her and in fact commenced the first of a series of sea trials in December 2004. This was subsequently followed up by further short sea trials in February and March this year. The *Sydney* at the moment is back in Garden Island dry dock having some other hull repairs done to her that are not associated with the upgrade program at all but in fact with a previous upgrade done in 1987-88. So, along with the work that ADI are still doing on the combat system software which is associated with the final whole series of what we call category 3, 4 and 5 trials on that combat system software—which integrates all of the upgraded equipment, new combat system equipment and also a new combat management system which provides information to the commander of the ship—the *Sydney* is going through a series of quite comprehensive trials, some of them in the shore based weapon system support facility at Garden Island in Sydney, and some of them on board the ship.

**Senator HOGG**—So are you saying that the combat system is still not ready for handover to Navy at this stage?

**Rear Adm. Ruting**—That is correct.

**Senator HOGG**—When will it be ready?

**Rear Adm. Ruting**—ADI are still working on the details of the final test programs to demonstrate the required capability for that first software baseline and we do not yet have a

firm answer from ADI on that aspect. As we talk, they are working through another schedule review, partly complicated by this additional docking activity that we conducted.

**Senator HOGG**—What have been the problems that this project has encountered to delay it by almost two years?

**Rear Adm. Ruting**—The problems that have resulted in this two-year delay have been advised to both the Senate and this committee previously and they comprise the complexity of putting together a new combat system with quite a range of upgraded equipment and sensors and integrating all of this into a totally new combat data system or combat management system that gathers the electronic information from the various sensors and analyses and displays that information for the command. It is a very complex set of hardware and software. ADI had difficulties with the initial subcontractor, who was the combat system design agent, which resulted in some of the delays, they have had some difficulties with a subcontractor on the electronic support measures system, another international company, and they have, overall, found the task more complex than they perhaps thought.

**Senator HOGG**—I would presume, though, that there would have been an internal committee within Defence that would have been reviewing the progress of this project. I think the ANAO were, to say the least, surprised—as I would be—that the difficulties in this project were not identified and addressed earlier in the whole scheme of things.

**Rear Adm. Ruting**—I would suggest that Defence has been quite aware of the complexity of this program prior to going into contract, and continuously throughout the period. In fact, a very significant review of the capabilities of ADI and their various subcontractors to bring together this program was identified in December 2001 and the Defence Materiel Organisation, supported by Navy and the Defence Science and Technology Organisation, conducted a quite comprehensive review of where ADI and subcontractors were at at that point in time, in December 2001, early 2002, and followed that up with some fairly thorough reviews by the Defence Science and Technology Organisation on the two aspects: the ability of ADI to pull together the program and the capabilities of this modified combat management system to deliver the final outcomes. Thirdly, they also looked at the capabilities of ADI to take over the role of combat system design agent, which previously an international subcontractor had. So we have been working on this issue quite comprehensively since then with a specific committee formed to review it under the chairmanship of the then Undersecretary, Defence Materiel, and the matter was then taken through the Defence Capability Committee and also to the National Security Committee of cabinet in early 2003.

**Senator HOGG**—Has this delay left a major hole in our capability?

**Rear Adm. Ruting**—It has meant that upgraded FFGs were not available to conduct higher level activities that we would have preferred them to be able to do. Navy has used other frigates to be able to continue the roles.

**Senator HOGG**—Given that there is no delivery date for the upgraded FFG the HMAS *Sydney*, how long is it expected to take, therefore, regarding the other three that are going to be upgraded, to bring them back into service in their upgraded status?

**Rear Adm. Ruting**—The current schedule for the other three FFGs still has the last of those three being completed in 2008.

**Senator HOGG**—Is that achievable, given the difficulties that the first has run into?

**Rear Adm. Ruting**—We are still reviewing that with ADI. There is a board of review at my level and the Maritime Commander's level that met about a month or so ago in mid April and will meet again within about the next three weeks or so. We will have another very thorough look at ADI's ability and, more particularly, its detailed plan to complete the activities on HMAS *Sydney* and also the opportunities in a revised way of doing business for getting the next stage of capability that is known as baseline build 2 of the software delivered earlier than might have been possible under the current program.

**Senator HOGG**—Are there any additional costs associated with the delays?

**Rear Adm. Ruting**—This is a fixed price contract, so there have been no additional costs to the Commonwealth apart from those settled in 2002 as part of an excusable delay settlement at that point in time.

**Senator HOGG**—I understand that something in the order of 70 per cent of the contract budget for the project has been paid across to the contractors—is that correct?

**Rear Adm. Ruting**—It is somewhere in the order of 60 to 70 per cent.

**Senator HOGG**—Somewhere in that range.

**Rear Adm. Ruting**—Of the contract price, yes. Some of that does include additional work that is brought into the upgrade contract that would normally be conducted under our ship repair program. As part of the upgrade, we do standard docking ship repair activity and refit it on the ship as well. That does add to that total.

**Senator HOGG**—Are future payments pegged to milestones being reached, such as the delivery of the first vessel and so on?

**Rear Adm. Ruting**—This contract, signed in the middle of 1999, incorporated a combination of milestone payments and earned value payments. It had approximately 30 per cent milestone payments and the remainder was earned value.

**Senator HOGG**—Do you know how much of the milestone payments have been made?

**Rear Adm. Ruting**—I do not have that figure immediately available.

**Senator HOGG**—Do you have a ballpark figure?

**Rear Adm. Ruting**—At the present moment—certainly this financial year—quite a number of milestone payments have not been made because the milestones have not been achieved, which is why, as the PAES for this financial year indicates, the payments to ADI will be approximately half those that were originally programmed for this year.

**Senator HOGG**—So they will be picked up in the out years?

**Rear Adm. Ruting**—Yes, when those milestones are achieved.

**Senator HOGG**—What are the milestones that we should look for?

**Rear Adm. Ruting**—The principal milestones are provisional acceptance of each of the ships and a number of the other equipment, such as some of the training equipment, and also progress on or significant achievements in installation of equipment into the ship—that is, each of the follow-on ships.

**Senator HOGG**—Is there a definite time line for those at this stage?

**Rear Adm. Ruting**—As I mentioned before, the schedule is currently being updated as a result of experiences of ADI in trying to pull together the final delivery of *Sydney* and from that they will update the schedule for the remainder of the ships.

**Senator HOGG**—I think you said that that would take place within about the next month—is that correct?

**Rear Adm. Ruting**—That is when I am hoping to get the next formal schedule from ADI, and it will be reviewed.

**Senator HOGG**—The ANAO reported that the contract amendment covering the reduction of the number of FFGs to be upgraded had not been finalised by March this year despite the decision having been taken in November 2003—is that correct?

**Rear Adm. Ruting**—That is correct.

**Senator HOGG**—So when is the amendment to the contract going to be signed off, and what are the difficulties?

**Rear Adm. Ruting**—The change in scope from six ships to four ships is going to be negotiated as part of the settlement of what I will call current round of major schedule revisions in looking at a new way of delivering the total capability. I expect that that set of negotiations will flow out of this scheduled review coming up in the month of June, and it will take us much of the remainder of this year to work through all of the issues associated with a new program for delivery.

**Senator HOGG**—So it could be as late as early next year before the amended contract is signed.

**Rear Adm. Ruting**—Correct.

**Senator HOGG**—The ANAO report also said that Defence estimated that upgrading four instead of six of the vessels would not yield any savings for the project. Is this correct and, if so, why is that the case?

**Rear Adm. Ruting**—The majority of the equipment for six ships had already been procured, contracted and much of it already delivered. The additional costs with the remainder of the program to a large extent are installation of software, and so the costs of that for each of the next three ships is only a very small component of the total cost. The saving from taking two ships out and installing their software is a relatively small component of the project part of the total costs. A number of the other costs for the last two ships were associated with the ship repair component, and they are in fact funded from out of our operating budget that funds normal ship repair.

**Senator HOGG**—So laying two ships up is really no additional saving at all. What will happen with the other equipment that was purchased for those two ships?

**Rear Adm. Ruting**—The defence capability review considered the principal savings from laying those two extra ships up to come from our savings in operating costs of the ships, not out of the project itself. As you would imagine, operating those two older FFGs for another 10 years is quite a considerable amount.

**Senator HOGG**—The ANAO, at page 22 of the report, noted that Defence needed to pay specific management attention to a number of areas, which included: improved planning and key performance indicators; improved validated project costs and schedule data; and further development of standardised business process models et cetera. Are you able to take the committee through the steps that Defence will be taking to bring these into effect?

**Dr Gumley**—I might be able to help. The first thing is we have developed some preventative controls. There are about 10 different action points that are required out of that. We reported an internal and external audit program. We have a much greater visibility at executive level—in other words, we are taking a lot finer look at what is going on in this project than had been done previously. We now have a strong quality ordnance surveillance regime in place which is resulting in better quality product and a changing culture towards quality. We are having a look at the FFG upgrade earned value process and reviewing the documentation, the records and having a risk base audit program to support the assessment and the recommendations to pay any money. In other words, we are being rather careful with the earned value claims that are coming through to make sure that we are getting value for money out of those claims that we are auditing very carefully.

We are having a look at the technology developments more carefully. We have rolled out an asset and management planning system. We have upgraded the configuration management tool to support the change in maintenance functions. We have had a review of our records and documents to support our maintenance configuration activities. We now have documented approval plans and work instructions, which are available for anyone to have a look at.

**Senator HOGG**—Just on that note, did ANAO avail themselves of those during the audit process?

**Dr Gumley**—No. We have been working on these since we got the first indication of the audit findings. Although they were published just recently, we have been working on—

**Senator HOGG**—So you have not communicated those to ANAO?

**Rear Adm. Ruting**—Certainly some of our improved practices were checked by ANAO. They note that at paragraph 7.64.

**Mr Smith**—It is 7.63.

**Senator HOGG**—Do not fight over the number.

**Mr Smith**—I fall onto the good news very quickly!

**Dr Gumley**—I can read into the record four pages of the improvements we have been making.

**Senator HOGG**—Is it possible to table those in some form so that we get some idea? I am not asking for that at this moment. You might have to take it away—

**Mr Smith**—Check with the minister, sure.

**Senator HOGG**—and get it cleared. There might be some sensitive issues there. It is just to give us an appreciation of how you have responded to the ANAO report.

**Dr Gumley**—Perhaps I could give a little bit more of a top-level, two-paragraph explanation. There is no doubt the project was a difficult one for us back in 2002 and 2003. In

late 2003, some changes started to be made. They were improved during 2004. A lot of what the ANAO reported is absolutely correct but it is actually history. It is as the project was in 2001, 2002 and 2003. We have no argument with that. However, we recognised the problems in the defects before the ANAO started their audit on us. We had already started improving things. With the audit coming through, they have given us an even finer focus on what we have to do. So this one is well in hand. It does not get us over the technological difficulty the contractor is having with the contract but at least from the internal management of it we are in a much better position than we were a year ago.

**Senator HOGG**—Recommendation 5 on page 25 of the ANAO report reads:

Defence ensures that ...

- a) milestone payments are ... aligned to the successful completion of mandated system reviews and tests and evaluations; and
- b) full payments for milestones ... be made only when all critical milestone review issues are satisfactorily resolved.

I note that Defence has agreed to this recommendation. How was the situation allowed to get to this stage in the first place? Is this just the practices of the past?

**Rear Adm. Ruting**—To a large extent, with respect to the practices back in the period before the Defence Acquisition Organisation merged into DMO, there was a different approach and they were very keen on earned value approaches at that point, with milestones at times being treated in a different manner. There are quite a number of milestones in the FFG upgrade contract. However, we would certainly agree we would make some of the ones on technical reviews much stronger now with the new arrangements and with the knowledge we have learnt from this and quite a number of other programs.

**Senator HOGG**—Further on in their report they made some recommendations in respect of the achievement of authorised engineering organisation certification by SPOs. Apparently this particular recommendation was agreed with qualification by Defence. What was the qualification and what was the reason for it?

**Dr Gumley**—The Navy authorised engineering organisation achieved provisional status on 28 November 2003. We are now working to make that provisional arrangement a more permanent engineering approval. The Navy's Director, Technical Regulation has set the appraisal for the week commencing 14 June. So it is a work in progress action. It does not necessarily mean we will pass it at that time but it is, if you like, the first exam and then there will be no doubt some things we still have to improve. Then we will come for final certification of the organisation.

**Senator HOGG**—What is the exact qualification with the ANAO recommendation? I see you have answered how you are getting around it. How did you qualify it?

**Dr Gumley**—I am reading my notes here and will read it into the record. It says:

Agree with qualification. It is important to note that AEO status alone does not assure the material safety or fitness for purpose of any system. Each of the technical regulators assures themselves through objective evidence that a system is fit for purpose and safe. Notwithstanding that priority to achieve AEO status is already mandated and is a higher priority for the SPO, the incorporation of the SPO

systems into our quality environmental management system will facilitate the gaining by individual SPOs of AEO status.

I think what it is saying is that the process does not get you all the way there, you have got to actually be doing it, and that is what we are rolling in. It is like this with any quality system, as with our financial records. It is one thing having a process; it is another thing getting everybody to do the process and actually achieve what the process is designed to do. So to get up to this AEO status there is a bit of cultural change required and we are working on that as well.

**Senator HOGG**—How does that fare across all the various SPOs that you have reaching that AEO status?

**Dr Gumley**—The different domains are at different paces of development. The air domain started this engineering certification much before the other three domains and they are pretty much up to scratch in all of their SPOs. The land domain is coming on fairly well, with nearly all of them up to scratch. Maritime and electronics are lagging a bit behind and they have still got a bit of work to do.

**Senator HOGG**—I understand that in those areas there are some provisional certifications that have taken place—is that correct?

**Rear Adm. Ruting**—That is correct. All of the maritime systems division system program officers have provisional AEO status apart from one. One of our business units has now already achieved its full accreditation a couple of weeks ago and, as the CEO mentioned before, the FFG is being audited for its full status in the middle of June this year.

**Senator HOGG**—Is that for full status or provisional status?

**Rear Adm. Ruting**—Full.

**Senator HOGG**—It is already provisional?

**Rear Adm. Ruting**—Yes. It has been provisional since late 2003.

**Senator HOGG**—So when will full status be achieved by all the various SPOs? Is there a target?

**Rear Adm. Ruting**—I have an internal stretch target for my SPOs in maritime systems to come up to full authorised engineering organisation status, but in a couple of areas, because we have recently reorganised in, for example, the submarines branch to form two system program officers there, it is going to take them a little longer to get full authorised status in both of those system program officers in the original plan. So I am looking at the middle of next year, depending—

**Senator HOGG**—Putting those two aside, are the rest of them going to come in a lot earlier?

**Rear Adm. Ruting**—Progressively spread out over the remainder of this year, as it is integrated into bringing up their quality management system, which links in with the DMO standard quality and environmental management system, QEMS, which is referred to in the ANAO audit.

**Dr Gumley**—It can take an SPO two, three or four years to become certified. It is similar in time to what a private company might take to get ISO 9001 quality certification. I know that when I was in the private sector a couple of times it took three years. I do not see that the pace is any slower here, it just started a bit later.

**Senator HOGG**—I accept that. That would have been all part of the product of the SPOs coming into existence in the first place and Defence acquisitions going into DMO.

**Rear Adm. Ruting**—In fact, the Navy technical regulatory framework had a high-level policy instruction for quite some time, but Navy—and here it is Navy who sets the technical regulatory framework for maritime platforms—did not promulgate its full procedural instructions under what is called Australian Book of Reference 6492 until last year. So we have been working very rapidly with Navy over that period of time, whereas Air Force has had its technical airworthiness management manual for a considerably longer time.

**Senator HOGG**—Thanks very much.

**Gen. Cosgrove**—Chair, the secretary was going to ask for your indulgence.

**Mr Smith**—The senators were very helpful in giving us a list of the subjects that they would like to discuss. Two of them are in the court of the Vice Chief of the Defence Force, Vice Admiral Shalders, who has to leave here at about three o'clock for a meeting—they are the exercise program for 2005-06 and civilian contractor lessons learned. Would it be convenient for you to take those two issues now?

**CHAIR**—Yes, that would be fine.

**Mr Smith**—Thank you very much.

**Senator MARK BISHOP**—In the 2003-04 annual report Defence proposed a total of 53 exercises, 17 of which I am advised were subsequently cancelled, so about one in three did not go ahead. In the portfolio additional estimates statements from earlier this year there were a total of 56 exercises in the exercise program as published in that document. Have any of those exercises been subsequently cancelled?

**Vice Adm. Shalders**—At this stage, no.

**Senator MARK BISHOP**—So you still have plans to conduct all 56 over the period identified?

**Vice Adm. Shalders**—The exercises listed in the PBS are those that we are aiming to complete in the next 12 months, yes.

**Senator MARK BISHOP**—Is that 12 months from last February or 12 months in a calendar year?

**Vice Adm. Shalders**—The exercises, I think, if you go through the list, actually start from around May this year and run for a 12-month period. Of course, that will be updated in the next issue of the PBS.

**Senator MARK BISHOP**—So at this stage none of the exercises that were identified in the February AES have been cancelled?

**Vice Adm. Shalders**—I would have to check that, but I do not believe they have been. If they have been, I will get back to you.

**Senator MARK BISHOP**—Fine. In late March, ASPI released a report called *War and profit: doing business on the battlefield* that called for greater contractor involvement. The minister put out a statement and there was fairly detailed reporting of his views and comments after the publication of that report. Basically, the minister was of the view that in some circumstances there was benefit to be gained from increased use of civilian contractors, but the government was taking a more conservative approach than perhaps some of our allies. It is really going to be done on a one-off basis for each project into the future. That is the background, which, General Cosgrove, you would be aware of.

**Gen. Cosgrove**—Yes.

**Senator MARK BISHOP**—Can you give us an update on the level of contractor support that the ADF currently uses?

**Gen. Cosgrove**—I have the chief of joint logistics here, and in a moment I will ask him to provide you with his take on your question. To encapsulate what I think the minister has said, and which reflects the ADF view, of course there is plenty of scope to use contractors to provide essential housekeeping services in the field where the situation allows it and where it is cost-effective to do so. We have to be conservative in two types of situations, which are sometimes linked. The first one is where the urgency of deployment is such that it is unreasonable to expect a contractor to have that facility or readiness to deploy without us paying them a huge premium. The second one is where the hazards of employing contractors—or employing anybody, really—are such that the duty is best performed by somebody within the ADF from any one of the three services. Sometimes urgency and hazard are linked. As an illustration of the former, the ADF's reaction to Operation Sumatra Assist is generally held to have been rapid and appropriate. It is difficult to think of a contracting arrangement, say, for our logistics services for that deployment which could have been met reasonably by a contractor. It was simply Boxing Day—

**Senator MARK BISHOP**—It was just so quick.

**Gen. Cosgrove**—the whole thing. That is the conservative part. But, that said, there remains plenty of scope for exploration and we do, as you will hear CJLOG tell you, make extensive use of aspects of contracting to support ADF logistics services.

**Air Vice Marshal Spence**—I will add to what CDF mentioned in regard to Sumatra Assist I and II. That is to confirm that, for the short-term reaction that is required in that sort of humanitarian assistance scenario, we default to what the ADF can provide by way of logistics. We have quite a suite there ranging from hospitals through to the provision of purified water, for example.

**Gen. Cosgrove**—Going to a bigger scenario, East Timor 1999, our warning time was a matter of days, yet the liability to be supported was in the thousands. Eventually that liability rose to about the strength of an infantry division, and again the available logistic effort to rapidly deploy for the support of a force of that nature was almost wholly and solely out of the military. We did not get contractors in until about December, when Telstra started to help us with telecommunications links.

**Air Vice Marshal Spence**—A similar approach was taken in the Solomon Islands when we deployed there in mid-2003. All of the initial logistics support was provided by the ADF. It was not until in the order of three months into that activity, bearing in mind that it was a relatively benign area with some support available, that we initiated contracting of the sorts of capabilities that we needed in the longer term, such as garrison, medical and aviation support.

**Senator MARK BISHOP**—Once you were established in the Solomons and appeared to be moving without a great deal of resistance, after a period of time it was appropriate to get in Patricks and contract out a lot of that support work.

**Air Vice Marshal Spence**—Exactly. That was in conjunction with AFP, obviously. In fact, they now basically manage that.

**Senator MARK BISHOP**—So the policy of the ADF is that it is not opposed to the use of contractors, and every situation is judged on its merits at the time. There are two major caveats that have to be overcome: the urgency and hazards. But part-way through an exercise, once you are settled in, it is more appropriate and more useful to start sending the worker out to private suppliers. Is that a fairly good summary?

**Air Vice Marshal Spence**—Absolutely, and we are seeking to better inform ourselves of what is available in the private sector by getting some advisers to assist us in giving us intelligence on what can be provided through some of the major organisations that are out there so that we can use that in our strategic planning.

**Senator MARK BISHOP**—Have you got some sort of committee of review looking into that type of work?

**Air Vice Marshal Spence**—We have actually gone out to the marketplace to seek expressions of interest from entities that might like to provide us with a strategic planning partner for logistics. Those people would have experience in the commercial sector and would be able to advise us of what sorts of capabilities we might be able to garner from the private sector in what sorts of time frames.

**Senator MARK BISHOP**—When will you get a response to that strategic planning?

**Air Vice Marshal Spence**—We have had a response from four organisations and we are analysing that now and seeing what the way ahead might be for us.

**Senator MARK BISHOP**—Were the four companies that responded national or international?

**Air Vice Marshal Spence**—They were a combination.

**Senator MARK BISHOP**—There are a lot of international companies involved in this field of endeavour, aren't there?

**Air Vice Marshal Spence**—Certainly.

**Senator MARK BISHOP**—So the policy as outlined by General Cosgrove at the outset—and he said it was also the ADF's policy and it is the government's policy—has not changed in recent times? That is the current position and unlikely to change for the foreseeable future?

**Gen. Cosgrove**—Yes. I think our observation of what has been done in contemporary operations both large and small tells us that we can get great value out of civilians but it is within the bounds of reality: price, timing and the acceptance of risk.

**Senator HUTCHINS**—With those contractors and employees, is any particular security assessment done on them? Is there any need for one to be done at all?

**Gen. Cosgrove**—I suppose it would very much depend. If you were going into an area of high risk then your concern for the integrity of the team and the loyalty of the team might be an issue. As for places of more routine employment for contractors, I will give you an example. The Australian contract arrangements with our East Timorese friends in Moleana. I am sure that the local people employed there had pretty minimal security vetting, simply because it would have been unnecessary. They were people who welcomed the Australian presence and who were glad to have a good job. But in another area—and you can imagine some—that would be more of an issue. If you were working for the Australian Embassy in Baghdad as a locally employed person, it is to be hoped that we would know something more about you than in other areas, for example.

**Senator HOGG**—I will move on. Could I get an update on our air combat capability and where we are at with the F111s, the FA18s, and the joint strike fighter.

**Vice Adm. Shalders**—Chair, just before we do that, I have the answers to the questions regarding cancelled exercises. Can I do that?

**Senator MARK BISHOP**—Thank you.

**Vice Adm. Shalders**—There have been two exercises cancelled this year. Both have been related to our participation in the tsunami relief activity. The first activity was a combined exercise with New Zealand called Joint Kiwi. In fact that exercise was cancelled by the New Zealanders because of their involvement as well as ours in tsunami relief activity. The second exercise was a command post exercise called Vital Prospect between us, the US and the UK. We were unable to complete that activity, again because our planning staff had been involved in planning for and execution of tsunami assistance activities.

**Gen. Cosgrove**—I might remark on Vital Prospect that I have been assured by the commander who would have taken that group on exercise that he will pick up on those training issues during the forthcoming exercise Talisman Sabre.

**Senator HOGG**—The 2003-04 annual report said that there were 28 operational F111s, with seven being used for training. From page 156 of the PBS it seems that the 28 are still operational; is that correct?

**Air Marshal Houston**—Twenty-eight is the number; that is, 21 aircraft that are suitable for war-fighting operations and another seven aircraft, F111Gs, that are used for training—a total of 28.

**Senator HOGG**—So that number has not varied?

**Air Marshal Houston**—No.

**Senator HOGG**—I understand that these are scheduled to continue in service until 2010. Is that still the intention?

**Air Marshal Houston**—That is correct.

**Senator HOGG**—As the life of these is extended, I presume maintenance is increasing as time goes on.

**Air Marshal Houston**—I think the explanation that was given earlier on about the structural integrity plan is also appropriate to the F111. For example, we are changing the maintenance regime for the wings. We are in the process of introducing a new regime for the management of the underside of the wing, which hopefully will give us a more effective outcome.

**Senator HOGG**—And the costs of maintaining the F111s; is that increasing on a year to year basis?

**Air Marshal Houston**—Costing is very complex. Over a period, the time that we have had the platform, that is certainly true. I would like to come back on notice with the detail of that, if I may.

**Senator HOGG**—Yes. I was not going to press that this afternoon. I was just trying to get a general sense. The FA18s, according to the PBS, are 71 in number.

**Air Marshal Houston**—That is correct.

**Senator HOGG**—Are all of those being upgraded, or some?

**Air Marshal Houston**—All the Hornets are being upgraded as part of the Hornet upgrade program, which comprises a number of projects as part of air 5376 phases 2 and 3, and there are a number of subphases as well. Again, it is a very complex program. I could go through it if you wish

**Senator HOGG**—No, I think we have done that before.

**Air Marshal Houston**—At this point we are about halfway through the upgrade program and various parts of the program have been completed. For example, phase 2.1 is complete across the whole fleet.

**Senator HOGG**—What is their expected life of operation?

**Air Marshal Houston**—At the moment the planned withdrawal date is 2015, but we will manage that as required against the introduction of the F35 joint strike fighter if government decides to go ahead and acquire that aircraft.

**Senator HOGG**—That program is crucial; otherwise there will be a gap in our capability, I would presume. What is the commitment of resources to that program at this stage?

**Air Marshal Houston**—The government decided a couple of years ago to join the SDD, system development and demonstration, phase of the joint strike fighter, and we have spent \$92 million as of today.

**Senator HOGG**—That has been an upfront cost; it is not spread over any of the budget years?

**Dr Gumley**—No, it is cash that has been spent in the last couple of years on the program office, the travel, the negotiations and the studies. It is getting ready for a capability should the government chose to acquire it.

**Senator HOGG**—I accept that. Are there any ongoing costs in respect of that project that are reflected in the PBS anywhere?

**Dr Gumley**—Yes, there will be expenditure at or around that rate. The approved expenditure is about \$114 million to go.

**Senator HOGG**—For my edification, where is that in the PBS? Is it a line item in the PBS?

**Air Marshal Houston**—We will have a look and find it for you.

**Senator HOGG**—I was just curious. I understand the projected cost of the fighters originally when we were looking at the project was of the order of \$92 billion and that has blown out to \$256 billion; is that correct?

**Air Marshal Houston**—I will start it and I will hand over to my colleagues. Currently, the indicators are that the fly-away costs for the F35 will be about \$US45 million.

**Senator HOGG**—That is each.

**Air Marshal Houston**—Yes.

**Dr Gumley**—That is each. If you buy early it might be a little more expensive. The low rate initial production units are a little dearer. We are not quite sure what the price is at the moment. This is the same with most airplane platforms. As they mature, you tend to find the prices drop a bit.

**Senator HOGG**—How have the development costs of the project been travelling?

**Dr Gumley**—They have increased from of the order of \$33 billion a year ago up to about \$40½ billion was the last figure. That is in American dollars.

**Senator HOGG**—What other further escalations are expected to happen there?

**Dr Gumley**—That is the US Air Force projection. The American audit office believe the figures could go up higher. We are constantly monitoring it with our American colleagues to see how the costs are travelling. We also work with Lockheed Martin, the contractor, and we try and triangulate the data they are providing there as well.

**Senator HOGG**—What is the next important decision point for Australia in the program and when will that occur?

**Lt Gen. Hurley**—We have just received government approval to commence negotiations in what is called the production, sustainment and future development memorandum of understanding and we will come back to government towards the end of 2006 to seek approval to sign that MOU. At that time, we would also bring back to government a request for first pass approval under the Kinnaird process for phases 2A and 2B of the project, which would be for initial project approval.

**Senator HOGG**—So that is first pass approval for phases 2A and 2B. Am I to assume from what you have said that that is somewhere towards the end of 2006?

**Lt Gen. Hurley**—The last quarter of 2006.

**Senator HOGG**—The MOU that you referred to—who is that with?

**Lt Gen. Hurley**—It is between the US and all the international partners in the SDD phase of JSF.

**Senator HOGG**—We continue to be a partner up until 2006 and then we have got to make a decision as to whether or not we will continue to proceed in the project, which will require a greater commitment as we would be committing to the production phase. Is that a reasonable assessment?

**Lt Gen. Hurley**—If we receive government approval to sign the production sustainment and future development MOU in late 2006, we would be required to contribute another \$US120 million to the program. That covers the nature of those costs you referred to—set-up, production and so forth.

**Senator HOGG**—Those costs, then, are the up-front costs before we even get to the production cost of the individual units. Is that a reasonable assessment?

**Lt Gen. Hurley**—Yes.

**Senator HOGG**—If, as I think you have said to me, the individual units—and I am not holding you to the cost—may be of the order of \$US45 million for each production unit, that would be an additional cost. Is that correct?

**Air Marshal Houston**—\$US45 million is the current fly-away cost.

**Senator HOGG**—What happens if there is no decision in 2006? Does that mean that we then have to start again to look for an alternative capability to replace the Hornets and the F111s?

**Air Marshal Houston**—I think at this stage we are very happy with how the project is travelling, and we do not anticipate that we will be in that position. But rest assured we keep a monitoring brief on all the other options that are out there.

**Senator HOGG**—We actually have an interest in only one of the modules of the F35, as I understand it—the conventional. We are not interested in the carrier-borne or the vertical take-off aircraft. Is that correct?

**Air Marshal Houston**—For phases 2A and 2B we are still looking at conventional take-off and landing aircraft to replace the FA18 and the F111. That is the cheapest of the three models available. It will give us the best control of the air capability, and it will also give us a very good strike reconnaissance and electronic warfare capability on top of that. In other words, it is a very flexible, multirole aircraft. Having said that, we have a third phase to the project, where we are looking at a number of other options. I might ask my colleague, Lieutenant General Hurley, to address that.

**Lt Gen. Hurley**—As we look at the complete air combat capability system, it is not just the fighter aircraft itself; it is the systems around it—for example, the advance early warning aircraft, the air-to-air refuelling and over-the-horizon capability. So when we get to phase 2C of the project we are looking further at the expansion of that capability and what assets would actually bring the level of that capability up, in addition to simply procuring additional aircraft. We will be looking at whether we would be better with additional air-to-air refuellers, additional AEW/C, or unmanned combat vehicles. We will be looking broadly at growing that capability and getting the best we can from the investment.

**Senator HOGG**—So it is not simply a matter of deciding that the Joint Strike Fighter is the aircraft that you want. There are additional capabilities that you will need to look at to dovetail in—

**Lt Gen. Hurley**—To complete the capability and to see what the best combination would be.

**Senator HOGG**—Assuming that this is still very much in the development stage, upon completion of the development stage, what are the likely times of delivery? Is there any projection from the manufacturers at this stage? Seeing that we have got this timeline—2015, I think it is, at the latest—

**Air Marshal Houston**—We are still planning on 2012. In 2012, on the basis of the information we have at the moment, the Block 2 Joint Strike Fighter should be available. The US Marine Corps are going operational with a Block 1 warfighting capability. The Block 2 capability will obviously be better than that, and we would follow up, after the initial buy of Block 2, with Block 3, and we always are able to upgrade the Block 2 to Block 3 standard further downstream. So we are still planning on 2012.

**Dr Gumley**—It is primarily a software upgrade from Block 2 to Block 3, so we will be able to buy Block 2 aircraft, get our pilots trained, develop doctrine and all those other things you need to do to bring a capability into service, and we will move to Block 3 when we are ready.

**Senator HOGG**—What about Australian participation in the project?

**Dr Gumley**—We have an industry program, and a large number of companies have benefited from it. There are two stages. They are getting work in the initial development of the aircraft stage, but there is also work for them in the production and follow-on support stages. We have an Australian industry team run by Mr Ken Peacock that is doing a lot of work in America marketing Australian industrial capability to Lockheed Martin and the other main suppliers to the program. I am broadly happy with where the industry program is going. Australian industry has a lot more hard work to do to earn more business, but I think we are roughly on track and where we thought we would be at this stage.

**Senator HOGG**—What assistance is the department giving Australian companies to achieve greater participation in the process?

**Dr Gumley**—We have a JSF assistance team. There is a joint operation between the department of industry and the Department of Defence, and we use our office in Washington DC to facilitate a lot of the meetings and visits and organisational requirements. We are there to facilitate and assist in every way we can; however, how much business the Australian companies can win does depend upon their aggression level and commercial acumen. There is quite a lot of work going on. We are also working with one of our companies, GKN in Melbourne, on what is called a data portal, which is, if you like, a server that is sitting there with a lot of information about the JSF project that a lot of our Australian companies can work to and work with.

**Senator HOGG**—Does the continued operation of Australian companies in the project rely upon the government taking a decision to approve the MOU in 2006?

**Dr Gumley**—I am not aware that they are linked events. We put the money into the program. Each of these contracts is won on a value-for-money basis. Just because we put money into the program does not necessarily mean that all of a sudden there is going to be a work-share arrangement for Australian industry. Our people have to be as good as the suppliers from America or other countries and win the work on their merits. I think it is quite pleasing that we are picking up quite a bit of work at the moment and showing that we are internationally competitive in a number of our industry capabilities.

**Senator MARK BISHOP**—I am advised—and this is probably for you, General Cosgrove, or for the Chief of Army—that it was reported recently that the Army has sought increased funding of a significant amount and an additional 1,600 troops. Is that report correct or just unfounded speculation?

**Gen. Cosgrove**—It is probably a bit ahead of itself. I think in an aspirational sense Army has a vision of achieving a modernised Army in the same time frame as some of the other major force development time scales—10 years or something of that order. It might grow by something of that order in this reorganised, re-equipped way. But it is aspirational and by way of a vision and certainly not in the form of what we would describe as a capability proposal. I think the Chief of Army might be able to describe for you what he has in mind, but I would like to surround it with this notion that, because it is aspirational and almost philosophical in nature, it has differences from what senators and others would see as a hard-edged military capability, such as a fighter, ship or tank. Accordingly, describing it, putting boundaries around it and seeing where it fits in terms of priorities is work for the future.

**Senator MARK BISHOP**—Okay, then. General Leahy, welcome.

**Lt Gen. Leahy**—Thank you, Senator. I think CDF has introduced it quite properly as aspirational. I would describe it as a conceptual way of understanding changes in warfare and changes in the nature of the equipment available to Army. Army has a way of looking at the future which we call concept led and capability based, and this is very much one of those concepts, where we try and look at what the force is now, the challenges that confront us now and the likely challenges into the future. So we try and think of the Army as a force in being, as a developing army and then very much out into the future as an objective force of about 2020, 2025. We would like to think, in view of the investment time lines and the development of training and development of our officers and our soldiers, that that is a seamless growth path all the way through that. So the networked Army is about conceptualising the future of how we might work with our capabilities now.

When we look at the nature of the future battlefield, I think there are probably three characteristics that I would give you. The first is increased lethality; that is, the availability not only of weapons of mass destruction in the extreme but of weapons that normally have only been available to the armies of states and which have now become available to a number of people. We feel that, with the high-technology nature of warfare and equipment available generally to the Western armies, our coalition allies, the battlefield is empty. No-one is going to stand out in the battlefield—with the predominance of intelligence, surveillance and reconnaissance you can be seen, you can be hit, particularly with precision weapons. We therefore describe what we are seeing as an increasingly complex battlefield, the dispersal of armies into populated areas, into very complex terrain and in complex cultural and social

environments. Looking at that nature of the future battlefield, we feel that the HNA is about incorporating changes which are occurring because of the Defence capability plan.

**Senator MARK BISHOP**—How is the complexity of the battlefield in terms of the way you just described it seriously different from traditional urban warfare going back to the Romans conquering cities, taking them by force and eliminating the defending population and an effective resistance operation? People have been invading cities and garrisons for a very long time.

**Lt Gen. Leahy**—They have, but we would say that that has normally been an adjunct to standing armies in the field. What we are seeing now is that the preferred method of operation is likely to be in this complex terrain. It might even be in jungles or in the littoral area or somewhere else, but standing armies deploying to the field is not something that we think is going to be all that common in the future.

Given that conceptual basis, we are looking under this aspirational program to incorporate changes in the DCP. The armed reconnaissance helicopter is one example. It will be quite revolutionary to the way that the Army works. There are the enhanced M113s, the Bushmaster vehicle artillery and a whole range of other programs that are in the DCP—what we are going to do with them, how we are going to incorporate them. We want to make sure that we maximise the protection available, the mobility, firepower and communications under those programs, which are great for Army. We also want to make sure that we network, that we become very much part of the joint seamless force of 2020 and that we can maximise the ability to use sensor to shooter links. So within all of those concepts I would say that we are headed toward some ideas, and we are working with the department to try and see what that actually means in this concept led and capability based future.

**Senator MARK BISHOP**—All right.

**Gen. Cosgrove**—I might add that some of these issues are not totally aspirational because pillars of what the CA has said are either in train now, projects being delivered, or they are on the DCP. We could probably ask General Hurley for a status on them.

I will give you examples in terms of networking: combat identification and cargo tracking or cargo visibility—two extant technologies which we are very interested in. One tells you where your force is in the battle space. It is already common amongst military aircraft and amongst warships. We are going to migrate that as it is done at a first-generation level. Already within some US forces we will have a combat identification system within the Australian Army whereby commanders will see where their elements are, wherever they are, on a map display in their command post. Cargo tracking is a hugely important one. It sounds fairly mundane but it is a tremendous adjunct to the very efficient and effective delivery of supplies where and when they are needed. Perhaps General Hurley could speak on those two issues of networking.

**Lt Gen. Hurley**—One of my responsibilities in my charter is to ensure that there is a joint war-fighting view put on the capabilities we are bringing into play. One of the roles I play with the Chief of Army is to help in the concept examination of HNA to ensure that the other agencies in the department are involved in the debate. So I understand what is being brought forward in terms of complex war fighting and how Army would fit into joint operational

concept works. If you look across the DCP, the Defence Capability Plan, there are a number of land based projects or land oriented projects that are coming into play in the near future and some that you would see as joint projects that are designed to enhance the Army's capability and to bring it into the joint environment. For example, Land 125, the soldier combat system, is an evolutionary acquisition program which will enhance the war-fighting capability of the individual soldier. Sitting on top of that is a project called Land 75 which looks at his communications systems—how he becomes situationally aware and maintains that situation awareness—providing him with a battlefield management system like a PDA that updates to give him map details and so forth. Joint project 2072, the digitalisation of the battlefield communications—

**Senator MARK BISHOP**—I might interrupt, General, because I want to go to a particular point, General Cosgrove having given the overview and you having fleshed it out to a certain extent. The general responded to my question that it was aspirational in thinking and philosophical. That tells me that that is fine but the serious work is going to be done some years hence once you have concluded your thinking at that level. I was really leading into the discussion I wanted to have on the preparedness of our combat ready rifle companies at the moment. How quickly could they be deployed overseas?

**Lt Gen. Hurley**—That is moving out of my area now. I was wondering, before I leave, if I could clarify some information that I gave you about Air 9000 this morning, just to answer that question. I then need to move to another meeting. In terms of Air 9000 phase 4, first pass will be in the fourth quarter of 2005, second pass will be in the middle of 2006 and the in-service date remains in the stated bracket of 2010-12.

**Senator MARK BISHOP**—Thank you.

**Lt Gen. Leahy**—To answer your question, which I took to be about combat ready companies and how quickly they could be deployed overseas—

**Senator MARK BISHOP**—Yes, a status report on the total number of combat ready rifle companies.

**Lt Gen. Leahy**—You would be aware that we hold a range of capabilities, not only combat rifle companies but a whole range of combat arms: infantry, armour, artillery, engineers, signals and so on—what we would call a combined arms team. So I will not concentrate just on the rifle companies, because we are talking about a package, which I would rather call the combined arms team at different levels. They are, of course, supported by the combat support and combat service support that would enable them to be sustained for periods of time.

The best way to answer your question is to say that, in recent practice, with the difficulties that we had in the Solomon Islands not so long ago with the death of a Commonwealth policeman there, we were able to deploy part of our ready forces. These came from the 3rd Brigade. They were deployed from notice to the Solomon Islands, with support from the Royal Australian Air Force C130s and other elements of the Defence Force, within a period of 24 hours. I think that is a clear indication of some of the ready forces, and we have different degrees of notice to move them. These are the sorts of things that I would prefer not to discuss in detail, but I think you see in demonstration that we have capable forces that are ready to deploy quite quickly.

**Senator MARK BISHOP**—How many did you deploy to the Solomons within 24 hours that were combat ready?

**Lt Gen. Leahy**—I do not have the exact figure, but I would say in the order of about 150. If I am not correct, I will adjust that later.

**Senator MARK BISHOP**—How many personnel are combat ready and capable of being deployed within a relatively short period of time?

**Lt Gen. Leahy**—It is a very broad question in a matter of detail.

**Senator MARK BISHOP**—It is. I had a specific question addressing rifle companies. You then broadened it out.

**Lt Gen. Leahy**—I will start at the highest level. Each one of the services has what we call individual readiness notice. Each member of the Australian Defence Force undertakes as part of their service to be ready in a variety of terms, such as fitness, medical and their proficiency with weapons and so on, at 28 days. I would say that the entire ADF, or the vast majority, apart from those who might have some medical or administrative difficulties, are ready for individual service at 28 days notice to move, which I think is pretty good. Below that, we maintain units at different degrees of notice to move, so we are now moving away from individuals and their readiness to units and collective training and what I have called combined arms teams. They vary from the company group that we have just talked about, through battalion groups to the brigade group—the 3rd Brigade, based out of the Lavarack Barracks in Townsville, who we call our ready force. Senator, I hope you will understand if I do not discuss in detail the exact nature of their timings for readiness, but let me say that they are quite ready and they are quite capable within the individual readiness notice period of putting out a very substantial force.

**Senator MARK BISHOP**—How many are in a brigade?

**Lt Gen. Leahy**—I will say about 3,500 in a combined arms grouping. It might be more, depending on the task, which is one of the issues. We would task-organise for a particular mission at hand, but about 3,500.

**Senator MARK BISHOP**—Give or take. In that ballpark, if you were required for whatever reason to deploy a full brigade overseas within that time frame, would the Army be able to comply with that government request?

**Lt Gen. Leahy**—I think we would. We demonstrated with General Cosgrove and his leadership of INTERFET that we were able to deploy a brigade quite quickly and do a very credible task in East Timor. With changes through the Defence Capability Plan since then, I think our capability has increased.

**Senator MARK BISHOP**—Did East Timor require significant communications assistance from the United States?

**Gen. Cosgrove**—No, that is a furphy. The Americans were most welcome.

**Senator MARK BISHOP**—Their attendance was voluntary, not required?

**Gen. Cosgrove**—They were most welcome. I would always say how grateful we were for the assistance they gave us in all respects. We used some of their communications because we

had a whole raft of overseas or other country troop contingents, such as the Thais and the Filipinos. These are people who are not rich with strategic level communications. They were able to assist us there, but we took all our own. I do not like to boast on behalf of the Australian Defence Force—

**Senator MARK BISHOP**—But you will.

**Gen. Cosgrove**—but we would have been able to handle that. We were in the process of handling it. It was just very useful to have the US contribution—but useful rather than vital.

**Senator MARK BISHOP**—All right.

**Gen. Cosgrove**—There was a US Army signal battalion—and when I say battalion, you would get an image that they would fill this room. It was a couple of hundred people operating some vehicles fitted with radios and some other shelters. We used those with our South-East Asian and Korean contingents. They were pretty good, pretty useful. We were glad to have had them. They stayed for a couple of months out of the whole mission. They arrived after a while and were gone by just into the new year. As I say, we are always grateful for having the flag—the Stars and Stripes was a good symbol.

**Senator MARK BISHOP**—General Leahy said that a brigade can be deployed overseas at relatively short notice, almost to full level of operation. How long can it be currently sustained in the field? I will put it in the context of East Timor, where the armed resistance was there initially but, relatively quickly, broke down and went away. So you did not have to have fully armed people, 24 hours a day, engaged in conflict. So how long would we be able to sustain a brigade in the field at the moment?

**Lt Gen. Leahy**—Again, I ask that you understand that I would not wish to discuss in detail what we call the viability and sustainment periods. On the initial deployment, the unit deployed would take stocks for it to be able to operate independently for a period of time. Those periods are directed to the Army, to the Navy and to the Air Force by the CDF. We are able to meet the directed requirements. There is a capability beyond that to sustain the period of operations.

**Senator MARK BISHOP**—Moving away from a more general discussion to a more particular discussion, I am advised that we operate a four-company structure for infantry battalions. Are we giving any consideration to, and does the ADF have any views on, the utility of shifting to a three-company structure?

**Lt Gen. Leahy**—We operate a variety of company structures inside our units. We currently have in the light infantry battalions—that is, the 1st and 2nd Battalions, which are the battalions based in the 3rd Brigade in Townsville—a four-company structure. But other battalions of the Royal Australian Regiment and the commandos operate different structures. For example, the 3rd Battalion has a three-company structure and the commandos have a three-company structure of commando companies—but, as you would understand, they also operate a tactical assault group. So we offer a variety of different structures. I would say that the international standard is for three companies—that is, rifle companies or combat arms companies. We are looking at the utility of different structures, particularly with projects that are coming online such as project 40-1 and 40-2, which introduce new weapons systems into

the infantry battalions. We are considering the optimum structures to incorporate those weapons, which tend to be crew served weapons, whether or not—

**Senator MARK BISHOP**—Tend to be what?

**Lt Gen. Leahy**—It takes more than one man to use them. We are looking at the optimum structures and in active consideration is whether or not the four-company structure is the best way to incorporate these new weapons.

**Senator MARK BISHOP**—Is that departure from the four-company or three-company structures, in different battalions, part of the aspirational thinking and, then, planning that General Cosgrove referred to earlier or is that a separate exercise?

**Lt Gen. Leahy**—I think I would characterise that as just a normal looking at changes that are occurring to technology, to weapons, and how we might use those weapons inside the structures of the battalions. Indeed, I recall some years ago the infantry battalion groups, at their core conference where they discuss these development issues, talking these issues through.

**Senator MARK BISHOP**—I understand the point you are making. General Cosgrove, you are quoted sometimes as using colloquialisms, which is okay. You were recently quoted as saying, ‘Our dance card is pretty full.’ Do you recall making that comment?

**Gen. Cosgrove**—Absolutely. It is the sort of thing I would say. But I would like to give lie to the rumour that I am interested in *Dancing with the stars* after retirement. That is not going to happen; that is for others.

**Senator HOGG**—That is the most pleasing news we have had for a long time!

**Senator MARK BISHOP**—In that context, at the time that you made that comment I think we had 2,000 or 2½ thousand personnel deployed overseas on operations out of a total ADF force of around 50,000. Is it fair to say that, when we have up to a brigade level or 2½ thousand to 3,000 people overseas on one or more deployments, we are getting to the end of our capability to deploy further?

**Gen. Cosgrove**—Not really. It is all situationally dependent. For example, there is no doubt that, when we had all of those troops in East Timor in 1999, we would have been stretched in some other place, for another contingency; there is no doubt about that. We had some of the SAS there but we still kept our counterterrorist teams here in Australia. We used up most of the RAAF’s air transport fleet in supporting East Timor, and that tends to be in some ways—and here is another colloquialism—the long pole in the tent. This tends to be the enabler. It is a question sometimes of the crucial or pivotal capabilities where you have some of these but they do not proliferate. For example, even though we do not have a lot of infantry, we do have numbers of infantry battalions, but we really have one full-on suite of logistic capabilities for an endeavour like the whole of the 3rd Brigade or the whole of the 1st Brigade. If they were to be deployed offshore, in the end we would be able to rotate by units infantry battalions. We would probably have to trickle flow—that is, individually rotate—some of our logistic troops, because we do not have whole sets of new logistic troops back in Australia waiting to rotate. This is an issue; it always has been. It has been that way for decades. It is simply because of the specialisation of logistic troops and the amount of

specialist equipment they operate. We tend to have simply enough to support a sizeable field-deployed combat formation. So in that sense during East Timor we would have been stretched.

From time to time over the last couple of years, as I have said before, the dance card was pretty full. We are not that way now. We have 1,700 troops—I think I reported yesterday—away, and in some areas there will be gaps back here. For example, our logistic training team, helping to train people in Taji, east of Baghdad, will comprise logistics officers coming from line jobs around Australia. People are covering for them while they are away. They are specialists. In that sense, sometimes even a small deployment can cause pressure. But, in overall capability terms, covering the contingencies that government needs to have covered in our region, we are well positioned; I think our reaction to the tsunami probably showed that. We did not use combat troops, for obvious reasons, but the specialists that we sent were out of the blocks very quickly, and we still have that capability ready to go today.

**Senator MARK BISHOP**—You would do this in a lot of your contingency planning. If East Timor had got a bit nastier and gone a bit longer, and if it had been your view that we had to perhaps have a full brigade or a brigade and a half to pacify the situation and keep control, would that then really be the limit of our ability to deploy, based on current personnel and structures?

**Gen. Cosgrove**—Plainly the white paper is the blueprint for what we are expected to do. In there, if my memory serves me on the language, it certainly speaks about a brigade for sustained operations or protracted operations; it is one of those two adjectives. I suppose you could say that we did that. It was about 173 days in East Timor for the INTERFET deployment. Most of that time it was a full brigade. Interestingly, our logistic services were supporting not just our Australian brigade but the rest of the deployed force. It was only near the end that contracting took off some of the load. So I would report that my confidence is that our logistic system could sustain a brigade for protracted operations indefinitely, provided we were not in general war. By that I mean the things for which this country would mobilise.

**Senator MARK BISHOP**—I understand. You introduced something that I did want to explore with you earlier when we had a lengthy discussion about helicopters and ships. The government has made an announcement over lunch about further Navy plans in the future, and you are starting to do your serious thinking in aspirational terms and vision terms for the Army. Doesn't this necessarily lead Army in about eight or nine years into the potential for conflict in terms of adequate funding for its needs in the beginning to middle part of the next decade? That is when a lot of these state-of-the-art platforms we are talking about now are going to be coming on line, so are we moving into a bottleneck in terms of funding?

**Senator Hill**—If you are talking about capital acquisitions for the Army, the plan sets out a program of further updating and upgrading Army capability. That part of the plan is still to come, and that is on top of the major decisions that have been made in recent years in that part of the plan which is currently being implemented. Some of those capabilities were mentioned by General Leahy and there are others as well. This morning we talked about the new troop-lifting helicopter and I think you mentioned the Javelin direct fire weapons, and I can go on. Then, not surprisingly, Army has aspirations beyond that, as I would expect. So we have got a

good framework that we are working to and we also have the capacity to adapt that framework when the arguments are good enough.

**Senator MARK BISHOP**—That is then an issue for that time and the appropriate priorities.

**Senator Hill**—Yes.

**Senator MARK BISHOP**—As I understood the general, he was talking the best part of 10 years hence before Army would be seeking to implement, if its vision came to pass.

**Senator Hill**—I would argue that this vision of hardening and networking the Army is not just a vision, it is in the process of implementation. I think most people would say that the capability of the Australian Army is certainly on an upward path. Our big challenges for the future are not going to be so much on the equipment side but on the personnel side. We talked about some of those earlier today as well, such as the challenges in a very competitive labour market. As you heard this morning, they are being addressed, as with the other issues.

**Senator MARK BISHOP**—This is probably a question for you, Minister, because it does link into the issue we are talking about. The government announced some years ago, probably in the time of one of your predecessors, the extra three per cent funding to Defence over a period of 10 years, from memory. I think we are about halfway through that and by and large the figures suggest the government has adhered to that earlier intent. When will the government start giving consideration to the need to extend that out past 2010? Is that on the agenda now for starting to think about, or is it a bit early?

**Senator Hill**—I think it is on the agenda for 2010 or 2011. So this is way out in front but, because of the lead times, the sooner we know the answer to that the better. I would expect that the government will address that issue in the next year or two. Our projections at the moment are on the basis that it will not be maintained, because it would be presumptuous for us to project on any other basis. But we are aspirational as well.

**Senator MARK BISHOP**—We will know how aspirational in 12 months time.

**Senator Hill**—Aspirations will always be there.

**Senator MARK BISHOP**—That is true. So it is something you are thinking about and you are going to make a decision in 12 months to two years time on whether to extend the three per cent past 2010 or 2011.

**Senator Hill**—Correct.

**Senator MARK BISHOP**—Has the Army commenced planning to fit our new tanks with a similar level of protection to the United States TUSK, the tank urban survival kit? If so, what is the anticipated cost? We had an introductory discussion on this last time.

**Lt Gen. Leahy**—We did. I would say that we are monitoring the introduction of the TUSK into the US force. We have no direct plans at the moment to do that. We are putting all our effort into the acquisition of the tanks, and there are signs of good progress with that. We are monitoring very closely what is going on. Clearly, as we have shown, regarding our ability to enhance the capability of in-service vehicles—and I mentioned the ASLAVs—for particular

circumstances, I would expect that, should a scenario arise where we might need to be able to enhance the vehicles, we could do that. But right now we are just monitoring.

**Senator MARK BISHOP**—And you are not persuaded, as of now, of the need to go down that path for our new tanks.

**Lt Gen. Leahy**—As of now we are not persuaded; that is correct.

**Senator MARK BISHOP**—Apart from monitoring what is going on in Iraq, do we have any review or revision committees looking at this issue?

**Lt Gen. Leahy**—In terms of the TUSK?

**Senator MARK BISHOP**—Yes.

**Lt Gen. Leahy**—No.

**Senator MARK BISHOP**—Is that monitoring basically taking reports from our people in Iraq and reports of the effect of conflict operations with the Americans in Iraq?

**Lt Gen. Leahy**—We are monitoring the environment very broadly. Part of what we are looking at is the work that the Americans are doing on the vehicles. We have people who go to Lima, which is where the tanks are being made, and we are watching the paperwork; we are keeping a very close eye on it. But right now our focus is on the acquisition of the tanks as we have purchased them.

**Senator MARK BISHOP**—Where can we find the new costs for the Australian Abram tanks in the PBS? Are they in this financial year?

**Senator Hill**—We would be paying some in this financial year.

**Senator MARK BISHOP**—What is the delivery date for the bulk of them?

**Senator Hill**—In fact, I think we even paid a bit in the previous financial year.

**Lt Gen. Leahy**—I think some went out in the financial year. We would expect that the tanks will be delivered through the second half of 2006 and early in 2007.

**Senator MARK BISHOP**—Is the bulk of the payment required in the 2006-07 financial year?

**Lt Gen. Leahy**—I would have to take advice on that.

**Mr Veitch**—In table 3.3 on page 255 of the PBS, about three-quarters or a little over down the page under 'Land', the second line item, 'Tank replacement project', shows the approved project cost as \$534 million. We have spent \$81 million to date and a further \$81 million is planned for expenditure in the new budget year.

**Lt Gen. Leahy**—I wondered if I could read something into the record. I mentioned a figure of about 150 for Operation Anode, the ready deployment force of soldiers who went off to the Solomon Islands. There were up to 215 available. Only 100 deployed. So only 100 deployed but many more were available.

**Mr Veitch**—You asked the Chief of Air Force about a figure on the JSF. It is also on the same page that we referred to just then: page 255. It is the last line item in that table.

**CHAIR**—Thank you.

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**Proceedings suspended from 3.30 pm to 3.45 pm**

**Senator MARK BISHOP**—Mr Henderson, we move on to matters of great state, as foreshadowed to you for after the afternoon tea break. I am advised that electricity is being cut to the washing machines and dryers in the live-in quarters at Lavarack Barracks between 9 am and 4 pm and, accordingly, necessary attention to washing and the like is unable to be done during those hours. Is that correct? Can you bring us up to date on this terrible allegation?

**Mr Henderson**—We are trying to get out of here at six o'clock, so I will give you the short course on this. The answer is that the washing machines and dryers will be turned back on and available during the day. I do not know whether that is starting today or in the next couple of days.

**Senator FAULKNER**—What went wrong?

**Mr Henderson**—The facilities at Lavarack Barracks are probably either second to Robertson in Darwin or second to none. There are 1,000 level 5, which is the best quality, live-in accommodations. The occupants of those barracks have air-conditioning, microwave ovens and small fridges. We have obligations both to conserve energy and to economise. There are a lot of measures to try to conserve energy and minimise the costs. On further consideration, the fact is that I do not think the removal of discretion to do your washing and drying during the day would have had much impact on total energy consumption—maybe a little. The reality is that the peak load pricing for the electricity there applies from 7 am to 11 pm, so it would be totally unreasonable to suggest people would be doing their washing between 11 o'clock at night and 7 am. That particular element of our energy conservation strategy did not really seem to be sensible.

**Senator FAULKNER**—Who made that decision?

**Mr Henderson**—It would have been made in my organisation.

**Senator FAULKNER**—It was. How was it communicated to those up there?

**Mr Henderson**—It had been in place for a year or so, and it was brought to attention by an article in the *Army* newspaper.

**Senator FAULKNER**—Was there no attention before that? No complaints and the like?

**Mr Henderson**—There may have been. I am not aware of them.

**Senator FAULKNER**—That is fixed as of today?

**Mr Henderson**—The decision to turn them back on has been made. Whether it is today or tomorrow, I am not sure.

**Senator FAULKNER**—Let us go to that decision. Who made the decision to turn them back on?

**Mr Henderson**—The director of regions and bases, and me.

**Senator FAULKNER**—When did you make that decision? Today?

**Mr Henderson**—No, we have been mulling this over for the last couple of days, and it was decided firmly yesterday.

**Senator FAULKNER**—What is the significance of the timing of the decision? You decided yesterday just in case you got a question about it at Senate estimates. You can be the—

**Mr Henderson**—Hero.

**Senator FAULKNER**—You can provide a good news story to balance the bad news story that the damned things had been turned off in the first place.

**Mr Henderson**—I think the minister has the main news story for today. Washing machines in Townsville probably will not compete with that. This emerged as an issue—

**Senator FAULKNER**—I said ‘good news story’; I did not say ‘ministerial news story’.

**Mr Henderson**—The letter to the editor of the *Army* newspaper and the response by managers in my organisation were brought to my attention last week. We have been doing a bit of homework on the rationale for it. On further consideration, I do not think it stacks up.

**Senator MARK BISHOP**—Have you done any homework up at Randwick?

**Mr Henderson**—I am not across the detail of the washing machines at Randwick; sorry.

**Senator HOGG**—Does it apply at other defence establishments throughout Australia, not just Lavarack barracks? I presume that, if it applies at Lavarack, it applies at others as well.

**Mr Henderson**—We have an energy conservation strategy and savings strategies trying to take advantage of the much more competitive energy markets that we now have, but I do not have the details of the measures base by base.

**Senator HOGG**—Can you make the energy conservation strategy available to this committee so that we have some idea of what we are talking about, please?

**Mr Henderson**—Yes. I cannot table it here now—

**Senator HOGG**—I am not expecting it now.

**Mr Henderson**—but I can take that on notice.

**Senator HOGG**—Okay. How long has this energy conservation strategy applied for?

**Mr Henderson**—At Lavarack?

**Senator HOGG**—In your section.

**Mr Henderson**—I am not sure.

**Senator HOGG**—Could you check out for how long it has operated for, how often it is reviewed and who reviews it.

**Mr Henderson**—We can do that. We can take that on notice and give that to you.

**Senator MARK BISHOP**—Do the personnel up there pay a utilities allowance? I am advised that they pay a utilities charge for water and electricity—is that right?

**Mr Henderson**—Yes. That is a contribution that is uniform across the nation, across the estate.

**Senator MARK BISHOP**—Are you going to reimburse it to those people at Lavarack who did not have access to power?

**Mr Henderson**—No, I do not think we would be.

**Senator HOGG**—Did it apply to all the premises on Lavarack? What about the officers quarters? Did it apply equally to those as it did to the other ranks?

**Mr Henderson**—I am not sure.

**Senator HOGG**—Could you check that out, please.

**Senator FAULKNER**—If there is a similar situation at some other barracks or establishment, do we describe today's grand announcement as a precedent?

**Mr Henderson**—We will review the situation elsewhere as well.

**Senator FAULKNER**—But you have established a precedent, haven't you? A washing machine precedent!

**Senator HUTCHINS**—Cold power!

**Mr Henderson**—The situation will vary across bases. The pricing structure varies. There are—

**Senator FAULKNER**—I am not being critical. I think it is good that a decision has been made in the terms that you have outlined to us, and I am pleased that you have been able to make it in the last 24 hours so that it could be announced with such fanfare at Senate estimates. You can chalk one up on the invisible scoreboard, Mr Henderson.

**Senator HOGG**—Was there a different application between married and single quarters?

**Mr Henderson**—These are single on base.

**Senator MARK BISHOP**—I think my colleagues are exhausted on that issue, Chair. We will move to Defence Force properties. Could you take on notice a question as to what properties the ADF intends to dispose of within the next three years and what evaluations have been undertaken as to the effect of these disposals on local communities, if any has been taken at all?

**Senator HOGG**—As part of that request, could you break it down by year? I am particularly interested in what properties might be available for disposal over the coming financial year. I am also interested in what properties were disposed of in the 2004-05 year.

**Mr Henderson**—I think it best if I take it on notice to give you the details of the properties that are in the disposals program for 2005-06. We can update the information that was provided in the minister's response to Senator Evans in May in respect of the program for this year. Some of the properties that were identified originally for disposal in 2004-05 may slip into 2005-06.

**Senator HOGG**—Yes. Could you indicate that—where a property was designated for disposal in 2004-05 and it has slipped to 2005-06—separately from those that are designated as being in the 2005-06 regime. I understand that Senator Bishop wants the out years as well, if that is possible.

**Mr Henderson**—Consistent with the timetable for our questions on notice, we can certainly give you the detail for 2005-06 and update the 2004-05 outcome. I am not sure that

we will be in a position to identify what properties might be disposed of in 2006-07 and 2007-08.

**Mr Smith**—We will provide what we can.

**Senator MARK BISHOP**—Okay. Let's head over to Darwin. Can you outline for us, please, the status of negotiations with the Northern Territory government over the Darwin waterfront development project?

**Senator Hill**—I sometimes think it is a one-way street, this negotiation, with us making all the effort. Basically, our attitude is that if the Northern Territory government wants to develop its wharf area into a convention centre and high-rise apartment blocks then that is their business. But we are very interested in the wharf from the point of view of its importance as a national security asset. We deploy on operations from that wharf, as we did during East Timor and, more recently, in Sumatra Assist. We often do it. We use it for training exercises. We accommodate ship visits from our own ships and those of our allies. We have been, and continue to be, seriously concerned as to whether both uses can live with each other.

Our concerns are from a security point of view. Security issues for ships in port are much more complex now than they used to be. There is a pipeline that is used to refuel ships—to offload fuel and then load fuel into other ships. From a support basis we are concerned at the moment that they want an end to that pipeline. So we have said: 'If we can find a win-win outcome, that would clearly be good, but we do have a national responsibility and we would like you to understand and respect that.' To that background, we have been trying to get information on the detail of the project and trying to encourage them to find a way to maintain the oil pipeline, for example, and to respect the level of clear ground that we would need both for loading purposes and for security purposes. But certainly I have not been very successful in negotiating. The secretary, who is probably more patient than I am, has been making an extra effort with the head of the chief minister's department—is that his title?

**Mr Smith**—Chief Executive.

**Senator Hill**—They have offered what they call a compromise to leave the pipeline in until 2011. We have a licence from them that goes to 2016.

**Mr Smith**—It is 2018.

**Senator Hill**—They have gone ahead and signed up for the first stage. They tell us that we should not be worried about the first stage because it does not affect any of these issues, but we find it hard to confirm that because we cannot get full detail on what is in or out of stage 1.

**Senator MARK BISHOP**—Construction on stage 1 is about to start, isn't it?

**Senator Hill**—I do not know that it is about to. There was an announcement that it is proceeding and documents were signed. I am not too sure there is much construction taking place. That is where it is. We continue to talk to them and we continue to try to find a way in which both of our interests can be satisfied. We do also point out to them that, apart from the national security responsibilities and apart from the fact that Defence is well represented in the Darwin community and these people have a real interest in defence issues—including the visiting ships—there is also the issue of the very major economic benefits that come from ship visits. I think there are major European fleet assets in Darwin at the moment.

**Senator MARK BISHOP**—Do they have the ability to resume the wharf and the pipe access in the short to medium term contrary to the wishes of the Commonwealth?

**Senator Hill**—It is a question of legal interpretation. We say they have not, but—

**Senator MARK BISHOP**—How long is the Commonwealth's lease?

**Senator Hill**—The deed of licence goes to 2018.

**Senator MARK BISHOP**—Does the Northern Territory government own the land?

**Senator Hill**—Basically, or some authority that is represented by them.

**Senator MARK BISHOP**—Mr Smith, do you see a way through the negotiation process? They want to redevelop it for apartments, flats and conventions and turn it into a living, community and tourist type area, don't they?

**Mr Smith**—Yes. I am an optimist in these matters. There is always a way through, but we are seeking from the Northern Territory government a statement of their position on all of the many elements that the minister has mentioned. Then we can piece together our responses and try to move it along.

**Senator MARK BISHOP**—Mr Beck, did you have anything else to add to that discussion?

**Mr Beck**—No.

**Senator MARK BISHOP**—Okay. Let us turn to 1 Commando Regiment. Can you confirm the government made the decision last year to go ahead with the construction of a special forces training facility at Holsworthy?

**Mr Beck**—That is correct.

**Senator MARK BISHOP**—What special force elements do you envisage to relocate to the new facility?

**Mr Beck**—The facilities are to provide training assets for those elements of the special forces command which are located within Holsworthy already. That comprises the 4th Battalion Royal Australian Regiment and, I believe, elements of 1 Commando Regiment, as well as the incident response regiment.

**Senator MARK BISHOP**—When do you envisage construction starting?

**Mr Beck**—The construction has started on the training facilities.

**Brig. Hutchinson**—I think the construction started in February or March this year, and that is proceeding.

**Senator MARK BISHOP**—That is for the training facilities?

**Brig. Hutchinson**—That is for the training facilities.

**Senator MARK BISHOP**—Are there other facilities to be built?

**Brig. Hutchinson**—There is a second project, the special forces working accommodation and Holsworthy redevelopment stage 1. That project is being considered by the Parliamentary Standing Committee on Public Works on 10 June.

**Senator MARK BISHOP**—Presuming they give it the green light, what will happen?

**Brig. Hutchinson**—Subject to the expediency motion from parliament—which we would expect, subject to the hearing, some time in August when parliament resumes—we would be looking to commence construction on that second, larger project by the end of the year.

**Senator MARK BISHOP**—What is the ballpark cost for the second part of the project?

**Brig. Hutchinson**—That second project is \$207.7 million.

**Senator MARK BISHOP**—So that is a major project.

**Brig. Hutchinson**—Yes.

**Senator MARK BISHOP**—How long will it take to get the first stage and the second stage concluded?

**Brig. Hutchinson**—I think that we are looking at the end of 2008 or the start of 2009 for the second, larger project. The training facilities project will happen before that. I will have to check my notes.

**Mr Beck**—While Brigadier Hutchinson is checking that, I will make a correction. I do not believe 1 Commando Regiment would use these facilities at Holsworthy. I made the statement before that they did. It is for the 4th Battalion Royal Australian Regiment, which is part of the special forces group.

**Senator MARK BISHOP**—It is solely for the SAS people, isn't it?

**Mr Beck**—The 4th Battalion Royal Australian Regiment is the full-time commando capability.

**Brig. Hutchinson**—In answer to your question about the special forces training facilities, that will be finished by the end of 2007.

**Senator MARK BISHOP**—So we still have a while to go. What is the current status of the units who might be affected by the move? When will they be shifting over there?

**Brig. Hutchinson**—The units which are affected by the special forces working accommodation project, the larger project, are already located at Holsworthy. Within the 4th Battalion Royal Australian Regiment Commando they still have some further expansion as part of the initiatives which have been announced by government over the last couple of years in response to terrorist attacks and the increase in the counterterrorist capability and the special operations capability. They still have some additional numbers to complete the sizing of that unit coming over the next few years. I do not know exactly when. But the facilities will be able to handle that additional capacity which is still not there. It is not a separate unit to be moved to the barracks. All of the units that are affected by these two proposals are already located at Holsworthy Barracks.

**Senator MARK BISHOP**—The whole lot?

**Brig. Hutchinson**—Yes.

**Senator MARK BISHOP**—Is it correct that the lease is about to expire on the Georges Heights facility?

**Mr Beck**—That is correct. The former Defence land at Georges Heights had been transferred to the Sydney Harbour Federation Trust, but Defence had in place arrangements for 1 Commando Company to occupy some of the facilities on that site until September this year.

**Senator MARK BISHOP**—What happens in September this year if you still need access?

**Mr Beck**—We are currently looking at options for where that company could be located, and we will be providing those options to government for a decision.

**Senator MARK BISHOP**—Does provision exist in the lease for an option to be exercised?

**Mr Beck**—Informal discussions have indicated that there may be an option, but we would have to explore that further.

**Senator MARK BISHOP**—But the title has now been transferred to the Sydney Harbour trust, has it?

**Mr Beck**—Yes, as I understand it.

**Brig. Hutchinson**—I will correct a date that I gave you before: the larger project is actually to be completed by the end of 2009.

**Senator MARK BISHOP**—It is going to take that long, is it?

**Brig. Hutchinson**—Yes.

**Senator MARK BISHOP**—Mr Beck, you are in the process of having some discussions, are you, with the Sydney Harbour trust about the unit staying at the facility until they are required to shift?

**Mr Beck**—No. We are working to find options to present to the government to relocate them from that facility. It may be an option. Depending on how that development goes we may have to seek an extension, but it is not our preferred course.

**Senator MARK BISHOP**—Is your preferred course to vacate the site?

**Mr Beck**—Yes.

**Senator MARK BISHOP**—Can I ask why?

**Mr Beck**—Because the land has been transferred to the Sydney Harbour foreshore trust, and we need to make arrangements. It is for their use and for the use of the people of Sydney. We need to get out of there, so we need to come up with options.

**Senator MARK BISHOP**—So you want out. I want to talk about beryllium.

**Mr Beck**—May I provide some answers to questions that were raised yesterday in relation to property before we leave?

**CHAIR**—Yes.

**Mr Beck**—The committee asked about the size of the Ermington stage 2 property, which is currently being sold by tender. The answer to that question is that it is five hectares. The committee also asked about the sale of surplus land at Randwick and at that stage I gave an

answer that Randwick stage 1 was sold in 2000. That was incorrect; the process occurred during the financial year 2002-03 and was finalised on 25 June 2003.

**Senator MARK BISHOP**—I understand Commodore Geraghty has been tasked with investigating the beryllium issue, the leaking of the minute and some alleged comments by Minister Kelly. Can we get a status report on the progress of that investigation?

**Rear Adm. Hancock**—There was some media reporting that suggested there was some daylight between the minister and Commodore Geraghty, and that was not correct at all. There was a very carefully managed process that departmental information was cleared by the minister and put out into the arena. There was one conduit of communication so that there was no confusion. The suggestion that the minister had gagged a commodore or somebody else was completely incorrect, and what we had was a pretty smooth and seamless flow of information that was going through the minister's office at the minister's direction.

**Senator MARK BISHOP**—If we go back in time, the beryllium issue has been around for a fair while and the government has given a response. My understanding was that they were setting up a phone network, there was stuff going on the net, there were contact points established and advice going to be published. Is that wrong? Have I got the wrong issue?

**Rear Adm. Hancock**—I think in a sense that comprehensive framework is now delivered.

**Senator MARK BISHOP**—We had this discussion a long time ago.

**Mr Grzeskowiak**—The management of this issue transferred to me a couple of months ago. You are right in saying that when the issue first arose Defence established a beryllium information service. This was to enable people who were concerned to call in and receive information as and when it became available that was relevant to the issue.

We also posted some information about beryllium on web sites around Defence. We put some articles in defence service newspapers. The Navy conducted an investigation into the use of beryllium alloy needles in the removing of rust with descaling guns and we have had some tests conducted by the Defence Science and Technology Organisation. The position we have moved to now is that we are in a position to write again to the people who have contacted the beryllium information service with an update of the information that we now have to hand. That letter is ready—I will probably be signing it tomorrow—and I anticipate it will be dispatched later this week to those people who have expressed concern to Defence.

**Senator MARK BISHOP**—The work on the ships occurred from the sixties through to the eighties. There was for a long time anecdotal advice of people with respiratory complaints and other skin issues deriving from being exposed to the hammer guns. The inquiry was conducted, a report came down and the government gave a response that outlined a whole range of mechanisms to provide advice and for people to access information and make applications for compensation and payment of treatments. All that was going on smoothly. Why at such a late stage, February-March of this year, when 99 per cent of the work has been done—the sins occurred, they have been examined, punishment has been meted out and people are going to be compensated—was it necessary for the minister to issue a memo saying that all further contact/correspondence should go through her? It would then just have been an official's responsibility at line level, wouldn't it?

**Senator Hill**—I do not think you are going to ask the official that.

**Senator MARK BISHOP**—There has been a complete reversal of practice.

**Senator Hill**—It became very political in terms of talkback programs. One major Sydney newspaper took it on as a campaign—and was attacking the minister in a very personal and unfair way. In those circumstances, I think ministers can reasonably ask to manage the issue.

**Senator MARK BISHOP**—The minister has only been the minister since October or November. The issue was done prior to then.

**Senator Hill**—You are just illustrating how unfair the attack upon the minister has been.

**Senator MARK BISHOP**—You are not seriously telling me that Minister Kelly got upset about a couple of articles in the *Daily Telegraph* on an issue that was 99 per cent concluded and that as a consequence of that all further communication with individuals and groups exposed to beryllium are submitted to the minister's office for final approval? She might have got upset over the rorts, that other business, but not this.

**Senator Hill**—I am not sure how that is interpreted. You have an information base and I presume there are routine communications to and from that base, that facility, with individuals; that is the purpose of it. You can have different views on these matters, but, when you are under attack, you have a right to defend yourself and to at least be aware of the information flow is very important.

**Senator MARK BISHOP**—I cannot believe you are saying this. She is not bad at dishing it out. She has given me a couple of serves. She is upset, poor dear! What is the status now? Does all correspondence and communication have to be ticked off by the minister's office on this issue before it can be released now?

**Mr Grzeskowiak**—There is a standard process for managing information flows. The objective of the process is to ensure that information is consistently communicated. The minister's office is involved in that process, as one would expect for new, arising issues.

**Senator MARK BISHOP**—Is that a yes?

**Mr Grzeskowiak**—Yes, the minister's office is involved in the process.

**Senator MARK BISHOP**—No, the question was not whether the minister's office is involved. I know they are involved. Do all communications and correspondence concerning the beryllium issue, before being released by the department, have to be signed off by the minister's office?

**Mr Grzeskowiak**—The minister's office is involved in the process of approving the communications, yes.

**Senator MARK BISHOP**—Can you release the communications without being approved by the minister's office?

**Mr Grzeskowiak**—That would depend on the subject, I guess.

**Senator MARK BISHOP**—What is so secretive about this issue? We have been having this discussion since before you were hired by the department.

**Senator Hill**—What is secretive about the issue?

**Senator MARK BISHOP**—Yes.

**Senator Hill**—I do not think anything is secretive about the issue.

**Senator MARK BISHOP**—Then why can't I get a straight answer to the question?

**Senator Hill**—Quite the contrary; we have been trying to provide information to those who have an interest in it.

**Senator MARK BISHOP**—I cannot get a yes or no as to whether all communications to those affected have to be signed off by the minister's office. What is the answer?

**Senator Hill**—I suppose the answer is whether the official interprets that the minister might interpret it as politically sensitive.

**Senator MARK BISHOP**—Is that how you interpret it?

**Mr Grzeskowiak**—We go to the minister's office for clearance on new issues around the subject. If an issue has already been through the minister's office, we do not need to go there again for communications.

**Senator MARK BISHOP**—So you have to get clearance for new issues. Is that what you are telling me?

**Senator Hill**—One of the problems is that—and I know the newspapers and the talkbacks will deny this—it is arguable that they were actually engendering unnecessary fear in the community. We will ask the experts but, when you look at the medical evidence, the lung disease associated with beryllium is, in fact, very rare. And yet there was a concern that the community was receiving a message that they were at significant risk. These are often reasonably elderly people now, considering we are going back to the 1960s. So, by all means, when these public health issues come to light, the public has a right to know. They have a right to have the best information that government can provide. But we also need to ensure that the picture they get is a realistic picture and not one that seems to have been exaggerated.

**Senator MARK BISHOP**—I accept that. Is Commodore Geraghty still involved?

**Mr Grzeskowiak**—Commodore Geraghty is still involved from a Navy perspective. But the lead on the issue transferred to me a couple of months ago.

**Senator MARK BISHOP**—In about February or March?

**Mr Grzeskowiak**—It would have been around that February-March time.

**Senator MARK BISHOP**—Why was it transferred to you?

**Mr Grzeskowiak**—The primary reason was that the issue was seen more as a whole-of-Defence issue rather than confined, necessarily, to Navy.

**Senator MARK BISHOP**—I have only seen it in the context of Navy. Were Army or Air Force using the guns? I thought it was a ship hull cleansing operation.

**Mr Grzeskowiak**—No, Army and Air Force were not using similar needle guns.

**Senator MARK BISHOP**—They were not?

**Mr Grzeskowiak**—No.

**Senator MARK BISHOP**—So, how are they affected, then?

**Mr Grzeskowiak**—The use of beryllium as an alloy, usually with copper, is fairly widespread in certain industries. One of those is the aviation industry. It is quite normal for there to be components fitted in aircraft which have a small percentage of beryllium in them. Therefore, potentially, more than just Navy people could have been exposed. There has been some work done to look at where we do use beryllium components. We are pretty confident that our current processes are up to scratch. But this is why it became more of a whole-of-Defence issue rather than just Navy.

**Senator Hill**—My understanding was that it was because of its high flashpoint.

**Mr Grzeskowiak**—It is worth mentioning that in Navy the reason that beryllium copper alloy needles rather than stainless steel needles were used in the descaling guns was that the ships they were used on carried aviation gasoline, which has a very low flashpoint and therefore sparks could ignite the vapours. The copper beryllium alloy needles have a property whereby they do not create sparks in the same way that stainless steel would and therefore they were in fact introduced as a safety measure.

**Senator MARK BISHOP**—In the Navy there was extensive, regular and continuing use of firing guns to scale the material off the ships. It was inhalation of the stuff that went into the air that, over time, caused the problems with diseases of the lungs later. This is the first instance I have heard of or that has been reported to me of any such activity in Air Force. Were mechanics and the like engaged in maintenance of aircraft similarly exposed?

**Mr Grzeskowiak**—No. The exposure would not have been of a similar nature. We are talking about potential exposures here rather than known exposures.

**Senator MARK BISHOP**—So have you identified any known exposures in the Air Force yet?

**Mr Grzeskowiak**—I am not aware of any confirmed exposures but we are aware of the number of potential exposures. I will give you one example.

**Senator MARK BISHOP**—Before you go there, what about in the Army? Do you have any confirmed beryllium exposures in the Army?

**Mr Grzeskowiak**—I am aware of one case from within the Army.

**Senator MARK BISHOP**—One actual in the Army, some potential in the Air Force and many, many hundreds of actuals in the Navy.

**Mr Grzeskowiak**—Potential exposures in the Navy.

**Senator MARK BISHOP**—Okay, hundreds of men affected in the Navy. And this has now become a whole-of-service issue on the basis of one actual in the Army and a few potentials in the Air Force?

**Mr P Sharp**—It is an occupational health and safety issue which we take seriously. Potential exposures in whatever service are taken seriously, like other—

**Senator MARK BISHOP**—You did not take too much serious interest from the 1960s right through to the inquiry stage. It is only now, when Minister Kelly is attacked on the radio in Sydney, that we switch the responsible officer away from Commodore Geraghty to a line official on the basis of one actual and one notional.

**Mr P Sharp**—I think that initially, because there were so many Navy people potentially—and the word is ‘potentially’—involved, Navy initially had to deal with that. They were the people who were concerned. But this is an occupational health and safety issue, and Mr Grzeskowiak is the director-general. That is where it belongs.

**Senator MARK BISHOP**—Why wasn’t it an occupational health and safety issue during the time of Minister Vale, Minister Scott, Minister Faulkner and a series of Labor ministers prior to 1990? Why did it become an occupational health and safety issue around February or March this year, at the end of the inquiry process and the implementation phase—because Minister Kelly is attacked on the radio? Turn it up! You have a better reason than that, Mr Sharp, haven’t you?

**Gen. Cosgrove**—It may have been because we did not have directors of occupational health and safety in those days or that they did not have the appropriate background.

**Senator MARK BISHOP**—I think you might have had directors of occupational health and safety in Minister Vale’s time.

**Gen. Cosgrove**—You went back quite a way.

**Senator FAULKNER**—To the good old days!

**Senator MARK BISHOP**—Air Marshal, do you have anything to add to that?

**Air Marshal Houston**—I would just like to say that we have been aware of beryllium for many, many years. In fact, as was already indicated, it is present in most aircraft that we operate. We have particular concerns about FA18s and F111s. We have had a number of controls in place since the early eighties to take care of the risk. So we have a very tight program of controlling the hazard. The hazard only comes up when the material is machined. We have a series of environmental controls, we use protective equipment and we have very tight safety and engineering practices to ensure that the hazard is completely minimised. There is talk about potential exposure, but I am confident that we have had our act together in Air Force for many, many years.

**Senator MARK BISHOP**—It sounds to me like you have had an effective regime for a long time.

**Air Marshal Houston**—In terms of needle guns, we have used needle guns in Air Force, but they are the steel-tipped needle guns. We have never used the beryllium-tipped stuff. So essentially it is under control—that is where we are with Air Force.

**Senator MARK BISHOP**—So we have got lots of potential applicants in Navy, which we have all known about for a long time. It appears to have been under control in Air Force since at least the eighties. I think we had one actual in Army. And you still say it is a cross-services responsibility at this late stage and requires replacement of Commodore Geraghty by you, Director General?

**Mr P Sharp**—Commodore Geraghty is the Navy systems commander. That is his job. He probably still has responsibilities within Navy for occupational health and safety. Rear Admiral Hancock could handle that. But our responsibility is to look across the whole organisation and ensure that regimes that deal with this issue are in place across the organisation.

**Senator MARK BISHOP**—I am not going to pursue this ad nauseam. I think we have got the picture. The minister got upset and made a switch. But I do have some consequential questions out of that. Can you tell me how many calls have been made and logged with the beryllium information service since it was established?

**Mr Grzeskowiak**—As of last Friday there were 1,806 calls logged with the beryllium information service.

**Senator MARK BISHOP**—How many claims have been lodged to date?

**Mr Grzeskowiak**—I am not aware of the exact figure. The DVA would be able to advise on that. The claims are lodged into DVA. My understanding is that since the issue became newsworthy early this year approximately 35 claims have been received.

**Senator MARK BISHOP**—In total?

**Mr Grzeskowiak**—Yes. But that figure is an approximate figure and will need to be confirmed.

**Senator MARK BISHOP**—Ballpark—understood. Have any payments been made as yet to individuals claiming exposure to beryllium? Have any claims been settled?

**Mr Grzeskowiak**—Certainly of the more recent claims that have been lodged this year I do not think any of those have been settled, but the DVA would be able to provide definitive advice. I recall that one claim may have been settled some years ago. That was in relation to the Army case that I mentioned earlier. But in that case the claim was not because the individual has developed a disease relating to beryllium but because they have confirmed exposure. I think the claim was based on an anxiety claim resulting from that. Again, the DVA can provide the definitive answer on that point.

**Senator MARK BISHOP**—That is a smart answer. We had that discussion last night and we had it earlier when Mr Smith cleared some stuff up. Minister Kelly is exercising her authority in this matter in her capacity as minister assisting, not as Minister for Veterans' Affairs—that is the attachment to the memo. So this is the appropriate place, is it not, to raise questions?

**Mr Grzeskowiak**—But nevertheless the people who feel that they have a claim would submit their claims to the DVA, the DVA has a well established process for handling those claims and it is rightly the DVA who could advise on the detail or otherwise of any of those claims.

**Senator MARK BISHOP**—I am advised that, on 29 September, two ADF members were exposed to radiation at the RAAF base in Pearce. There is a reference to that in the quarterly report of ARPANSA which is tabled in the parliament from time to time. What level of exposure to the radiation did the two ADF members at Pearce suffer back in September?

**Mr P Sharp**—We will need to take that on notice.

**Senator MARK BISHOP**—Is that an occupational health and safety matter?

**Mr P Sharp**—It sounds like it.

**Senator MARK BISHOP**—Do you know, Mr Grzeskowiak?

**Mr Grzeskowiak**—I do not have a brief on the issue.

**Senator MARK BISHOP**—Do you know whether the person would have undergone medical checks?

**Mr Grzeskowiak**—I do not know that, but I would imagine, as a routine matter, that would have occurred.

**Senator MARK BISHOP**—Has anyone else got a brief on this issue?

**Mr P Sharp**—No.

**Senator MARK BISHOP**—Okay. Could you take these questions on notice with respect to level of exposure to radiation by the two ADF members at Pearce. Was the level significant? Have the personnel undergone medical checks? Has a program of ongoing medical checks been developed to monitor the future health of those two men? How was the contamination contained and cleaned up? Could you take those questions on notice, seeing as you have not got a brief?

**Mr P Sharp**—Yes.

**Senator MARK BISHOP**—I want to talk about the tendering of the contract to the ABC Learning Centres to provide child-care services to Defence families around Australia. Prior to letting the contract with ABC Learning Centres, Defence used to fund some long day centres at military barracks, did it not?

**Ms Stodulka**—Defence, until 1 July this year, has run a child-care program that is based on a build-own-operate model. We started back in 1998 with about 14 child-care centres, many of which were unused married quarters—that sort of thing. They tended to be run by parent committees and volunteers. Defence set up the Defence Child Care Program because we were struggling to keep those centres running. The program has been funded since then, and we contract to a not-for-profit agency to manage those centres on our behalf. Currently there are 19 Defence child-care centres.

**Senator MARK BISHOP**—Over the period 1998 to present, you have developed some 19 child-care centres?

**Ms Stodulka**—Yes.

**Senator MARK BISHOP**—And they were on a build-own-operate basis?

**Ms Stodulka**—Yes.

**Senator MARK BISHOP**—And they had some sort of parent community management committee?

**Ms Stodulka**—Since 1998, we have contracted the management of those centres to a professional not-for-profit body who manage all of our child-care centres.

**Senator MARK BISHOP**—What is the name of the professional body?

**Ms Stodulka**—KU Children's Services has had that contract since 1998. It used to be Kindergarten Union but now it is known as KU Children's Services.

**Senator MARK BISHOP**—And that is a not-for-profit body?

**Ms Stodulka**—Yes.

**Senator MARK BISHOP**—And they had the management from 1998 until the present time?

**Ms Stodulka**—Yes, until 1 July, when that contract is completed.

**Senator MARK BISHOP**—What are the arrangements post 1 July?

**Ms Stodulka**—Over the past couple of years we have been very aware of the numbers of children in the child-care age group—nought to five. We have about 15,000 dependants of ADF members in the nought-to-five age group, and with our 19 centres we have been able to assist only about 1,000 children of ADF members nationally in the child-care program. So for a couple of years we have been looking at other ways that we could facilitate increased access to child care, knowing that that is an important lifestyle issue for Defence families.

We started talking with the child-care industry and experts in other departments about 18 months ago and have been through a two-stage procurement process over the last 12 months. We have developed a new service delivery model and signed a new contract with ABC Learning Centres.

**Senator MARK BISHOP**—Without going to commercial-in-confidence issues, what does the new contract with ABC provide?

**Ms Stodulka**—It provides the management of our 19 child-care centres, as does the current contract. However, it provides that at no cost to Defence, whereas the existing contract comes out at a cost to Defence. It also is going to provide an 1800 booking and information service to Defence families at no cost to them. ABC are also going to embark on a significant expansion program for us so that we can increase the number of places available to Defence families nationally. ABC currently have about 650 centres nationally operating. A number of Defence families use ABC centres at the moment, and where we have significant numbers of Defence families in those centres we will look at trying to establish them as corporate centres so that we can also hopefully achieve other benefits like salary sacrificing, as we are able to achieve at our Defence child-care centres.

**Senator MARK BISHOP**—So you have made a quantum shift in the administration and management.

**Ms Stodulka**—Yes. We have gone from a build, own, operate and pay for the management to contracting that out and having what we have contracted to a commercial provider who will manage all those centres for us and will also embark on a significant expansion program in areas of high Defence need.

**Senator MARK BISHOP**—I will come to the expansion.

**Senator HOGG**—Does this mean that Defence parents may well have a location closer to their own home rather than closer to their work—they may be separated by 20 or 30 kilometres, as would be the case in a place like Sydney—to place their children for child care?

**Ms Stodulka**—It is an interesting point because some of our families have indicated a preference for child-care centres located close to work and some families have indicated a

preference for child-care centres located close to where their residence is. Through the new contract we believe we will be able to achieve access to centres both near the Defence location and near the home location, and potentially en route as well. So we are trying to give people choice.

**Senator HOGG**—You will not be forced into buying a block of places at a number of specific centres. It may well be something you can spread across the whole continuum.

**Ms Stodulka**—We are not looking at buying places at all.

**Senator HOGG**—I am putting that in inverted commas—reserving places, giving people the opportunity to access a facility where they might otherwise not have the opportunity.

**Ms Stodulka**—That is right. We are always looking to try and provide choice because people have very different preferences for how they want to manage.

**Senator HOGG**—When would this operate from?

**Ms Stodulka**—From 2 July.

**Senator MARK BISHOP**—When was the decision made to shift away from the pre-existing model to a new corporate model?

**Ms Stodulka**—I guess the decision was made at the completion of the tendering process, but certainly for a period of at least 18 months we have been looking at different models and benchmarking against what other organisations have done and what is happening overseas and seeing if we cannot develop a more responsive approach.

**Senator MARK BISHOP**—When did the tender process conclude?

**Ms Stodulka**—On 21 April this year.

**Senator MARK BISHOP**—When did the tender process open?

**Ms Stodulka**—We ran a two-stage procurement process. In August the request for proposals went out to the industry and then on 17 December the request for tender was released.

**Senator MARK BISHOP**—How many of the then existing 18 or 19 long day care service providers did not submit tenders or had their tenders rejected?

**Ms Stodulka**—The 19 centres that Defence has are managed by one contract, KU Children's Services.

**Senator MARK BISHOP**—They submitted a tender.

**Ms Stodulka**—Yes.

**Senator MARK BISHOP**—Their tender was found to be not as good as the preferred model.

**Ms Stodulka**—No. Assessed against the quality criteria and the value for money criteria their bid was not assessed as favourably.

**Senator MARK BISHOP**—Have KU Children's Services lodged any complaint or objection with the department post the contract being awarded to ABC Learning Centres?

**Ms Stodulka**—No complaint or objection but obviously they are very disappointed to lose the contract. They have been a terrific provider of that management service for us under the old service delivery model. Certainly, they are disappointed but they are maintaining their professionalism and working with us to transition to the new contract successfully.

**Senator MARK BISHOP**—Who made the decision? Was a committee established?

**Ms Stodulka**—Yes.

**Senator MARK BISHOP**—Who was on that committee?

**Ms Stodulka**—I chaired that committee as Director-General, Defence Community Organisation. I also had a director from the chief finance office and one from the corporate services and infrastructure group.

**Senator MARK BISHOP**—It was a unanimous decision.

**Ms Stodulka**—Yes. We also had independent probity sign off on the entire two-stage process.

**Senator MARK BISHOP**—Who did the independent probity?

**Ms Stodulka**—Blake Dawson Waldron.

**Senator MARK BISHOP**—Why did you see the need to get an independent probity check for a relatively routine matter?

**Ms Stodulka**—We were looking to change the system. We were looking to ensure that there could be no doubt in anybody's mind about the fairness of the process that we ran. We were wanting to look at what community providers, not-for-profit providers and commercial providers could provide to us. It ensured that the process that we ran to every participant in that process was fair, transparent and not able to be questioned.

**Senator MARK BISHOP**—Why would there be community involvement if there was only one other company as a competitive tenderer? There were only two; KU Children's Services and—

**Ms Stodulka**—There were four tenderers.

**Senator MARK BISHOP**—What was the nature of the other two tenderers?

**Ms Stodulka**—The other two were for-profit providers as well.

**Senator MARK BISHOP**—So you had three for-profit—

**Ms Stodulka**—and one not-for profit and no community based.

**Senator MARK BISHOP**—No community tenderers applied. This new contract applies to on-base child-care facilities, doesn't it?

**Ms Stodulka**—Yes, to all of the 19 Defence child-care centres, some of which are on base and some of which are off base.

**Senator MARK BISHOP**—I want to talk about depleted uranium in the Al Muthanna province in Iraq, if that is how you pronounce it.

**Gen. Cosgrove**—I will be able to talk about this. I might start.

**Senator MARK BISHOP**—Has the ADF hazard assessment team finished locating and mapping the risk areas for depleted uranium over there in the province?

**Gen. Cosgrove**—In order to obtain a better understanding of the environmental risks, which included depleted uranium, the Al Muthanna Task Group advance party conducted an assessment of air, soil and water quality and these will continue to be monitored during the course of the deployment. To date, the health assessment team has not detected harmful quantities of depleted uranium. The risk of exposure remains low. I could go on with other issues to do with this. They did their job, they have not found harmful levels but will continue to monitor.

**Senator MARK BISHOP**—So they have found some sources of DU, but it is not identified as being of a harmful level.

**Gen. Cosgrove**—My note says they have not detected harmful quantities. It is expressed, if you like, in the negative about harmful quantities, and it does not say that they have not found any.

**Senator MARK BISHOP**—The presumption being that they have found some, but it is not harmful.

**Gen. Cosgrove**—Yes. You might assume that; I cannot say no.

**Senator MARK BISHOP**—Air Vice Marshal, do you know anything on that?

**Air Vice Marshal Austin**—All I can say is that the assessment team were specifically requested to look at depleted uranium risks before they deployed into the Middle East area of operations. The information coming back to me is exactly as outlined by CDF. The only thing I can add is that prior to the arrival of the team, the wrecks of military vehicles that had been damaged by depleted uranium were identified and had been removed well away from the area where our people are located. The initial assessment made by the hazard assessment team is that depleted uranium does not represent a threat to our personnel in that area.

**Senator MARK BISHOP**—Has that information you have just relayed been disseminated to all ADF members currently in Al Muthanna?

**Air Vice Marshal Austin**—My understanding is that the assessment team did brief the senior executives at the camp before they departed from the Middle East. However, they are in the process of completing their formal report as we speak and getting the samples analysed that they have brought back from the Middle East.

**Senator MARK BISHOP**—In regard to the information that we are talking about, the senior people over there have been briefed but the operational people have not been briefed.

**Gen. Cosgrove**—We do not know that. I think if we took that on notice, we could provide you with an answer to say whether all ranks have been given that sort of information.

**Senator MARK BISHOP**—Can you take that on notice and advise what information, if any, arising out of the report of the hazard assessment team has been disseminated to all personnel located in the province? And if it was, could you advise when it was done and provide a summary of the information that was disseminated.

**Gen. Cosgrove**—Certainly.

**Senator MARK BISHOP**—Were all members of the hazard assessment team tested prior to their deployment to Al Muthanna?

**Air Vice Marshal Austin**—I would seek clarification: tested in what way?

**Senator MARK BISHOP**—Tested for any levels of prior exposure.

**Air Vice Marshal Austin**—No. The hazard assessment team members were not tested for exposure to depleted uranium prior to leaving Australia. That would not serve any purpose because as part of their normal duties they would not have been exposed to uranium or depleted uranium; therefore, we would reasonably expect that the results would be negative.

**Senator MARK BISHOP**—Will the members of the ADF hazard assessment team and the personnel working in the province be tested when their deployment is finished?

**Air Vice Marshal Austin**—The current protocol is that we make available a urinary screening test to those people who have a concern about exposure to depleted uranium. When any members who have deployed to the Middle East return to Australia, they undergo a health assessment. As part of the health assessment, we determine their levels of exposure to a range of hazards that they may have been exposed to during the operation. If they fall into a group of high risk for depleted uranium exposure then we recommend to them that they undergo the depleted uranium urinary screening test, or we make it available to them if they wish to have that test done.

**Senator MARK BISHOP**—So those tests upon returning home are not mandatory, are they?

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

**Senator MARK BISHOP**—Is consideration being given to making them mandatory?

**Air Vice Marshal Austin**—No, it is not, because our experience to date has been firstly by self-reported exposure—it puts them into the very low-risk category—and, secondly, as of 27 May we have tested 87 people who have returned from the Middle East and requested a screen and all those people have tested within the normal range.

**Senator MARK BISHOP**—Is any attachment going to be made to the health record card and the personnel record card of both groups of people to say that they were in the province?

**Air Vice Marshal Austin**—Certainly for all people who deploy on any operation now we annotate in their medical record the fact that they have participated in the operation and we detail our threat assessment, detailing those things which we think they may potentially have been exposed to. We also provide the members with an information leaflet and a wallet card that itemises the health threats, environmental threats and occupational threats that were present during their operation so that they have an aide-memoire, if you like, to remind them of the things that they may have been exposed to.

**Senator MARK BISHOP**—Thank you.

**Gen. Cosgrove**—I notice, Senator, that you were going to talk about the medical services two-star position.

**Senator MARK BISHOP**—Yes. I had almost forgotten it; I am just coming to it now. Congratulations on your appointment to that new position, Air Vice Marshal Austin. It is a

very important position. It comes about as a result of a review of military health services, I understand. Can you outline some of the major recommendations of that review?

**Gen. Cosgrove**—The review is very comprehensive. It said, if I could summarise, that the expanding or elevating cost of medical services in Australia and the competitive nature of getting the right numbers of trained medical professionals, together with the dispersion of the ADF throughout Australia and the high operational demands, all created an environment in which we needed to do more to attract and retain professional health services into the ADF and also to remunerate those people who are in private practice most of the time or who are not in the military most of the time and who lend us their services through the Reserve. It also said that we needed to have more professional management oversight of the portion of the scarce medical asset in Australia which is available to the Australian Defence Force. An early conclusion of the health review was that we would be assisted in understanding the further scope of the issue better by reinforcing the health management staff effort in Canberra. Accordingly the review proposed, and the government agreed to, the creation of a head of defence health services and two one-star appointments, effectively up-gunning the management of Defence health services. From that point I will turn to the air vice marshal, who will turn tell you a little more about the reorganisation of the health services staff function to help him to further analyse and report back on the way ahead on the provision of health support for the Australian Defence Force.

**Senator MARK BISHOP**—Before the air vice marshal goes into his response, it is probably best if I ask you this question, because it leads out from your final point. Why did you determine to upgrade the senior position from a one-star to a two-star? What warranted that?

**Gen. Cosgrove**—The issue in particular is to do with the broader perspective we wanted the health services staff function to take. It is a very wide span, which we would recognise elsewhere in the Department of Defence with an official of this rank. The dollar amounts are still imprecise, because there are many hidden costs, I suppose, but it is an enormous outlay by the Department of Defence and it concerns an absolutely vital function in the overall personnel management responsibilities we have. All in all, it was an easy decision in the end for the government to reach. In times past, 10 or 15 years ago, when the demands on the health services were not quite as intense, we noticed that there was a two-star professional head of the Defence Health Service. In the meantime, a number of years ago, we moved from a two-star head of the Defence Health Service to a two-star surgeon-general of the Australian Defence Force—always, since its inception, a reserve officer—a very useful conduit and leadership position within the wider civilian medical or health professional fraternity, but nonetheless a man or woman unable to give you absolutely full time on the management of the Defence Health Service. So the judgment was how to retain the advantages we presently enjoy in outreach to the wider community through the surgeon-general but how to get greater professional execution of our defence health management plans.

**Senator MARK BISHOP**—And you were of the view that that was better done by a person appointed at a more senior level?

**Gen. Cosgrove**—Yes, which would enable other senior folk working in staff areas of a slightly wider span. I will get the air marshal to explain that to you.

**Air Vice Marshal Austin**—The point I would make is that the role of health within the defence context I believe has both changed and increased over the last decade. Firstly, the delivery of health care has become more complex, as we now have requirements to meet statutory requirements of the rehabilitation act. That has changed our focus. The importance of being able to deliver operational health care in a multitude of environments, particularly the increasing requirement to deliver humanitarian assistance, is changing the nature of the work that we do. The increasing requirements for such things as quality assurance, credentialling and clinical governance have increased the demands being made upon the staff within the Defence Health Service. This is increasing the requirement that we have a cadre of professional military health administrators who have spent considerable amounts of time in uniform, who understand the needs of the single service chiefs in being able to provide that operational support and who understand the strategic health environment and being able to help use military health as an adjunct or tool to the projection of national power, as we saw recently in our Sumatra Assist activities. All of these things have pushed us in the direction of increasing the governance requirements of the Defence Health Service and increasing the requirements to develop robust linkages internationally into other military services, within Australia within the public health sector—that is, to the Department of Health and Ageing and the civilian health system—and within the military context of being able to make sure that health issues can be advocated at a high enough level within Defence to make sure that they meet the needs of the service and that the service chiefs understand the constraints that apply within defence health.

**Senator MARK BISHOP**—I have one or two issues to finish off with before my colleagues take over. This is probably a question for you, Mr Smith.

**Air Marshal Houston**—Just before you go on, can I answer the question that was raised earlier about the radiation issue at Pearce. Apparently, back in September last year, a radiation filter was inadvertently left off a satellite communications dish. There was concern that two technicians who were working on it had been exposed to radiation. They were parcelled off to the medical section. They were examined and subsequent testing of the dish revealed that there was no radiation emanating from the dish. So, essentially, there was no problem.

**Senator MARK BISHOP**—Thank you. Mr Smith, can you give the committee an update as to the status of the implementation of the recommendations from the Flood review into Australia's intelligence agencies as they affect the Defence agencies?

**Mr Smith**—Certainly. Mr Bonighton, Deputy Secretary Intelligence and Security will join me. Mr Flood recommended a number of things that affect us. One was that we should strengthen some of our staffing arrangements in a couple of the agencies. We have done that with the appointments of two senior officers, one in DSD and one in DIO, who is now a dedicated deputy.

**Senator MARK BISHOP**—Are they dep sec level now?

**Mr Smith**—No. The one in DSD is a band 2 officer and the one in DIO is a band 1 officer. There was a group of band 1 officers or one star officers. They were all treated as equals but now one is tweaked a bit and called deputy. That is good. They are deputy to Major General McNarn. Secondly, we had to strengthen the resource management capabilities of Mr

Bonighton's office. We have done that by taking resources from elsewhere within the intelligence agencies and putting them with Mr Bonighton. Thirdly, Mr Flood recommended that we should refocus DIO, in particular, a bit more on servicing the direct needs of Defence and the ADF. We have done that by rewriting the charter of DIO. Fourthly, Mr Flood recommended that when the position of Director DIO became vacant, we should consider a suitably qualified military person for the position. We did that. Mr Lewincamp finished there at the end of last year and we replaced him with Major General McNarn. There were some recommendations about investing some new money in the information and corporate systems in the agencies. That money was identified in the PBS. We spoke about it yesterday. I have done that off the top of my head. Mr Bonighton may have other recommendations in front of him that he can comment on.

**Mr Bonighton**—Perhaps the area that Mr Smith has not spoken about is the coordination and collaboration across the community. Mr Flood made some pretty significant changes to the way in which the whole community operates. At the risk of joining Mr Sharp's generation A, I have seen two previous royal commissions into the intelligence agencies in the seventies and the eighties. I would say that Mr Flood's report and recommendations are, in fact, more broad ranging than those royal commissions. That is because he tackled, for the first time, the issue of how we are going to work across the community to react to the sorts of problems we now face—that is, the terrorist challenge and other targets that I would describe as where we need to produce intelligence with consequences. We are not here gazing off into the distance thinking deep thoughts; we are providing actionable intelligence to our law enforcement and to our ADF constituency.

Mr Flood recommended setting up a foreign intelligence coordination committee. That committee has met monthly since, I think, about last September. It has provided a focus for a whole range of activities across training, language skilling, business processes and better IT systems. That has been done under the leadership of the Director-General of the Office of National Assessments. That committee for the first time also has policy folks on it, so we have deputy secretaries from the Department of the Prime Minister and Cabinet and from Foreign Affairs. So we now have intelligence agencies—

**Senator MARK BISHOP**—And Defence?

**Mr Bonighton**—I represent the Defence policy operational and intelligence side of the houses, although our individual agencies are there as well, obviously. I think the other area of great change has been the oversight and accountability aspect, where there are proposals to strengthen or widen the remit of the parliamentary joint committee. We have some legislation being prepared which will look at how that could be implemented and also how we could tidy up some unforeseen aspects of the Intelligence Services Act 2001. We now have four years experience with that. The previous inspector-general suggested a number of changes to tidy that up. Those will also be caught up in the new legislation that is coming forward, hopefully in the next month.

**Senator MARK BISHOP**—That is a fairly decent overview. In his report last year Mr Flood was critical of our intelligence agencies for not advising government of the consequences of displacing Saddam Hussein and what would happen in the subsequent

vacuum. Are you aware of any research that has been taken since then as to likely future scenarios within the next 12 months and thereafter?

**Mr Bonighton**—It is certainly something that both DIO and ONA are looking at. It is obviously a very difficult area. We have had our hopes up on occasions—for instance, after the elections. Our hopes are deflated somewhat when we see the strength of the insurgency in trying to overturn that progress, but it is something that is continually being looked at.

**Senator MARK BISHOP**—That is work that is being done now and into the future?

**Mr Bonighton**—Yes, continuously.

**Senator MARK BISHOP**—By DIO and ONA, arising out of the recommendations that Mr Flood made. Mr Flood also commented that Saddam Hussein placed great value in those days on avoiding capitulation on the WMD issue and that Hussein's miscalculation on this and other issues played a significant part in the flaws in allied intelligence agencies about his intentions. Is it your view now, as a professional intelligence person, that this situation has improved in the post Saddam environment, and has it improved sufficiently to give us more confidence that we can assess the future of Iraq over the next one to 10 years?

**Mr Bonighton**—I guess I would say we have learnt some bitter lessons in this. One is the extent to which things are unknowable—the extent to which a determined state can manage to cover up its weapons of mass destruction program. We have discovered the difficulties of dealing with dual-use technologies, which are perfectly legal in a civilian context but in a military context of course turn out to be extremely dangerous.

Are we going to do better next time? There is certainly a lot more attention being paid to human intelligence. You will have seen in the various reports that there was far too much reliance placed on one or two humint sources. We placed too much reliance on technical intelligence because it was easier to collect. So we always had a large gap in our knowledge, although sometimes we thought there was not a gap, it was just poor sourcing.

**Senator MARK BISHOP**—Is that gap being sufficiently plugged, that deficiency in human intelligence? Is it being plugged adequately?

**Mr Bonighton**—That was a key recommendation coming out in the US and the UK, the fact that they should do much more. Flood, of course, recognises that with increased resources going to ASIS and particular comments on some of their skill levels.

**Senator MARK BISHOP**—In that they were a little bit deficient?

**Mr Bonighton**—I do not think any of us came out covered in glory.

**Senator MARK BISHOP**—Have we changed the training of the next generation of intelligence analysts to overcome these mistakes of the past? Have we made system changes to fix that up?

**Mr Bonighton**—I would say we have not so much changed the next generation as we are changing this generation, because we are only a couple of years down the track.

**Senator MARK BISHOP**—How are we changing this generation?

**Mr Bonighton**—We are developing some new techniques, particularly to look at dual use activities. We have got some additional funding for some counter-proliferation activities. There is a new concentration on different language skills.

**Senator MARK BISHOP**—Thank you, gentlemen.

**CHAIR**—We now go to the area of military justice.

**Gen. Cosgrove**—The issue as I understood it was to do with in some cases fees for legal representation.

**Senator HUTCHINS**—That will be raised, yes, but there are some other general questions as well. These are questions that the minister may wish to comment on as well. When the Inspector-General of the ADF makes a recommendation to you, General Cosgrove, is there any requirement for the CDF to make a written response to that recommendation as to whether it is accepted or rejected?

**Gen. Cosgrove**—I am not sure that the case has arisen that I have not been able to understand his argument and to make a decision based on the argument presented. He will present to me an examination of the situation and some recommendations. In the event that they are within my power, and mostly they are—he will point out to me if he thinks they are not within my power—I will decide in an ordinary part of the departmental process a decision, paragraph appended, and that would be the decision on the issue.

**Senator HUTCHINS**—So there is no requirement for you to give written reasons to accept or reject a recommendation that you are aware of? As you say, it has not arisen, but it may—

**Gen. Cosgrove**—In one particular case I agreed with the inspector-general wholeheartedly, so there was no need to write a further justification for agreeing with the argument that he put.

**Senator HUTCHINS**—What about if you do not agree with his argument?

**Gen. Cosgrove**—That would be separate. It would be a pretty important thing, after having got the inspector-general, who is apart from the rest of the system, to look at a case, to recommend to me after due consideration a course of action, for me to disagree. I probably would then need to explain to him carefully, and it may come down to writing. I have to tell you it has not arisen at this stage in relation to disagreeing to a recommendation he might have made.

**Senator HUTCHINS**—Is there any need for you to report to the minister on whether you agree with recommendations from the inspector-general or query them?

**Gen. Cosgrove**—There is no particular need. It is not within the way we have constructed the appointment. Certain of the issues that the inspector-general might deal with will be pretty sensitive cases, and I would be inclined then to report to the minister that an issue was on foot. Depending, again, on the nature of the issue, I might report to the minister the resolution of the issue or my proposals in relation to an issue so the minister would not be caught by surprise.

**Senator HUTCHINS**—Have you had to do that at this stage?

**Gen. Cosgrove**—I am trying to think whether I rated a particular issue as something the minister would wish to know about ahead of my decision. I feel not. It is a case from some time last year.

**Senator HUTCHINS**—I wonder if maybe you, General, the minister or Mr Cunliffe can inform the committee of the progress towards placing the appointments and employment conditions of the inspector-general and the Director of Military Prosecutions on a statutory basis.

**Mr Cunliffe**—A bill is proposed for introduction in these sittings, as I understand it. Certainly that is the latest information that I have available.

**Senator HUTCHINS**—For both of those positions?

**Mr Cunliffe**—Yes.

**Senator HUTCHINS**—The committee was informed that the rewording of regulation 33 was anticipated to ensure that a person who may be affected by an inquiry conducted by a board of inquiry shall be authorised to appear before the board and shall have the right to appoint a legal practitioner to represent them. Could you inform the committee about such progress?

**Air Cdre Harvey**—As I understand it, the question is related to regulation 33.

**Senator HUTCHINS**—That is correct.

**Air Cdre Harvey**—I am afraid I am not in a position to be able to answer that, so I might need to take the progress of that on notice.

**Senator HUTCHINS**—That would be helpful; thank you. I think you may recall this, Air Commodore: in our military justice inquiry Senator Johnston placed on notice a question in relation to dealing with a series of defence manuals. There were about four manuals. Senator Johnston placed on notice a question about the implementation of what is called the Defence investigation technical instruction. As I recall, that was due for implementation in January 2005. Was that the case?

**Air Cdre Harvey**—Can I get you to describe what the document is? I am not entirely clear what document you are referring to.

**Senator HUTCHINS**—Senator Johnston asked a question on notice dealing with four manuals. One I recall off the top of my head, and my colleagues on the committee might recall this as well, was something to do with how to treat prostitutes once they are apprehended.

**Senator JOHNSTON**—Do not look at me now. I ask for so many documents that I cannot remember which one we are talking about.

**Senator HUTCHINS**—They dealt with the Navy Investigation Service quality manual, the 5th Military Police Company's special investigation branch standing orders, the military police technical instruction No. 200, the special investigation branch policy and procedures, and section 4 of the RAAF police manual, DRAAF-AAP4332001. What I was asking was whether that instruction had been completed.

**Mr Cunliffe**—I am afraid those are not matters that fall under defence legal. There may be others who can assist you with that. Those are the investigatory arms, as I understand it, and they are not part of the division.

**Gen. Cosgrove**—We would need to take it on notice. I apologise that we did not anticipate that we would need those folks.

**Senator HUTCHINS**—On the statutory base for the IGADF and the DMP, Minister, is it the case, as Mr Cunliffe said, that this bill will be introduced in the coming session of parliament? Are you aware at all? Can you advise the committee? Is it still being drafted?

**Senator Hill**—Part drafted.

**Senator HUTCHINS**—So when the other half is drafted—

**Senator Hill**—No, part; I am not sure how big the part is. How much more drafting is necessary? It has taken four years of drafting to get to this point.

**Mr Cunliffe**—I do not know exactly how much is drafted but it certainly has been in various draft versions. There have been policy clearance procedures in place in relation to some other parts and that is continuing.

**Senator HUTCHINS**—So that is the difficulty for both the positions?

**Mr Cunliffe**—It is the bill in general.

**Senator Hill**—It is the legislative framework.

**Mr Cunliffe**—Both positions are part of the one bill as the draft stands.

**Senator Hill**—This note tells me that they believe it will be ready for introduction in the last week of sitting, so they have got to hurry up. If they do that and with the cooperation—maybe even without—of the Labor Party, they might be able to pass it in the first week of the next session.

**Senator HUTCHINS**—You will not need us after July.

**Senator Hill**—It has taken a very long time to get to this point.

**Senator PAYNE**—Is the minister's indication of the last week of this period of sitting, which is in approximately 10 days from now, give or take, an accurate representation in your view?

**Mr Cunliffe**—Yes. The advice to me is that it will be introduced during June. It will be ready from the drafters' point of view, as I understand it.

**Senator MARK BISHOP**—What mischief is the bill intended to remedy?

**Senator PAYNE**—It is not a mischief; it is a statutory establishment of the DMP and the IGADF.

**Senator Hill**—It is an improvement in practice. It was recommended in 2001, wasn't it?

**Mr Cunliffe**—Some parts. There are a number of steps; for instance—

**Senator MARK BISHOP**—I thought it was something else—that is okay.

**Mr Cunliffe**—if the IGADF operates administratively it will become statutory.

**Senator HUTCHINS**—On 11 and 12 November last year Australian soldiers dressed up as members of the Ku Klux Klan. Questions were asked about what was going to be done about it at Lavarack Barracks. Minister, as I understand, you said it would be investigated and that that would be completed by 17 March. What is the status of the investigation? What has happened? Has there been any disciplinary action taken? Was there need for any?

**Gen. Cosgrove**—I notice that the Chief of Army has headed off, but I have kept a note. I will render this on behalf of Chief of Army. There is a preamble that says it was a terrible incident, which it was, but I am going to go to the nub of your question.

The Chief of Army was concerned that there may have been procedural shortcomings in an investigation in 2003 and that the investigation might have lacked thoroughness. Because of those inadequacies, he did not believe a proper judgment could be made about the appropriateness of the actions taken as a result of those findings. A new and comprehensive investigation was ordered. It has now been completed to determine the circumstances of the photograph and the subsequent actions taken by the chain of command. The final report has been cleared by the Defence Legal Service and submitted to the Deputy Chief of Army. He has considered the findings and recommendations of the final report. He has decided on a range of disciplinary and administrative actions against individuals who were in the unit at the time. The soldiers who were subjected to racial name-calling will receive an apology from the Army and will be offered counselling support. The Deputy Chief of Army is also recommending improvements to the preparation of investigation officers and a follow-up examination of the unit to determine if the unacceptable behaviour is still being practised. A directive will be developed to implement the Deputy Chief of Army's decisions and this formal action is being taken now to demonstrate Army's determination to eliminate discriminating behaviour and to support those who need the protection and support of their leaders.

**Senator FAULKNER**—When were those decisions taken?

**Gen. Cosgrove**—The date of the briefing note is 13 May, so it was before 13 May.

**Senator HUTCHINS**—I am not sure if you are in a position to answer this, General Cosgrove: was the investigation completed by 17 March?

**Gen. Cosgrove**—I do not know that. The note says that it was ordered and has now been completed. That is the phrasing used in the briefing note. I do not know whether it was completed by 17 March.

**Senator HUTCHINS**—Thank you.

**Senator FAULKNER**—Could I ask about another case that received what I can only describe as extremely adverse publicity, including television and newspaper coverage. This goes to a female officer who was being sexually harassed at HMAS *Stirling* naval base and moved on from that point. I do not know how best to describe the matter. I want to use the appropriate description. I am sure officials at the table know of the case. How do we best describe it? Is it the *Stirling* case, for want of a better description?

**Mr Cunliffe**—I wonder if I can seek some guidance. There were some matters raised by Senator Bishop at the last meeting of this committee; I do not know whether it is the same matter or a different one.

**Senator MARK BISHOP**—It is.

**Mr Cunliffe**—If it is a different one, it is not a matter that I can help with. I understand the Acting Chief of Navy is still here; he may be able to assist.

**Senator FAULKNER**—There were findings of a Western Australian medical board of inquiry.

**Mr Cunliffe**—In that case, I can assist in part at least in terms of some of the legal matters.

**Senator FAULKNER**—I am being vague; I am trying to find good a descriptor of the case.

**Senator Hill**—We know the one you are talking about.

**Gen. Cosgrove**—Is it a case of sexual harassment or another issue?

**Senator FAULKNER**—I think it begins as a case of sexual harassment and then goes to another issue. That is how I would describe it. I suppose, General, you are asking a similar question of me. I am just trying to get the identifier and I am just being careful. Perhaps the McKenzie case would be a reasonable way of describing it, given that Dr McKenzie's name has been bandied around in the media.

**Rear Adm. Hancock**—I think at best there might be an allegation of the nature that you made, but we should not characterise it as a sexual harassment case.

**Senator Hill**—I have never heard it talked of as a sexual harassment case.

**Rear Adm. Hancock**—It is very easy to adopt the mantra that the media headlines get into. It should not be characterised like that.

**Senator FAULKNER**—Exactly. I am searching for an appropriate descriptor.

**Senator Hill**—There are privacy issues.

**Senator HUTCHINS**—That is how the case commenced, didn't it—in relation to sexual harassment?

**Senator Hill**—I am not sure about that.

**Rear Adm. Hancock**—It could be said there might have been an allegation of that nature, but that does not characterise well what we are talking about as a whole case here.

**Senator Hill**—My recollection is that the matter before the medical board did not involve sexual harassment.

**Senator FAULKNER**—Let us cut to the chase: was there or was there not—

**Senator Hill**—We have to be a bit careful as to what crime we associate individuals with.

**Senator FAULKNER**—I am asking: was there or was there not an initial sexual harassment case, or allegations of sexual harassment? We may as well go there. I wanted to get a better descriptor of what we are talking about but, given that the issue has been raised, let us go to it directly.

**Rear Adm. Hancock**—I think that to answer this question we are going to get into issues of a personal nature which potentially are not in the public arena and are the subject of separate discussions now to settle the matter. We are potentially going to step into shoal waters here if we continue.

**Senator FAULKNER**—There is in the public arena—there has been substantial coverage on national television as well as substantial newspaper coverage—an issue of an alleged breach of patient confidentiality obligations; let me put it that way.

**Senator Hill**—That is correct. That is what Senator Bishop was asking about on the last occasion.

**Senator FAULKNER**—It is a question of where this all starts and where it finishes. To save time, could you, Admiral, or Mr Cunliffe or whoever has responsibility here—I am not sure—give the committee a brief status report of where this matter is up to?

**Gen. Cosgrove**—Just before that commences—sorry to break your train of thought, Senator—to Senator Hutchins, the investigation into the issue that I was speaking about a few moments ago was completed by 28 March this year.

**CHAIR**—Thank you, General.

**Senator Hill**—The problem with Senator Faulkner's question is when he says, 'Where is the matter up to?' I am not sure what matter he is talking about. There are a series of issues. I have been answering questions on notice and I think Senator Bishop or someone on the last occasion asked about financial support for the parties, to which we gave answers. I do not think we satisfied anybody but we gave answers. Then there were questions about who paid for the penalty and who paid for the costs of the respondent, if that is the right word, in that hearing. Then there are issues of a personal nature regarding the complainant and Navy that efforts are being made to resolve. HREOC has been involved; the Defence Force Ombudsman has been involved.

**Senator FAULKNER**—That is why I thought that a sensible way of dealing with it so we do not trample into any unnecessary areas—

**Senator Hill**—You started with a pretty big trample, I have to say.

**Senator FAULKNER**—Not at all.

**Senator Hill**—You started by raising the issue of sexual harassment, which is the first time I have heard that in all my contact with this particular matter.

**Senator FAULKNER**—What I asked for was a descriptor that I could use to identify the case.

**Senator Hill**—Sexual harassment.

**Senator FAULKNER**—We decided not to use such a descriptor; we decided to use a descriptor—

**Senator Hill**—When you say you want to know where the matter is up to, what particular issue do you want us to answer?

**Senator FAULKNER**—Is it true, Rear Admiral, that there are a range of related issues? Is that correct?

**Rear Adm. Hancock**—Yes.

**Senator FAULKNER**—Could you very briefly outline to the committee what these related issues are.

**Rear Adm. Hancock**—I will put them into three packages—and they go back quite some time. The first package is some treatment as a junior officer at the Australian Defence Force Academy which is alleged to be unsatisfactory. The second package is a removal from her position as the executive officer at HMAS *Stirling* in 2000. The third package is current medical status, which is being considered. That consideration is of whether the officer is fit for service or not fit for continued service. So there are a range of issues wrapped up in those three packages.

**Senator FAULKNER**—Yes. Thanks for that; that is helpful. Let's go to the first issue. Is that matter subject to ongoing investigation or inquiry?

**Rear Adm. Hancock**—Not by the defence organisation. Lines of inquiry, I understand, have been pursued with the Australian Federal Police.

**Senator FAULKNER**—But, as far as Defence is concerned in relation to allegations of mistreatment at ADFA of this individual as a junior officer, that is not a matter that Defence is either directly or indirectly concerned with?

**Rear Adm. Hancock**—Not at this point.

**Senator FAULKNER**—All right. I have just heard that Defence is not involved in the first issue—the first package, if you like.

**Senator Hill**—Defence has to be involved to some extent if it relates to ADFA. But I gather they were allegations about events that had occurred a long time before.

**Senator FAULKNER**—Right, and my question was about investigation or ongoing inquiries—whether any of those were being conducted by Defence. I was informed by the rear admiral that it is being conducted by the AFP. If that is not correct, I think the record should be corrected.

**Senator Hill**—What I am advised is that the alleged incident was not reported to Defence, even at a late stage, but rather reported to the police. We understand that it was investigated by the police and we do not believe that there is any current action being taken. On the basis of Defence's communication with the police, it seems that Defence is not taking any action in relation to that matter.

**Senator FAULKNER**—There was an article in a major daily newspaper—sorry, did you want to add something, Rear Admiral?

**Rear Adm. Hancock**—I was just affirming what the minister said.

**Senator FAULKNER**—Thank you. There was an article in a major daily newspaper dated 19 May this year—you asked about the issue of sexual harassment; I want to quote directly from the second paragraph of the article:

But the naval officer's 14-year career ended five years ago when she got her superiors offside by taking on the cause of a younger female officer who was being sexually harassed at HMAS Stirling naval base at Garden Island in Western Australia.

I assume, Rear Admiral, that that matter comes into the second package of issues that you identified for the committee. Would that be correct?

**Rear Adm. Hancock**—A fair assumption.

**Senator FAULKNER**—Thank you for that and, Minister, that is where this issue, given that you are not aware of it, at least on one occasion—maybe on many others—and I think in some other media coverage I have read, of sexual harassment has been—

**Senator Hill**—I think it is good that you have clarified that the allegation did not relate to the person that has been the subject of this discussion.

**Senator FAULKNER**—I never said that.

**Senator HILL**—That is certainly the way I interpreted it. You left it vague to say the least.

**Senator FAULKNER**—You are perfectly entitled to incorrectly interpret things. As long as we have been able to establish—

**Senator HILL**—You have now been able to clarify the matter.

**Senator FAULKNER**—I would have thought that you as the minister would be aware of this. I have made valiant attempts to try and make sure—

**Senator Hill**—I am aware. I am aware of the Western Australia medical board matter. I am aware there are allegations in that regard.

**Senator FAULKNER**—that this is dealt with in a proper way—

**Senator Hill**—I am aware of the legal issue.

**Senator FAULKNER**—even to the extent—

**Senator Hill**—I am aware of the issues of costs.

**Senator FAULKNER**—of trying to make sure that we identify these cases in a way that is acceptable to all parties—in other words, on both sides of the table; at the witness table and also for senators at this side of the table.

**Senator Hill**—Funny, your colleagues did not have the same trouble last session.

**Senator FAULKNER**—They may be far superior to me at asking questions.

**Senator Hill**—So what is the next question?

**Senator FAULKNER**—Let us just take that as a given and perhaps move onto the substantive issues in relation to the three identified matters. Rear Admiral, can you briefly indicate to the committee where the issues are up to with the second matter—that is, in the broad the issue of the removal of the officer at HMAS *Stirling* I think, in the year 2001.

**Rear Adm. Hancock**—One of the key issues settled last year was settled by the medical board, which talked about some inappropriate professional behaviour by another officer. That was a celebrated case, and we have pretty much got a comprehensive public view on what has happened with that. It allowed us to move the negotiations with this member forward and try

to work out what is needed to get an acceptable settlement. Navy's energies have been to try and get an acceptable settlement such that the member will be satisfied, to the extent that that is practicable, and the Navy will be satisfied, and we can move forward.

**Senator FAULKNER**—Since the medical board of inquiry made a determination, there has been no further development or is that where it rests?

**Rear Adm. Hancock**—No, there have been some discussions with the member and it has recently been to the HREOC for a conciliation hearing.

**Senator FAULKNER**—So who has had the discussions with the member—this is the officer we are talking about?

**Rear Adm. Hancock**—Yes. A number of people in the organisation or representing the organisation have had discussions to try and get a sense of what is an acceptable negotiated outcome. A recent HREOC conciliation conference was apparently not successful, and we are now waiting to see what the next step will be. That will be initiated by the HREOC president or by the member for a further stage in negotiations or proceedings.

**Senator FAULKNER**—The Western Australian medical board of inquiry—I think that is the correct title; you can correct me if I am wrong—made a finding against Dr McKenzie and imposed a \$10,000 fine. Is that correct as far as you understand?

**Rear Adm. Hancock**—Yes.

**Senator FAULKNER**—It is true that the board also ordered Dr McKenzie to pay a proportion of the board's legal costs. I think that is correct, isn't it?

**Mr Cunliffe**—Both those matters were canvassed at the last meeting.

**Senator FAULKNER**—I am aware of that. That figure was 75 per cent. That is right, isn't it?

**Mr Cunliffe**—Yes. The order, as I understand it, was that he was required to pay 75 per cent of an amount set.

**Senator FAULKNER**—Defence paid 80 per cent of that proportion of 75 per cent of the board's legal costs. Is that right?

**Mr Cunliffe**—That is correct.

**Senator FAULKNER**—Who made that decision?

**Mr Cunliffe**—An officer in my division who is a delegate under the legal service directions.

**Senator FAULKNER**—At the time of the answer to a question on notice on 17 February 2005 the sum of money for legal costs, including counsel's fees, was \$377,221.28.

**Mr Cunliffe**—I do not have the exact date, but the figure that I have is \$377,221.28.

**Senator FAULKNER**—What proportion of that sum was paid for by Defence?

**Mr Cunliffe**—That is the figure Defence paid for the legal costs.

**Senator FAULKNER**—And since that time no additional legal costs have been borne by Defence?

**Mr Cunliffe**—No.

**Senator FAULKNER**—It is also true, isn't it, that the officer concerned did not receive any financial assistance to defend her position?

**Mr Cunliffe**—Again, some of this matter was canvassed at the last hearing.

**Senator FAULKNER**—I know.

**Mr Cunliffe**—The officer concerned was a witness in a medical board inquiry and legal assistance in the funding sense was not provided to her. I understand that at an earlier point assistance was provided under an internal defence instruction which enables ADF members to obtain some legal advice.

**Senator FAULKNER**—What was the dollar figure for that assistance?

**Mr Cunliffe**—It does not have a dollar figure attributed to it. It is provided by ADF members and reserve members—they may be reserve members or they may be full-time legal members. So it does not have a costing basis.

**Senator FAULKNER**—So there was some assistance but it was of such nature that there was no—

**Mr Cunliffe**—It is not a billable figure. The figures related to Dr McKenzie's costs were provided by an outside provider and therefore they will represent—

**Senator FAULKNER**—Is it a figure that you can provide in terms of staff hours and the like? Can it be identified in some way?

**Mr Cunliffe**—I would be surprised if at this point it was possible to reduce it to a figure. I do not believe it would have been reflected in those terms at the time it was provided.

**Senator FAULKNER**—You say that decisions in terms of the provision of these sorts of sums of money—in this case \$377,221.28—are made by a delegate. What sort of delegation is allowed for by the delegate in this circumstance? It is a very substantial sum of money.

**Mr Cunliffe**—The delegations are provided under the legal service directions to apply the directions, so they relate to the application of the directions rather than the exact financial amount.

**Senator FAULKNER**—So however large the figure, there is basically no limitation on the delegation. Is that what you are saying?

**Mr Cunliffe**—I understand that to be true. I will confirm that and correct it if it is wrong, but I understand it does not have a maximum figure. In some of these instances, of course, the amounts of settlements and other things are quite high.

**Senator FAULKNER**—What level officer is the delegate? I am not asking the name of the officer.

**Mr Cunliffe**—The level of the officer is a legal 2, which is equivalent to an executive level 2 officer. It is an immediate sub SES or star-ranked level.

**Senator FAULKNER**—So a sub-SES officer has a delegation that allows them to determine, effectively, unlimited expenditure?

**Mr Cunliffe**—Subject to the legal directions issued by the Attorney-General under the Judiciary Act, yes.

**Senator FAULKNER**—There is no other departmental officer or ministerial oversight?

**Mr Cunliffe**—In amounts of this nature, it does not happen that the person sits in the room and considers it entirely without discussion, and certainly in this instance there were discussions during the time that I can speak of. That related to the amount as well a range of other factors.

**Senator FAULKNER**—Who were the discussions held with?

**Mr Cunliffe**—In this particular instance, certainly I was involved in some discussions, the director-general was involved in some discussions and our general counsel was involved in some discussions, and those related to a range of matters in considering the final details of the case.

**Senator FAULKNER**—So the delegate does not make this decision. Are you saying that those discussions included canvassing the appropriateness or otherwise of this huge amount of money being paid to give legal support to someone who had been found guilty of an offence?

**Mr Cunliffe**—The discussions were focused more on the application of the findings of the medical board in conjunction with the legal service directions, and they are largely principles based—and, yes, the understanding of the size of the figure was certainly an element in the discussions, but it was not the primary element. The primary element was what was the proper percentage.

**Senator FAULKNER**—Do you keep a record of sums that are paid under these delegations? How does this compare with other sums paid under this delegation for decisions made by an officer not even of SES level in Defence?

**Mr Cunliffe**—I am afraid I do not have a record that is kept on that basis. It would be possible to obtain some information—

**Senator FAULKNER**—I would be amazed if expenditures of that amount of money did not generate some sort of record.

**Mr Cunliffe**—We do not keep a list of that particular sort as you described it. The record is certainly capable of being inquired into from the financial system, and obviously that is something that we could look at if you wished. But it is not such a regular event, as you say—this size of figure—and indeed such a case as this is not a regular event.

**Senator FAULKNER**—I have heard some incredible evidence at Senate estimates over the years, but it almost takes the cake to say that effectively no administrative record is kept of these things. This seems to me to be absolutely open slather. Here is \$377,000 being paid in legal support to someone who has been found guilty of an offence, and no record is kept of this sort of thing.

**Mr Cunliffe**—Senator, I do not believe that is what I said, nor is it the case. What I said was that all of these payments are recorded on the financial system and they are capable of being inquired into. What I also said was that I do not keep a list of any particular subset in the way that your question inquired.

**Senator FAULKNER**—Mr Smith, that sounds extraordinary to me. Do you have a level of comfort with hearing that information that the department is effectively not keeping tabs on what could be absolutely massive payouts?

**Mr Smith**—Not keeping tabs, but I am sure it is recorded. This information is new in the way of advice to me, I would have to say.

**Senator FAULKNER**—But it is not recorded in a way that can be provided to this committee. These are massive sums of money, aren't they, Mr Smith? Who gives these delegations? Is it a ministerial delegation, Mr Smith, or do you give the delegation?

**Mr Smith**—I am not aware in this case of the origins of the delegation.

**Senator FAULKNER**—Is there anywhere else in the Department of Defence where a sub-SES level officer has a delegation to provide for the expenditure of \$377,000?

**Mr Smith**—I cannot say that I have or have not off the top of my head. There are a great many delegations exercised right across the organisation.

**Senator FAULKNER**—I have got to say, Mr Smith, that it sounds pretty unlikely to me. Once upon a time, I signed a few of these delegations and I can tell you nothing remotely went—

**Mr Smith**—It is a big figure.

**Senator FAULKNER**—Sorry?

**Mr Smith**—It is a big figure.

**Senator FAULKNER**—It is a huge figure—for a sub-SES officer to be signing off \$377,000 in legal support for an individual's legal costs when that particular individual has been found guilty of an offence. And no support—not a zot, not one red cent—goes to the aggrieved party in this case, who also happens to be a Defence officer. So I really want to know who decides the delegation. Who signs off on this delegation that allows this open slather in Defence? Surely someone can tell me that. This is a huge amount of money; someone must authorise a junior officer to pay it. Someone must. Whether it is a ministerial delegation, whether it is you, Mr Smith, or Uncle Tom Cobley, somebody must do it. Can someone please tell me?

**Mr Smith**—I will have to take advice on this. Your question obviously is how a delegation for this amount of money comes to be held by an officer at that level. I will have to take advice on the origins of the delegation. Pending that advice, and at risk of speculating a bit, I believe that the delegation would come from the secretary at the time—whether I or my predecessor signed it, I do not know—and I imagine it would be to pay reasonable legal costs in particular circumstances. I do not know if there is any financial upper limit put on that. It sounds as though there is not, and it sounds as though an officer received the accounts, judged that that was a reasonable legal fee for the work that was done and paid it. We understand that we were billed for 1,178.6 hours, and I would be assuming that the officer with the delegation judged that that was a reasonable billing.

**Senator Hill**—It may well be a reasonable fee per hour, and the hours may be reasonable. Quite often when matters of this nature are commenced, the time needed to resolve them is

underestimated. That is not at all unusual. We would need to go back and try and retrace the history of this matter.

**Senator FAULKNER**—Could that be checked?

**Senator Hill**—I do know from other matters that legal bills can become very large these days in a very short period of time.

**Senator FAULKNER**—What do you mean by that? Do you mean the delegations have grown to a higher level?

**Senator Hill**—I do not know whether the delegations come with a limit. I can understand that somebody is delegated to make a decision as to whether a particular officer who is involved in a legal action is entitled to be represented. That strikes me as pretty straightforward. Whether the person who makes that decision can only make it up to a certain sum of money I do not know, but that does not work very well in practice in relation to legal actions because you probably will not know what the cost is until the end of the action. Then when the bill comes in somebody has to sign off on it. Presumably they look at the hours and the rate and they determine whether it is a reasonable rate against a reasonable number of hours for the job. There may not be a maximum sum attached to that delegation, and that may be because when these delegations started—this is what I am getting at—the bills that tended to be rendered for legal actions were much more modest than they are today. The secretary said that he will retrace the steps and find you the history of this delegation and what restraints are within the delegation.

**Senator FAULKNER**—I appreciate that, and I thank him for it. I asked him who signed off on the delegation. I do not need a very long history of that. I would hope if the secretary or you signed off on it you would be aware of that. I would assume it was done either by the secretary or by the minister. How often are delegations renewed as matter of course in Defence? Mr Smith, would you be able to get that information over the dinner break about who signed off on the delegation? Would that be possible?

**Mr Smith**—We could try to do that. I do not know how easily it could be done.

**Senator FAULKNER**—I would appreciate it if you could.

**CHAIR**—We were intending to complete the committee's hearings this evening at dinner.

**Senator FAULKNER**—We were hoping to, but I am now doubting, because of the way this is going, that I will have concluded my questioning by then. Hopefully soon after the dinner break we will be able to.

**CHAIR**—I wonder whether we might be able to continue the questioning a little bit longer and then—

**Senator FAULKNER**—It would be sensible to make an assessment in about 20 minutes to see how we are travelling. I think that would be sensible and I am very happy to do that.

**Mr Smith**—The delegations are not reviewed frequently or regularly. They are reviewed periodically, depending on their nature. Mr Veitch can tell us more about that.

**Mr Veitch**—I could talk in generalities about our delegation system but I am not aware of the specifics of this particular case. In essence, there are two types of delegations. One

delegation relates to the matter of project approvals. There are certain thresholds set down for those. At certain monetary levels they have to go to cabinet for approval and at certain levels to ministers for approval. The current threshold on a capital equipment item, for example, is \$5 million. Below that, the delegations are held by departmental representatives. That is on project approvals for capital equipment. For other sorts of expenditure items, like I think we are talking about here, the delegations flow from the Financial Management and Accountability Act. It is not a ministerial delegation. The delegations flow through the secretary and are delegated out to group heads and subordinate officers. The group heads may set business rules for subordinate officers with certain monetary thresholds, limitations or caveats which might be in keeping with the nature of the expenditure being incurred.

**Senator FAULKNER**—That is helpful, and I thank you—

**Mr Veitch**—In this particular case I am not aware of any specific caveats or limitations that exist on this delegation.

**Senator FAULKNER**—The information is helpful and so I thank you for it. How many open-ended delegations are there like this that effectively do not have any limitations? This is \$377,221. What if it is \$1 million, \$2 million or \$10 million?

**Mr Veitch**—The delegation system is designed to look at the nature of the expenditure and probably the seniority of the person exercising the delegation, so it is usual for delegations first of all to be bound by a monetary limit. In the case of our delegations, an officer cannot approve an expenditure item if there is no budget, for example. So the first limitation is that he is bound by the limit of the available funds.

**Senator FAULKNER**—But there is no such limit here, is there?

**Mr Veitch**—There would be a limit in terms of the budget that was allocated for that particular category, but in this case I am not aware that there is a limit for this specific item.

**Senator FAULKNER**—Are there any other delegations in Defence that would allow a sub-SES officer to sign off on a figure remotely like \$377,221.28? Are there any other delegations that would allow such a thing to occur?

**Mr Veitch**—In some areas of expenditure, yes, there would—expenditure of a more routine nature like payments of utilities, payments of ongoing contractual payments and those sorts of things that are not sensitive in nature. Delegates of that level would hold delegations up to and including—

**Senator FAULKNER**—Yes, but I am talking about where a discretion is with a delegate. This is a real discretionary payment. You would accept that, wouldn't you?

**Mr Veitch**—I accept that and, as I said from the outset, I am just trying to explain the generalities of the delegation system while we are trying to find some information for you on this particular case.

**Senator FAULKNER**—In this case we have that payment going to someone who is found guilty of an offence and no financial support—not one red cent—going to the victim.

**Senator Hill**—When you say 'found guilty of an offence', I am assuming that the agreement to support the officer's legal costs was entered into before the commencement of

the hearing. You do not know the outcome of the hearing then. It would be unusual to say, 'We will pay your legal costs but, in the event of an adverse finding, we reserve the right to recover them.'

**Senator FAULKNER**—You have not got selective amnesia again? Wasn't this officer found guilty of professional misconduct?

**Senator Hill**—Yes, the officer was, in the end.

**Senator FAULKNER**—Thank you.

**Senator Hill**—But you are not listening to what I am saying, which is not unusual. What I am saying is that, if a complaint is made against a military officer that leads to a legal action, the military officer seeks support for his or her fees. If the complaint relates to some aspect of that officer's service, I am not surprised that there was an agreement that Defence would support the legal costs. That does not strike me as unusual. At that stage, no judgment can be made as to what would be the finding of the tribunal. Subsequently, there was an adverse finding against this individual. But I do not see that that gives a right to recover the legal costs that have been agreed to be paid. You could say to me, 'Perhaps there should have been some sort of agreement with the serviceperson that legal costs would be paid but that, in the case of an adverse finding, there is an agreement to recover them.' But I think that that would be unusual. In relation to the costs of the other party, I thought the evidence that was given on the last occasion was that the other party did not seek payment of their legal fees by Defence. And then there was some issue as to whether Defence was entitled to pay those legal fees in any event and that was referred to the Attorney-General's Department, which gave a ruling on it. Is that right?

**Mr Cunliffe**—Not exactly.

**Senator FAULKNER**—Not exactly. Someone had better correct the record quickly. Do you want to say anything else, Senator Hill, that is wrong?

**Senator Hill**—I do not think it was too far off the mark.

**Senator FAULKNER**—Do you want to give more misinformation to the committee?

**Senator Hill**—If you had been here last time, we would not be going through this again.

**Senator FAULKNER**—Sorry. Unfortunately, you now have the humiliation of being corrected by one of your officers.

**Senator Hill**—I do not feel humiliated at all.

**Senator FAULKNER**—You should. I feel humiliated for you.

**Senator Hill**—Thanks.

**Mr Cunliffe**—The request that was declined in relation to the medical board was seeking the payment of travel costs for a person to travel to Western Australia for the hearings. The payment of that was declined under the legal service directions.

**Senator FAULKNER**—This is for the victim?

**Mr Cunliffe**—This is not for the victim.

**Senator FAULKNER**—Whom are we talking about?

**Mr Cunliffe**—This is for a person that the victim apparently wished to have accompany her.

**Senator FAULKNER**—So a representative of the victim or someone engaged by the victim—is that what we are talking about?

**Senator Hill**—I do not think it was a representative.

**Senator FAULKNER**—Someone working on the victim's behalf. Is that right, Mr Cunliffe?

**Mr Cunliffe**—I will describe this as a person who I understand to be a family member.

**Senator FAULKNER**—All right. A family member. What was the amount for?

**Mr Cunliffe**—Travel costs.

**Senator FAULKNER**—It was for travel costs. What was the dollar amount?

**Mr Cunliffe**—A dollar amount was not specified. On the last occasion, what I provided was a copy of the legal service directions.

**Senator FAULKNER**—I bet you it would not have been \$377,000. They could have flown to the moon and back.

**Mr Cunliffe**—There are two issues in each of those instances: one is the quantum and the other one is the application of the legal service directions. The preliminary question is: do they apply? The delegate's decision was that they did not. It was not a question with the travel costs of whether it was \$377 or \$377,000; it was the application of the legal service directions.

**Senator FAULKNER**—Travel costs were knocked back for someone, a member of the victim's family, to appear in support of the victim. But there was your sub-SES level delegate—and we have not yet gone through the other people, such as you, who were involved, which I intend to do in some detail in the not-too-distant future. We know that a person found guilty of professional misconduct by the Western Australian medical board of inquiry gets \$377,221.28 for payment of their legal costs. Defence does not even know who, at the end of the day, authorised the delegation to allow this to occur. It is pretty ordinary, isn't it? It is really very ordinary.

**Senator Hill**—No, I do not think it is ordinary that the officials cannot give you chapter and verse on the delegation of authority to agree to support a service person's legal costs in an action that has been taken against that service person. I would be amazed if they could do that without going back and checking the history of the delegations. I suspect when they go to check the history of delegations that will not be all that easy either.

**Senator FAULKNER**—Mr Bevis, the member for Brisbane—who has, I think, very effectively been asking questions about this matter—asked the Minister representing the Minister for Defence in a question on notice whether Defence paid Dr McKenzie's fine. You were talking earlier about questions on notice, Mr Cunliffe, so you would recall that.

**Mr Cunliffe**—We indeed answered that at the last hearing too, Senator.

**Senator FAULKNER**—Yes. You said that Defence did not pay the fine.

**Mr Cunliffe**—That is correct.

**Senator FAULKNER**—My question is: did Defence pay any part of the fine?

**Mr Cunliffe**—No, and I think that the transcript from the last estimates hearing spells that out. But let me spell it out for the record tonight.

**Senator FAULKNER**—Is it true that the victim here is still a ranking officer? I think that is correct, isn't it, Rear Admiral?

**Rear Adm. Hancock**—Serving in the Royal Australian Navy reserve.

**Senator FAULKNER**—So 'commissioned officer' perhaps would be the best way of describing her. Would that be right?

**Rear Adm. Hancock**—Yes.

**Senator FAULKNER**—Thank you. Is it true that that commissioned officer has not been allowed to set foot on a naval—

**Rear Adm. Hancock**—Sorry; I have misled you. I thought you were talking about the medical officer who was before the medical board. I think you are now talking about the other member who made the complaint to the medical board.

**Senator FAULKNER**—Yes, I am—about the victim, effectively.

**Rear Adm. Hancock**—That member is still a commissioned officer in the Royal Australian Navy, a permanent naval member.

**Senator FAULKNER**—Yes. Is it true that that commissioned officer has not been able to set foot on a naval base since the year 2000?

**Rear Adm. Hancock**—No.

**Senator FAULKNER**—What, if any, obstacles have been in that officer's way to prevent her from setting foot on a naval base? Has that officer had full access?

**Rear Adm. Hancock**—The officer has been on undefined leave, on full pay and full benefits, since her removal from the position in October 2000. Navy has not proscribed her entering a naval base, a naval facility or a defence facility of any sort. To the extent that it has been practicable within the construct of trying to get a satisfactory settlement, we have provided all reasonable support and will continue to. That certainly does not constitute banning an officer from a naval base. I think you are referring to a headline in a press article.

**Senator FAULKNER**—No, I am not referring to a headline. I have no personal knowledge of it. I am, however, referring to an issue that has been raised in the media.

**Rear Adm. Hancock**—I think the way you characterise the actions as 'obstacles' does not reflect at all what Navy is trying to do. It is a very sad episode, and we are trying to get an acceptable outcome. We have been trying, we are still trying and we will continue to try. It is something that we want to try to get to the end of in a way that is satisfactory to all concerned.

**Senator FAULKNER**—Can you or Mr Cunliffe indicate when the minister was briefed on this matter?

**Mr Cunliffe**—I cannot. As I understand it, the hearing goes back some years; certainly to a time before my involvement.

**Senator FAULKNER**—Is the minister, as a matter of course, briefed on such payments under the officer's delegation?

**Mr Cunliffe**—Not as a matter of course. Again, this is not a usual instance; but not as a matter of course.

**Senator FAULKNER**—Can you say in this instance whether the minister was briefed?

**Mr Cunliffe**—I cannot. I have answered that. I do not know.

**Senator FAULKNER**—You do not know?

**Mr Cunliffe**—At each point there have been several briefings in relation to particular issues, but I do not know. And there have been a range of questions, as you would know, from members of the other house.

**Senator FAULKNER**—I am aware that there have been questions on notice and I obviously accept that a ministerial briefing would go to the minister along with a draft answer. At the time the delegate made this decision, was the then minister briefed on that decision?

**Mr Cunliffe**—There are a series of decisions. The one that I can answer for, because it was during the time that I have been doing this job, was the final one. At that point there was no brief of that matter, no.

**Senator FAULKNER**—When you say the final one, what do you mean by that?

**Mr Cunliffe**—Matters such as this have a number of bills rendered over time, and I understand that to have been true in this case. At the final point a decision needed to be made. That stage came in the second half of last year. It was after the decision had come down from the medical board. That was the final point at which the question of other related matters such as what percentage, if any, of the board's legal costs would be met, and that was the point at which I was aware of the matter.

**Senator MARK BISHOP**—Could you say that again.

**Senator FAULKNER**—I am afraid there are four senators here who did not understand that answer.

**Mr Cunliffe**—Let me see if I can help. The case was heard over a number of years; it emerged over a period. From what I understand, the matters certainly go back as far as 2002. There are a number of days of hearings during that period. As I understand it, also during that period, several bills were rendered, and a decision would have been made in advance of the first of those matters about the obligation and the appropriateness of meeting the costs.

**Senator FAULKNER**—Are you saying that the \$377,000 comprised a series of bills totalling \$377,000? One would assume you would not have one bill for \$377,000.

**Mr Cunliffe**—Correct.

**Senator FAULKNER**—Are there any other costs that Defence has borne in relation to this matter?

**Mr Cunliffe**—I am not sure now what you mean by 'other'. To ensure that the record is complete, the figures that were met were the costs of the doctor—that is, the legal costs for representing the doctor.

**Senator FAULKNER**—But that is included in the \$377,000.

**Mr Cunliffe**—Yes, that is that figure. And then there was the figure which was indicated on the last occasion which was 80 per cent of the amount of the board's legal costs that the doctor was required to meet—what I understand are party and party costs in the matter.

**CHAIR**—The committee will now take a dinner break. Unfortunately, gentlemen, you will have to return for approximately, hopefully, an hour after dinner. Thank you.

**Proceedings suspended from 6.32 pm to 7.33 pm**

**CHAIR**—We have some matters to attend to before we go back to Senator Faulkner.

**Senator HOGG**—We are just going to knock over a couple of minor issues that I and a couple of others have before returning. That might free up some of your people who are sitting there. Mr Sharp is going to answer a couple of questions on the Services Workforce Access Program for Partners, I understand. Prior to the dinner break, I flagged some questions in respect of this program, which was announced on 10 October 2003. It has probably been in operation a little bit over 12 months, I presume.

Firstly, could you give me an idea of the operation of the program and the cost of advertising the program, promoting it and running it? Are there any consultancy costs involved in the program—either the administration or the delivery of the program? Who accessed the program? How many people have accessed the program in the last 12 months? What are the projected figures for the next 12 months? What is the usage at various sites throughout Australia? Some of that you might need to take on notice, but I just want to get a feel as to whether it is being used, say, in the Northern Territory and Western Australia but has not been used in, say, Puckapunyal and places like that. Can you give me some idea of the usage? What was the expenditure on the program last year and what is the expenditure that is flagged for this year? What have been the outcomes of the program so far? Has there been an audit of the program? What is the feedback from those who have used the program?

There seem to me to be a couple of difficulties with the program, one being the application of FBT to child support. Has that shown up in your research or feedback as being an inhibitor to the usage of the program? I think it also applies to HECS and a few other things as well if people access the program. I understand the program is offered in modules. I have been given a ballpark figure of about \$400. Is that correct? I understand that cost is met by the partner of the Defence personnel participating in the program. I understand that the beneficiary of the program is deemed to be the Defence personnel member and therefore it is added to their FBT by, in the main, doubling up on the cost of the program—and therein lies the sting for Defence personnel. I am wondering how that impacts on the overall program.

**Mr P Sharp**—I will have a crack at those. The context, of course, is that, as we discussed this morning, retention is a crucial issue. Family factors are crucial in that issue. With spouse employment, as with many Australian families, Defence families seek two incomes, and one of the measures that we have had in place for some time, which SWAPP has absorbed, is the spouse employment program. I will ask Ms Stodulka to lead off on these items, and I will help her rather than her helping me.

**Senator HOGG**—That sounds like a fair deal. Thanks.

**Ms Stodulka**—I have noted your points, so I will run through. If I miss something, please let me know. You asked about advertising costs. We advertise primarily through our defence service newspapers and through our internal publication called *Defence Family Matters*, which goes out to all Defence families. Also, Defence sponsors a number of local newsletters, and we advertise through those. We also advertise through our local Defence community organisation offices, and we have about 32 of those nationally. Obviously, at every presentation we give and every predeployment briefing we go to, we are talking about the services that we provide across the board, of which spouse employment is a really important one. We do not advertise in the commercial press or that sort of thing. Obviously we advertise on our web site through Defgrams. We exploit internal Defence opportunities extensively.

**Senator HOGG**—Is the program run through the DCO?

**Ms Stodulka**—Yes, it is.

**Senator HOGG**—The department funds DCO?

**Ms Stodulka**—Yes.

**Senator HOGG**—And DCO then passes on the rebates to the people that are involved? Is that the way it happens?

**Ms Stodulka**—The department allocates an amount of funding to us. For example, you asked about next financial year. The allocation is \$1 million, and that is based on advice that the Defence Community Organisation gave through the Personnel Steering Group to the Defence People Committee. We sought \$1 million plus FBT, and that is what we were granted. We based that on usage rates since the program was stood up and what we predicted we would need.

**Senator HOGG**—Consultancy costs?

**Ms Stodulka**—There are no consultancy costs as such.

**Senator HOGG**—Are consultants used to deliver the program?

**Ms Stodulka**—As opposed to the old program that we stood up in about 1997—the spouse employment program, which was run from within DCO, so our staff actually ran that program—we now, through a memorandum of understanding we have with DEWR, use Transition to Work providers. We also have a standing offer with Lee Hecht Harrison. We do not actually pay them any management fees. They are the for profit commercial provider recruitment expert that is available to Defence families. They also have available the range of Transition to Work providers.

**Senator HOGG**—Who actually pays them?

**Ms Stodulka**—Defence pays.

**Senator HOGG**—Is that paid upon the Defence spouse who is accessing the program having paid across to Lee Hecht Harrison an amount of money to access the module that they wish to pursue?

**Ms Stodulka**—No. Defence does not require the Defence partner to pay up front. The Defence partner can do it through the Defence Community Organisation or they can access the service providers directly themselves. They provide the PMKEYS number of the service

member just so we can verify that they are a recognised Defence partner and that they have undertaken a move, a posting, because the program is about mobility and reducing the impacts of mobility. Either the TTW provider or Lee Hecht Harrison makes an assessment of what support would be helpful to that Defence spouse to help them gain employment, and they make a recommendation to us about what sort of job readiness support should be provided. Defence does not ask the Defence spouse or the Defence member to pay that up front. They bill us and we pay that—having, of course, reconciled it.

**Senator HOGG**—And you recover the money later on?

**Ms Stodulka**—No.

**Senator HOGG**—What is the contribution that is required by the Defence spouse for?

**Ms Stodulka**—Pardon?

**Senator HOGG**—Is there a contribution required by the Defence spouse?

**Ms Stodulka**—No, there is not.

**Senator HOGG**—That is a misconception that I have of the program. I was led to believe that there was a contribution required.

**Ms Stodulka**—There is a range of initiatives that Defence believes will assist families who are mobile to access the work force in their new posting locality. It is provided to ameliorate the negatives associated with the mobility rather than as a kind of special benefit that you can access.

**Senator HOGG**—That is why it is a fringe benefit to the serving Defence personnel member?

**Ms Stodulka**—It does accrue as a fringe benefit. You asked me about whether that impedes participation. It does, and it is certainly an issue that I have been debating with the Personnel Steering Group and have been taking some advice on. We are working with the Defence Tax Management Office at the moment to put a paper forward to our minister to ask for consideration around how the spouse employment program is treated in terms of fringe benefit, because we have some concerns.

**Senator HOGG**—I asked who accessed it and how many?

**Ms Stodulka**—Any recognised Defence partner who has undertaken a posting that results in a relocation is entitled to access it once during the period of that posting. They can opt in at any time. Often people undertake a posting but do not wish to opt into employment until they have the family settled or perhaps there is a period of training or deployment that the member is undergoing. They can opt in at any time during that posting period.

**Senator HOGG**—Are you able to give any indication of the usage by gender? Is it predominantly used by males or females?

**Ms Stodulka**—Predominantly used by females.

**Senator HOGG**—That is what I would have expected.

**Ms Stodulka**—Because predominantly Defence partners are females. To date we have had nearly 500 for this year to date.

**Senator HOGG**—For this financial year?

**Ms Stodulka**—Yes.

**Senator HOGG**—Are these people in particular locations where they take this up?

**Ms Stodulka**—It is an interesting issue. We have recently reviewed SWAPP with the Personnel Steering Group and the Defence People Committee. As you say, it has been running for about 18 months, but we wanted to make sure we were on track with it. Our figures indicate that participation rates have increased about 10-fold on the old program. We are not sure how regional differences impact. I have given an undertaking to the Personnel Steering Group that we will do some more research around how regional issues, local job markets and access to child care—which was an issue we were talking about earlier—impact. They all seem to impact based on the feedback from Defence partners.

**Senator HOGG**—When that is done, after you have gone through all the hoops and so on, could you provide the committee with a copy of the outcomes there. That would be interesting indeed.

**Ms Stodulka**—Yes.

**Senator HOGG**—Expenditure last year and proposed expenditure this year?

**Ms Stodulka**—The Defence People Committee has just approved \$1 million for us, which is what we sought. We under-achieved on our expenditure last year. We were allocated \$1.5 million; we expect to come in at a bit over half of that.

**Senator HOGG**—All right. I just want to get a feel for the usage of the program. Outcomes?

**Ms Stodulka**—We do not put a mandatory requirement on Defence partners who participate to advise us if they get employment or not—which is obviously an important outcome, but it is not the only outcome that is sought from the program. We have very high levels of completion rates of the training and job readiness program that is put in place either through the TTW or through Lee Hecht Harrison. We have rough figures of around 70 per cent of people that are getting employed at the end of their participation, but those figures are a bit rough. Sometimes we are unable to access people and determine if they have found employment. For example, some people go into voluntary work. Do you call that employment?

**Senator HOGG**—Some people would be in areas where employment is difficult to access anyway.

**Ms Stodulka**—Yes, especially the remote areas. An initiative that is included within SWAPP for spouses in remote areas is to compensate them for, say, internet costs associated with their being involved in distance learning activities. If they are not in an area where they are likely to get employment, we try to assist them or support them in maintaining their skill base and knowledge so that when they move to a more mainstream location they are more marketable in terms of employment.

**Senator HOGG**—I am aware of the time. Have there been any internal or external audits of the program?

**Ms Stodulka**—No external audits over the last 15 or 16 months of the program running. However, we have a number of internal governance and accountability procedures, and they are different. One is with the TTWs, which we manage through our MOU with DEWR; we also have our own system with Lee Hecht Harrison, which involves an online password protected tracking process for us to see what is happening with our participants in the program—how they are going against the program that we have approved for them to participate in in terms of their job readiness. We have our own internal checks and balances. Obviously, before we pay the bills we double-check with our records to make sure that they accord with what we approved in the first place.

**Senator HOGG**—Feedback on the program?

**Ms Stodulka**—The feedback has been really positive. As I said, we have just done a 15-month mini-evaluation. The data were not that extensive, but in terms of both participants and providers the feedback is quite positive about the sorts of services. There was strong feedback from both users and providers that we did not provide a resume service that was personalised and able to deal with the different professions that our spouses are employed in. The Defence People Committee last month gave approval for us to incorporate that now within SWAPP—so that Defence spouses can go to a provider of their choice and have a professional resume developed regardless of what kind of field they come from.

**Senator HOGG**—I raised two other questions. The first concerned the total cost of each module. You say there is none to the individual accessing it.

**Ms Stodulka**—Yes.

**Senator HOGG**—That is correct?

**Ms Stodulka**—Yes.

**Senator HOGG**—Cost to Defence?

**Ms Stodulka**—Under the Transition to Work providers, it is probably around \$1,000 for their suite of modules. Under the private provider, Lee Hecht Harrison, it is up around \$2,000.

**Senator HOGG**—Sorry, how much?

**Ms Stodulka**—Around \$2,000 for their suite of modules—job readiness modules. We have averaged it out that the cost per partner of accessing SWAPP services is around \$1,400 to \$1,500 per partner, but that also incorporates that Defence will subsidise up to 25 hours of child care to assist with job search activities and also assist with some training if somebody has been offered a job but has a particular gap in their skill set that relates directly to a job offer.

**Senator HOGG**—My last question was: who meets the cost? That is totally met by Defence?

**Ms Stodulka**—Yes. The Defence People Committee actually allocate the funding to the Defence Community Organisation, and then we run the program.

**Senator HOGG**—That has given me a fair background now. I appreciate that, because if I need to pursue the issue further with you I can come back to you at some stage.

**Ms Stodulka**—Yes.

**Senator HOGG**—Thank you very much for your cooperation.

**Senator HUTCHINS**—I have a question about business processing centres. Last year the government announced that it would establish two new business centres and an account processing centre in regional Australia for 2005. The business centres apparently were to be located in Townsville and in the vicinity of the RAAF base in Williamstown in Newcastle. The account processing centre was to be located in Puckapunyal in Victoria. I understand that each of these centres would create up to 100 jobs. It has been suggested that the move to Williamstown may not take place and that instead it may be located in the CBD in Sydney or Melbourne. I wonder if you could bring us up to date on the position.

**Mr Henderson**—Most of what you say is correct.

**Senator HUTCHINS**—That is reassuring.

**Mr Henderson**—The business centre at Puckapunyal did not involve up to 100 people; that was 25 people. They are recruited, and I think 24 people are in place at Puckapunyal. We are transitioning accounts processing activity to them progressively. They are doing the Victorian work and they are in the process of getting the ACT and southern New South Wales work. That is up and running. There are associated processing centres for the Puckapunyal one—accounts processing centres in South Australia and Tasmania—but the main business is in Puckapunyal. As to the travel processing centres—initially they are processing travel—in Townsville, a couple of weeks ago I saw the building that that centre will be located in. They are just starting to renovate the building on the Laverack Barracks base. We would expect that that will be ready and people moving into it by December if things remain on track. In relation to the personnel administration centre that will be established at Williamstown, the references to Sydney and Melbourne are a little misleading. We have two civilian personnel administration centres. They are presently in Melbourne and Sydney. At this time, there is no convenient facility at the Williamstown base ready to be renovated or occupied for that centre. That will not be up and running in 2005, but it is still the intention to transition that business from Melbourne and Sydney—that is the civilian side—and in due course military personnel administration will also be managed from that.

**Senator HUTCHINS**—So no decision has been made to not proceed with Williamstown.

**Mr Henderson**—No decision has been made not to, but there has been—

**Senator HUTCHINS**—A decision has been made to proceed with it? Is that correct?

**Mr Henderson**—Yes, but what we are acknowledging is that it will not be up and running in 2005.

**Senator HUTCHINS**—Any idea when it might be?

**Mr Henderson**—No. We need to develop options and discuss that with the government. We are still proceeding, but it will not be on the original timetable envisaged.

**Senator HUTCHINS**—Thank you.

**Senator FAULKNER**—Mr Smith, can you indicate if we had any luck establishing any information about the delegation?

**Mr Smith**—We have done some research on that quite quickly. I will ask Mr Cunliffe and Dr Lloyd to join me. If you wish to broaden the discussion into a wider discussion of delegations, Mr Moore and Mr Veitch will join me.

In relation to legal assistance, there are two delegations involved. The first is a delegation to decide whether to provide legal support or assistance for an officer of the ADF or the department. That is a delegation that derives from my authority under the FMA Act, section 44. The delegation is exercised in accordance with the legal services directive provided by the Attorney-General. The delegation that was acted upon on this occasion is one that was dated November 2001. It is believed—we could not establish it—that it is one that had been rolled over for a number of years before that. The delegation at that time was held by five officers in the Defence Legal Division, including the officer who actually made the decision, who was the director of litigation, an EL2 equivalent officer—that is, the level immediately below SES. It was he who determined that this officer should be provided with assistance. The second delegation involved was a delegation to authorise the expenditure of public money, again under the FMA Act. It is a widely used delegation in the department, including down to the EL2 level. In effect, it is a procurement delegation. The two delegations are exercised in tandem—first the delegation, the authority, to meet legal costs; and second the authority to pay. In this case, that second authority was concluded in October 2002.

**Senator FAULKNER**—Was that the date of the delegation?

**Mr Smith**—October 2002 in that case, though again it is believed that it was one that would have been rolled over a number of years before that. In this case, the amount of \$377,000-odd was actually paid in 22 separate payments between June 2002 and August 2004.

**Senator FAULKNER**—Is there a limit?

**Mr Smith**—In that financial delegation the limit is what is called ‘limit of funds available’. That is a delegation, as I said, which is widely used across the Defence organisation, including down to that level.

**Senator FAULKNER**—‘Limits of funds available’ are effectively no limits?

**Mr Smith**—It would be the limit of funds available under that particular head of expenditure. Perhaps I could ask one of the financial people to explain precisely.

**Senator FAULKNER**—It is the limit of the head of expenditure. What is the head of expenditure?

**Mr Smith**—I will have to seek advice on that.

**Mr Veitch**—In this case, it would be the legal expenses category of expenditure.

**Senator FAULKNER**—What is that line item?

**Mr Veitch**—I do not have the details of what the line item is, but from memory I think the total budget for the year is somewhere around \$30 million.

**Senator FAULKNER**—In this instance, Mr Smith, is it the situation—given that it is a hierarchy of delegations, if you like, best described, in your terms, which are useful ones, as authority to meet and authority to pay, for want of better descriptions—that those delegations

are held by the same people? They are held at the same level. Are they held by the same people? In this case were they exercised by the same officer?

**Mr Smith**—They were exercised by the same officer in this case. In regard to EL2s, many EL2s in the organisation would have the procurement expenditure delegation, but only, we think, two had the delegation to make a decision on whether to provide legal assistance or not.

**Senator FAULKNER**—Are you satisfied that it is good public administration practice for the delegation to meet and the delegation to pay to be exercised by the same officer?

**Mr Smith**—Yes, I think that is acceptable. Again, there are others who might advise differently. George, is that a usual formula?

**Mr Veitch**—Certainly in terms of the procurement delegations the practice of having delegations down at the EL2 level is a standard practice in Defence and I would think fairly standard across the Commonwealth—remembering, of course, that in exercising that delegation there are certain checks and balances in that process, including the requirement that no one delegate can exercise the procurement delegation on their own. There are cross-checks and balances. If someone authorises the approval of the expenditure, another delegate is responsible for the payment. There is a checks-and-balances process in that process.

**Senator FAULKNER**—As I said before, if this is a \$30 million head of expenditure I find it amazing that someone cannot tell me what funds have been expended on this type of expenditure—for example, so far this financial year or in the previous financial year.

**Mr Veitch**—I think I mentioned before that there is about a \$30 million budget. I am just looking through the annual report now as we speak. In terms of the total legal expenses for Defence in the last financial year, they amounted to \$38.7 million, covering about four line items. Professional fees for the Defence legal panel were \$22 million; professional fees for the Attorney-General's Department were \$1.6 million; disbursements were \$5 million; and 'Legal expenses—other' were \$10.1 million. I would suggest that the expenditure that we are talking about would fall into that latter category of a budget of \$10.1 million.

**Senator FAULKNER**—The latter category?

**Mr Veitch**—Yes.

**Senator FAULKNER**—Just give me that category again, please.

**Mr Veitch**—'Legal expenses—other', \$10.1 million. That was what we spent across the department last year.

**Senator FAULKNER**—Do we have a current figure for this financial year in that same category?

**Mr Veitch**—No, I do not have that with me.

**Senator FAULKNER**—What sort of checks exist? Who is the responsible deputy secretary who deals with this?

**Mr Henderson**—I am, Senator.

**Senator FAULKNER**—I thought you would be, but I did not want to slash outside the off stump if that was not the case. What are the checks on the use of this sort of expenditure?

**Mr Henderson**—As the secretary outlined before, the first decision, the critical decision, is under the Defence legal orders—sorry, the Commonwealth—as to whether a person is entitled to have their legal expenses funded by the Commonwealth. Once you have made that decision, you have to run with the case.

**Senator FAULKNER**—I appreciate the point that I think Mr Smith has made, and you are reinforcing it. There is a hierarchy of delegations, isn't there? There is a delegation to make a decision as to whether the Commonwealth is willing to pay and there is another delegation that effectively is to agree to payment of a specific dollar figure or amount. That is how it works, isn't it? It is a hierarchy of delegations. I suppose in a way the first one is the threshold one and perhaps the most significant in this circumstance. I think that is what you are saying to us.

**Mr Henderson**—Yes.

**Senator FAULKNER**—I understand that.

**Mr Henderson**—The other point that needs to be made is that before dinner you were leaving the impression that there were many non-SES people with these delegations. The point that has been made is that there are four persons with these delegations.

**Mr Smith**—Five.

**Mr Henderson**—Two or three of them are SES and the other are senior non-SES persons.

**Senator FAULKNER**—That does not make it right. I stand by my point absolutely—that a delegation for a cumulative sum of \$377,221.28 should not stand in the name of a non-SES officer. This is not the time to have that debate, but I have an absolute level of confidence that that should not be with a non-SES officer. What are the reporting requirements through to you and Mr Smith in relation to this delegation? Are there reporting requirements through to you and Mr Smith?

**Mr Henderson**—I do not get regular reports on these decisions.

**Senator FAULKNER**—Who on earth keeps an eye on this?

**Mr Veitch**—Perhaps I can add something that might help. Any person authorised to exercise a delegation first of all must be competent in the exercise of that delegation. They have to have done a procurement course and they must have their competencies in exercising that delegation. The second thing, as I alluded to, is that for any purchase over \$5,000 there must be at least two people involved in the process. No one person can actually exercise the delegation and make the payment. That is the checks-and-balance process that we have in our system. The third thing—

**Senator FAULKNER**—That is not right. We have just been told that the same person, in this particular case, for \$377,000-odd, has done both jobs. That is what Mr Smith just told us.

**Mr Smith**—Two people then have to authorise the payment.

**Mr Veitch**—The payment is separate from approving the proposal. The third measure is that we must have a properly tendered invoice. And, in terms of the review of the process, we undertake a monthly review of our expenditure against each of our budget categories. The other checks-and-balance measure in the system is that all our procurement activity is subject

to both the internal audit process and the external audit opinion. I believe that our delegation system is robust. It has stood the test of time. Indeed, I would argue that Defence has got one of the best delegation systems in the Commonwealth.

**Senator FAULKNER**—I hope that is not right, from what I have heard; that is all I can say so far. Let us come back to the process in relation to this matter. Mr Smith has told us that the hierarchy of delegations is best described as authority to meet payment and authority for the payment. That sums it up very well. It is clear and we understand what we are talking about. Mr Smith has indicated to us that both those delegations were exercised by the same person. I just want to be clear: were they exercised by the same person?

**Mr Smith**—Yes, as we have said. But we have also said that the actual payment would then be authorised by two people. Is that correct, George?

**Mr Veitch**—That is my understanding about the process.

**Senator FAULKNER**—Who is the second person? What level is the second person at?

**Mr Smith**—The certifying officer—I do not know what they are called these day. Mr Moore can explain it.

**Mr Moore**—There are two types of procurement—simple procurement and complex procurement.

**Senator FAULKNER**—I tell you what: this is complex.

**Mr Smith**—This was extremely simple, Senator, and I thought that was your complaint—that it was too simple.

**Senator FAULKNER**—I think you are kidding me now, Mr Smith.

**Mr Smith**—I think I am not kidding you. You have just said—

**Senator FAULKNER**—You have not been able to explain it for the last two hours.

**Mr Smith**—You have just told me that it was too simple.

**Senator FAULKNER**—You have not been able to explain it for the last two hours.

**Mr Smith**—I have explained it extremely clearly, as you yourself conceded.

**Senator Hill**—Senator Faulkner wants to fill in the night.

**Senator PAYNE**—I am interested in Mr Smith's answer, Chair.

**Senator FAULKNER**—Mr Smith, you could not actually explain it before the break. Be fair.

**Mr Smith**—No, I could not. I do not happen to carry this data around in my head.

**Senator FAULKNER**—I appreciate the fact that you have come back and made it clearer.

**Senator Hill**—Mr Chairman—

**Senator FAULKNER**—But let us not pretend that everyone knows what is going on. You are the secretary.

**CHAIR**—Senator Faulkner, order!

**Senator PAYNE**—You certainly cannot pretend. I am interested in Mr Smith's answer.

**CHAIR**—Order! I think we would like to hear Mr Smith's answer.

**Mr Smith**—Mr Moore was providing that answer.

**Mr Moore**—Simple and complex procurement is not unique to Defence. It is the way all Commonwealth agencies manage their procurement. A simple procurement is one that is simple by nature. You either take something off a standing panel or there is no decision but to go to a sole source. This was a simple procurement because the decision had already been taken to reimburse the officer his medical expenses. A complex procurement is one where there is a competitive tendering situation. That needs at least two officers involved in the procurement decision. It cannot be exercised solely. In this particular case, there was one person involved in both delegations.

**Senator FAULKNER**—There was one person involved in both delegations.

**Mr Moore**—That is correct.

**Senator FAULKNER**—And it was the same person.

**Mr Smith**—The same person exercised both delegations.

**Senator FAULKNER**—Can we come back to your comment about two people being involved in the second delegation?

**Mr Smith**—As I understood what Mr Veitch said—I may have misunderstood him—

**Senator FAULKNER**—That is all right.

**Mr Smith**—the clearance of the invoice, the sign off and the cheque—

**Senator FAULKNER**—So you were right the first time?

**Senator Hill**—Can you let the witness finish for once? Just let him finish his answer?

**Mr Smith**—Mr Veitch can explain the process by which an invoice is paid.

**Senator FAULKNER**—I do not—

**Mr Veitch**—In this particular case—

**Senator FAULKNER**—I did not ask that question. He has explained it.

**Senator Hill**—Let him answer.

**Mr Veitch**—Senator, I think I can help.

**Senator FAULKNER**—Please.

**Mr Veitch**—In this particular case, we are talking about two delegations on the second delegation, if you like. The same person exercised the delegation in terms of deciding that it was a proper charge to the Commonwealth and the same person authorised the payment—authorised the proposal to spend the money. But there is a second delegate involved in the second process. In this case, that person exercised that delegation in accordance with our normal procurement delegations, I am advised. The checks and processes that I talked about—the checks and balance that two people must be involved in the payment decision, the approval and payment decision on the procurement side, the second delegation—were exercised in this case, as I have been advised.

**Senator FAULKNER**—Anyone reading the *Hansard* transcript of this will think it is a script from *Yes, Minister* now. Were there two people or one person—

**Mr Veitch**—There were two people involved in the exercise of the delegation, and that is in accordance with the guidelines—the payment delegation.

**Senator FAULKNER**—How does that fit with the evidence that Mr Moore has just given? He has told us there was one. Mr Smith has told us there were two and one.

**CHAIR**—Order! Let Mr Veitch answer.

**Mr Veitch**—There are two separate delegations. The second delegation involves two people. I do not think I can be any more simple than that.

**Senator FAULKNER**—I hear that, but in this particular case we have heard evidence that only one person was involved. We have heard that twice at the table.

**Mr Veitch**—In the approval process. I am now talking about the payment process; there were two people involved in that, in accordance with Commonwealth procurement guidelines. What I am advising—what I have been advised to say—is that that is in accordance with our normal procurement policy. I stand by the advice I gave before that I think we have one of the most robust procurement delegation systems in the Commonwealth—if not the best.

**Senator FAULKNER**—Mr Moore, did you not indicate to this committee that only one person was involved in the second delegation?

**Mr Moore**—In the approval process.

**Mr Veitch**—There is an approval process and a payment process.

**Senator FAULKNER**—I know that. What was the level of the two officers? We know that the same officer is involved in both delegations and an additional officer is involved in the payment delegation or the payment decision. Right?

**Mr Moore**—Yes.

**Senator FAULKNER**—What is the level of the second additional officer?

**Mr Cunliffe**—I do not think we can answer that about the 22 payments between June 2002 and August 2004. It is a matter where I am sure that we could check the records and come back to you on it.

**Senator FAULKNER**—But in each and every one of those 22 occasions, the same officer that undertook the first delegation was one of the delegates involved in the second delegation to pay?

**Mr Cunliffe**—Correct.

**Senator FAULKNER**—Is there a different role for the second officer?

**Mr Cunliffe**—On my understanding, yes. Mr Veitch is the person who is probably best placed to discuss it, but what it is important to understand is that the individual who has made the up-front approval is also the individual who is therefore closest to the case and in the particular instance is therefore best placed to say whether a bill that comes in is reasonable or unreasonable. That is the logic of having those two steps with the one person. Then there is a further step, which Mr Veitch has outlined. He can explain that better than I can.

**Mr Veitch**—I think I have explained it. A second person must be involved in the payment process for all expenditure items over \$5,000. One person will approve the proposal to spend the Commonwealth money, which was the first one that we talked about. A second person approves that the payment can properly be made. There must be proof—we must have a properly tendered invoice—and someone will certify that the payment can be properly made.

**Senator FAULKNER**—Is this person from the legal branch?

**Mr Veitch**—I am not familiar with the case; I am just talking about the specifics of the delegation system—not the particular case.

**Senator FAULKNER**—Maybe the generalities of the delegation system.

**Mr Cunliffe**—As a general rule, if I can answer that—and, as I stressed before, I cannot speak with authority on June 2002—by July and August 2004, where Defence legal had become a division, yes, it would have been one of the people from the division—a person in a different line of responsibility, not with accountability through to the person who was involved in the first part.

**Senator FAULKNER**—So there is a figure of \$5,000. Is there any amount on or above \$5,000 required—

**Mr Veitch**—A second person.

**Senator FAULKNER**—A second delegate.

**Mr Veitch**—That is our policy, yes.

**Senator FAULKNER**—And there is no upper limit to that expenditure effectively—in other words, there is no limit on any delegate's capacity to authorise expenditure? It must be done for any amount over \$5,000, but there is no hierarchy of amounts, effectively.

**Mr Veitch**—It depends on the expenditure item. Group heads can choose to put caveats and limitations on the items if they so choose. In some cases, we do that. Obviously, with items that are discretionary in nature or sensitive, some group heads choose to act—in a couple of ways. One is that they might process requests at a more senior level; the other is that they might have a relevant monetary limit or whatever. It depends on the circumstances of the group involved.

**Senator FAULKNER**—But for the purposes of these types of legal expenses, there is no upper limit, is there, apart from the fact that you cannot exceed \$30 million, because that is all the money you have in the bank?

**Mr Veitch**—That is one check, but I would argue that, given that the exercise of this delegation is dependent on following the caveats and undertakings of the criteria set down by the Attorney-General, that would provide the second check and balance in this case.

**Senator FAULKNER**—I am going beyond that to ask whether Mr Henderson, as deputy secretary of the department, Mr Smith as secretary, you as a first assistant secretary or another branch head has some sort of oversight responsibilities here. That is what I am trying to understand. It does not appear that that is the case, but could you clarify that for me, please.

**Mr Henderson**—Could I just make one comment on that and elaborate on a comment I made earlier? I said I do not get regular reports. I had in mind then reports on individual

cases—accounts. Every month I get aggregate expenditure on Defence external legal expenses. Over the last 12 months or so there has been quite intense scrutiny of aggregate Defence expenditure, both on external legal services that we draw on from our panel and on internal expenses. At the aggregate level, there is regular scrutiny, but I do not ask for the details of every item.

**Senator FAULKNER**—Did you scrutinise this one?

**Mr Henderson**—No.

**Senator FAULKNER**—Did you scrutinise this one, Mr Veitch?

**Mr Veitch**—No, I did not. It was not my responsibility to scrutinise it.

**Senator FAULKNER**—I am just asking if you did. Did you scrutinise it, Mr Cunliffe?

**Mr Cunliffe**—No.

**Senator FAULKNER**—Did you scrutinise it, Mr Smith?

**Mr Smith**—No, I did not. I was aware of it—that the process was completed—but I was not here when it was begun and I did not scrutinise it during the time I was here.

**Senator FAULKNER**—We have this figure of \$377,221.28, comprising 22 separate payments for legal costs for Dr McKenzie. We also have an additional figure paid for by Defence in relation to a proportion—I think it is 75 per cent—of the Western Australian medical board of inquiry's legal costs. That is correct, isn't it?

**Mr Smith**—That is correct—80 per cent of the board's legal costs, I believe.

**Senator FAULKNER**—Does that mean that the answer to Mr Bevis's question No. 615—no, 80 per cent payable. It is 75 per cent in his question and 80 per cent in the answer. Yes, thank you.

**Mr Cunliffe**—The order to him was to pay 75 per cent of the board's costs. Then, of that figure, we paid 80 per cent.

**Senator FAULKNER**—Thank you. What is the dollar figure of the 80 per cent of the board's costs paid by Defence?

**Mr Cunliffe**—The dollar figure we paid on that account was \$80,000—sorry, \$60,000.

**Senator FAULKNER**—So we have the \$60,000—of course, that is in addition to the \$377,221.28, isn't it?

**Mr Cunliffe**—That is correct.

**Senator FAULKNER**—Have any additional costs been borne by Defence in this matter or is that \$437,000-plus the limit of it.

**Mr Cunliffe**—That is the extent of it.

**Senator FAULKNER**—Has the department paid or is it paying legal costs for Mr Lewincamp?

**Mr Smith**—No.

**Senator FAULKNER**—Did Mr Lewincamp make any request for payment of legal costs?

**Mr Smith**—None that I am aware of.

**Senator FAULKNER**—In earlier evidence, we heard that effectively there were three clusters of issues in relation to this particular officer. One went to treatment at ADFA; one went to her removal as executive officer at HMAS *Stirling*; the third broad group that was identified was current medical status. Can any information be provided to the committee on where that third broad area that the rear admiral identified for us a little earlier is up to? If you are able to, Rear Admiral, can you give just a very brief status report—what you are able to say to the committee about that third broad area?

**Rear Adm. Hancock**—Is this about the—

**Senator FAULKNER**—In your evidence to the committee, you identified three broad areas. I just went through them. The first one is treatment at ADFA; the second one is the removal of the executive officer at HMAS *Stirling*; and the third one, broadly, is the current medical status. I think they were the words you used. I do not want to take your words in vain, but it was that general terminology.

**Rear Adm. Hancock**—I have got the picture, and I prefer not to talk about the medical grounds at all, if that is acceptable to the committee.

**Senator FAULKNER**—I do not want to talk about the grounds. All I am asking for, if you are able—if you are not able to and there is a reason for that, I will certainly accept it—is where the processes are up to.

**Rear Adm. Hancock**—There was a process started which would have potentially seen a discharge on medical grounds. The process was interrupted while we went through the whole framework of trying to get a negotiated settlement and conciliation. We have not got the latter yet, and I prefer not to talk about the process—our considerations with the medical discharge at this point—if that is acceptable.

**Senator FAULKNER**—Is it fair to say that that matter is ongoing as we speak?

**Rear Adm. Hancock**—Under consideration.

**Senator FAULKNER**—Under consideration, is it?

**Rear Adm. Hancock**—Yes, it is.

**Senator FAULKNER**—I know that officers will not have this information available tonight, but could I ask you to take on notice a disaggregation for the current financial year and the previous financial year of those payments made under the same head of expenditure as the one the \$377,000 has been paid from. I think that is reasonable, isn't it, Mr Smith—to ask if that could be dealt with on notice?

**Mr Smith**—We will deal with that on notice.

**Senator FAULKNER**—In relation to the \$60,000, does that come from the same head of expenditure again?

**Mr Smith**—Probably, but we will confirm that.

**Mr Cunliffe**—I believe so, but I will confirm it and advise you shortly.

**Senator FAULKNER**—Thank you.

**Senator HUTCHINS**—Can I ask about—

**Gen. Cosgrove**—If you ask the question, I have one or two officers available, depending on where it goes. I do not know whether the general counsel is involved, but there is another officer who might be of assistance.

**Senator Hill**—The advice to us is that they have cleaned up, I am afraid.

**Senator HUTCHINS**—That is very smart.

**Senator FAULKNER**—That is a very clever tactic.

**Senator HUTCHINS**—General Cosgrove, I understand that an inquiry into—I will use my words—the termination relating to Air Vice Marshal Criss's departure from the armed forces has been completed as of late by Mr Blick. Is that correct?

**Gen. Cosgrove**—If you are going to go to the outcome of that inquiry, I am going to hand it to Mr Henderson, who is dealing with it.

**Senator HUTCHINS**—Mr Henderson, has a report been completed by Mr Blick into the issues surrounding the departure of Air Vice Marshal Criss from the RAAF?

**Mr Henderson**—Air Vice Marshal Criss has made a claim under the compensation for detriment arising from defective administration scheme. We have acknowledged that there was defective administration and we are presently negotiating a settlement with Air Vice Marshal Criss. We have appointed the Hon. Trevor Morling, a retired court judge, to assist in that process.

**Senator HUTCHINS**—Can you define the term 'compensation for detriment arising from defective administration'.

**Mr Henderson**—It was a scheme established some years ago—in the last 10 years. Usually it is to compensate customers—clients of the Commonwealth—and in some cases employees of the Commonwealth where they have no redress in the courts. It is an administrative scheme. My legal colleagues might be able to give you a more definitive description of the scope of the scheme, but it is to assist people that have suffered the consequences of defective administration but who do not have recourse before the law to seek compensation.

**Senator HUTCHINS**—Was that the Blick inquiry?

**Mr Cunliffe**—The scheme itself—

**Senator HUTCHINS**—Can I just ask this? I have not seen the Blick report; I am assuming that it has not been made available to the public.

**Mr Cunliffe**—It certainly has not been released by Defence.

**Senator HUTCHINS**—But it has been made available to the *Sydney Morning Herald*, it appears.

**Mr Henderson**—I cannot explain how it came into the hands of the *Sydney Morning Herald*.

**Senator HUTCHINS**—As you would be aware, the *Sydney Morning Herald* has quotes from the Blick report which are far from complimentary about the actions of senior Defence

officers and bureaucrats in dealing with the career of this distinguished RAAF officer. In fact, it is quite critical of the department, the head of the Air Force, Errol McCormack, Chris Barrie and General Mueller. It also talks about—and I will come to it in a moment—the involvement of Phillips Fox in the deliberations on this. Is the Blick report the one that has said that there is acknowledgment of this defective administration or is that someone else?

**Mr Henderson**—I accept the point that you made that Air Vice Marshal Criss did have a distinguished career in the Air Force. I said that he has made a claim under the CDDA scheme. I am the decision maker on that claim. We are negotiating a settlement now. I can describe the process. I am not in a position to discuss the elements of the negotiation.

**Senator HUTCHINS**—And you have appointed a judicial adjudicator—was that the term you used?

**Mr Henderson**—Mediator—Mr Morling.

**Senator HUTCHINS**—Is it unusual for armed forces personnel to be involved in a claim through this avenue?

**Mr Henderson**—No. It is not common, but it is not unusual.

**Senator HUTCHINS**—Is it used once a year, twice a year, half-a-dozen times a year?

**Mr Henderson**—There would be more than half-a-dozen.

**Mr Cunliffe**—The scheme itself covers a whole range of issues. It is a Commonwealth wide scheme. It is not just the Department of Defence. It is not established for Defence and it is not solely used by Defence. It is established under the coverage of the department of finance. We are one of the big users of the scheme. To answer your question, of the matters that are received in the scheme, many matters relate to people who will have been members of the ADF or who are members of the ADF. I am not quite sure whether your question is about whether there are one or two cases like this or whether there are one or two cases of ADF members using it. There are many cases of ADF members using the scheme, sometimes for small things when they have been given defective advice that might have affected their entitlement to an allowance or whatever—those sorts of issues.

**Senator HUTCHINS**—They might resign thinking they have an entitlement—

**Mr Cunliffe**—They may not claim an allowance to which they are entitled at a certain point—and, for whatever reason, the allowance might be limited in time and therefore they have no legal right to claim it later—but where, if the moral right, if I can use that expression broadly, is established, it may be a case that comes under this scheme. It is for those sorts of issues and it picks up on a predecessor informal scheme—formal but not quite so well known—that previously prevailed in the Commonwealth for similar sorts of issues.

**Mr Henderson**—The inspector-general has just drawn to my attention the information in our latest annual report. Twenty-one payments were made under the defective administration scheme during the 2004 reporting period—an aggregate sum of \$359,010.

**Senator HUTCHINS**—The position of Mr Morling as a judicial mediator—is that an agreed position between Defence and Air Vice Marshal Criss? Is he an agreed mediator?

**Mr Henderson**—Yes. We proposed that we appoint a judicial mediator, and Air Vice Marshal Criss has accepted that that is a sensible way to proceed.

**Senator HUTCHINS**—So that is where we are up to in terms of the Criss affair, if you want to put it that way?

**Mr Henderson**—Yes.

**Senator HUTCHINS**—In the *Sydney Morning Herald* article, it says:

Mr Blick uncovered a document issued during this second investigation in which the lawyers Phillips Fox—contracted to provide legal oversight—sought ‘input’ from the Defence Department on ‘policy/other sensitivities’ in July 2003.

An email from Phillips Fox to the Defence directorate of litigation two months later expressed concerns that a big payout could lead to ‘potential complaints to the minister and further litigation’.

Mr Blick said: ‘Arguments were adduced and facts were alleged in order to justify conclusions that supported that negative approach.’

I am wondering if you would have available now—or perhaps take it on notice—the amount of money Defence has paid Phillips Fox in relation to the Criss affair? Clearly Mr Blick says in the leaked *Sydney Morning Herald* article that some payment has been made to Phillips Fox in relation to the Criss affair. I was wondering how much money has been paid to Phillips Fox in relation to this matter.

**Mr Henderson**—The payments to Phillips Fox in relation to this case amount to \$131,455.96.

**Senator FAULKNER**—Until when?

**Mr Henderson**—I am just consulting with a colleague. I have received advice this week from Phillips Fox. I doubt whether that includes the cost of that most recent advice. I would say you could probably safely say to the end of March-April.

**Senator HUTCHINS**—That is the end of April this year. From what period? Is that available there in front of you?

**Mr Henderson**—I cannot give you that advice.

**Senator FAULKNER**—What was the advice this week? How much was that?

**Mr Henderson**—I am saying that I do not know the cost of the advice that we received this week.

**Senator HUTCHINS**—I put this on notice to the minister—put it on notice to you now. How much has the Department of Defence paid in legal advice in relation to this Criss affair that has been operating, it seems, since probably 2001.

**Mr Henderson**—We can take that on notice.

**Senator HUTCHINS**—And the name of the firm of solicitors, barristers, QCs, whatever else.

**Mr Henderson**—We can take that on notice.

**Senator FAULKNER**—All costs borne by Defence in relation to this matter—hopefully up to—

**Mr Henderson**—I think the appropriate time—we will take that on notice. I think it would be appropriate to wait until we resolve the issue, which I would be hopeful will be reasonably soon.

**Senator FAULKNER**—If it is not reasonably soon—and this is a matter for judgments by officials; I know that you are more than able to make such a judgment: you have to make a reasonable judgment—if for some reason or other this matter is not finalised, obviously we ask you to respond in a reasonable way to the question. I appreciate—I think we appreciate—the point that you are making about timing, but if perchance something precludes an early finalisation you might care to give us costs as of the end of this month or what is deemed to be appropriate in the circumstances. I just make that qualification because sometimes these things do go haywire, don't they?

**Mr Henderson**—Yes, perhaps sometimes they do.

**Senator HUTCHINS**—In the mediation before Mr Morling, are there any under or over limits? Are there any caps? Is there any direction in terms of some instruction from the department or government about what might be an upper or lower limit—or is that subject to the mediation?

**Mr Henderson**—I have described the process we have embarked on. I do not believe it is reasonable to discuss the issues bearing on the settlement at this point. The process, I think it is fair to say, is coming to a conclusion. We have recently appointed Mr Morling to be the judicial mediator. Both parties have separately had preliminary sessions with Mr Morling. The initial mediation sessions are scheduled for Thursday and Friday of this week. I would not expect it to be all settled at five o'clock on Friday night, but we are getting well advanced in this process. I do not think it is appropriate to be discussing the elements of that negotiation—either to Air Vice Marshal Criss or for us to be discussing our position.

**Senator HUTCHINS**—I understand that. I would add one final thing. I put to the minister or General Cosgrove that I hope that, in relation to the finality of this affair, it would be considered that a public apology would be offered to such a distinguished and honourable former officer in our armed forces.

**Senator Hill**—I note your views.

**Senator FAULKNER**—General Cosgrove, I want to raise a final issue. I was not planning on raising it, but I have noticed very recently a wire service story about, in the broad, Australian SAS soldiers allegedly killing Afghani civilians in what is described as a bungled operation. I think that is a fair summary of what is a wire service story that I have just read. Normally, as you would appreciate, we do not read of the detail of SAS operations—I think you would accept that that is the case—so I was surprised to read about this. Are you able to shed any light on this? First of all, you may not have seen the media stories—I would understand if that were the case; I think they are recent—but equally you may have been briefed on them. I wonder if there is anything you can say to the committee about the substance of these claims that have been made?

**Gen. Cosgrove**—You are right that it is our policy not to disclose the detail of classified operational activities, especially for the Special Air Service Regiment, in order to preserve operational security and the safety of ADF members and their families as well as to protect

defence capabilities and procedures. However, given that the operation was completed two years ago, and to ensure that we correct some of what is said in the article, I have been informed that at the time an SAS patrol was engaged in a contact in that month of 2002. A larger SAS force coming to its assistance was also involved in the broader action after being fired upon. The tactical actions were reviewed after the incident and were determined by Army to be in accordance with the rules of engagement. Indeed, fire was returned or fire was called upon those who fired at those elements. They felt that these were threats to their safety. Some internal aspects of patrol Kilo Three were investigated fully at the time and appropriate disciplinary action was initiated. For the protection of our soldiers and their families, the ADF does not normally publicly discuss the details of internal investigations and any disciplinary actions taken. We treat these issues confidentially in order to allow the correct and appropriate application of military law. I will leave it at that at this stage.

**Senator FAULKNER**—I appreciate you informing the committee about those matters. The difficulty that is faced here is that there is obviously quite detailed media coverage—if you like, publicity—about these matters. I note, as I did in my earlier question to you, that this is very unusual as it relates to SAS operations—a point that you absolutely accept, I think—

**Gen. Cosgrove**—I could probably tell you that rather than you telling me that. I have been in the military nearly 40 years and I need very little instruction about the privacy or the operational security of SAS operations.

**Senator FAULKNER**—But we have a circumstance here where—and obviously I am in no position to comment on the accuracy or otherwise of the information that is in the public arena—very significant detail is in the public arena about these matters. That is the point I am trying to make, and I think that is a fair thing to say to you.

**Gen. Cosgrove**—Absolutely fair. It is absolutely fair that you should say that.

**Senator FAULKNER**—In these circumstances, let me give an example of the level of detail. I am quoting a wire service.

**Gen. Cosgrove**—Of course. We could read it into the record together, perhaps.

**Senator FAULKNER**—If you have it in front of you, we could.

**Gen. Cosgrove**—We could. We could read it into the record together.

**Senator FAULKNER**—That would be breaking new ground for Senate estimates.

**Gen. Cosgrove**—We could try it.

**Senator FAULKNER**—I am all in favour of those sorts of radical approaches. It says:

One of the SAS soldiers was accused of souveniring the turban and gun of one of the dead Afghani villagers and had been asked to show cause why he should not be discharged, the report said.

**Gen. Cosgrove**—Yes.

**Senator FAULKNER**—Given the nature of that allegation—and I am deliberately using the word ‘allegation’—

**Gen. Cosgrove**—Thank you for that. We will note that.

**Senator FAULKNER**—Are you able to shed any light on that matter?

**Gen. Cosgrove**—I received this article probably at the same time as you did. I would be interested in checking out the issues raised in this to see (a) if they are true and (b) if they constitute actionable events. I think that is the wise thing at this stage.

**Senator FAULKNER**—I will just ask you one other thing about that. Is this the first time in relation to such an allegation—I assume it is, judging by your answer, but I do not want to put words into your mouth—that you have heard of a suggestion that an SAS soldier might have been accused of souveniring the turban and gun of a dead Afghani civilian?

**Gen. Cosgrove**—I think we were asked some questions by the journalist who wrote this piece over the weekend and we have been looking to assemble some responses. I do not believe that anybody in Defence has seen this article until this afternoon to see the totality of it.

**Senator FAULKNER**—One thing that apparently—I have not seen this element of it—is reported is that the rules of engagement for the SAS during Operation Slipper have been made public. Just so that you are clear, General, you have in front of you some material that perhaps I do not have in front of me. I am depending on other media reports. But it is reported that that is the case. To my knowledge, the rules of engagement in relation to the SAS operations in Afghanistan—or, for that matter, elsewhere—have not been a matter of public record. Could you confirm or otherwise to the committee whether that is the case?

**Gen. Cosgrove**—I think that would be a breach of the Official Secrets Act because it is quite reasonable, and people in Defence well and truly understand, that detailed rules of engagement are classified. So if, indeed, the journalist is in possession of a classified document, the Commonwealth person who gave the journalist those rules of engagement would be in breach of the Official Secrets Act. They would be classified, I think, Senator.

**Senator FAULKNER**—Is the classification itself secret or are you able to say what the classification is?

**Gen. Cosgrove**—No, I will not go into that. If I assure you that they are classified, it means they are above the classification ‘restricted’.

**Senator FAULKNER**—Thank you. But you are saying to the committee that obviously this has literally within a matter of the last few hours or perhaps minutes come to your attention?

**Gen. Cosgrove**—Absolutely. There are some aspects of this which were posed in a series of questions over the weekend, and we attempted to assemble information on some of these points. But I did not see the totality of the article until probably late this afternoon.

**Senator FAULKNER**—Are you able to say to the committee any more about any disciplinary action against SAS personnel?

**Gen. Cosgrove**—No, but I am satisfied that on the reports I have seen it was appropriate given the nature of the issues reported.

**Senator FAULKNER**—A Defence spokesman has been quoted here in what I am reading, General Cosgrove. It says that Senator Hill’s spokesman has said that ‘it is not normal process to respond to operational issues of the SAS’. It also says that the Chief of the Defence Force

will determine if there is anything that needs to be looked at further. Are you able to confirm—

**Gen. Cosgrove**—I will confirm that I will confirm. I just need a chance to look it over, Senator. It is not something that I would like to get into a commentary on tonight—apart from saying that on the earlier report seen, before I received the article, on the disciplinary issues referred to in here and to the degree commented upon in our initial reaction to a journalist's questions, the disciplinary measures taken seemed appropriate to the sorts of breaches of discipline that were reported.

**Senator FAULKNER**—Of course, we are not in a position to make that judgment.

**Gen. Cosgrove**—Would you like to make that judgment?

**Senator FAULKNER**—No, as I say I am obviously not, as you would appreciate, in a position to make such a judgment because I am not aware of the breaches of discipline—

**Gen. Cosgrove**—I know you are not in a position—

**Senator FAULKNER**—and I am not pretending that I am. You would be well aware that no senator on this side of the table would be in a position to make a judgment about that. So we are of course absolutely dependent on the evidence that you provide in that regard. I have no doubt that there will be at least some follow-through issues for us to raise at future hearings, regardless of where this issue goes over the next short period of time.

**Gen. Cosgrove**—I am sure that, with the track record, we will hear plenty more on this.

**Senator FAULKNER**—That is all; thank you.

**CHAIR**—Do you have a question, Senator Bishop?

**Senator MARK BISHOP**—No, I do not have a question, Chair. I just want to make a very brief comment if I can. General Cosgrove, it is common knowledge that you are shortly about to retire. I just want to indicate, on behalf of the opposition—particularly opposition senators at this table—that we have enjoyed working with you in more recent years and we wish you and your family all the best success in your retirement. We take the opportunity this evening to put on the public record our appreciation for your assistance and work in a range of forums on behalf of the defence forces in more recent years.

**CHAIR**—My thunder has rather been stolen, but I am pleased that you were able to thank General Cosgrove for his very fine record. I think I speak on behalf of not only the government but the whole community when I say that we have felt that Australia has been in safe hands both during your time as CDF and in your contribution prior to that. It is a fantastic record that you have had and to be so warmly regarded right across the political spectrum and right across the community is really quite something. To have the respect of your peers is another thing as well, and you have that. On behalf of my colleagues and on behalf of the committee, I thank you very much indeed. All the very best for the future.

**Gen. Cosgrove**—Thank you. I wonder if I could make a very brief reply. I thank all members of the legislative committee for their generous thoughts on the eve of my retirement—33 days to go today! I thank you for putting up with my occasional agitation, as I think it has been described, Senator Faulkner—

**Senator FAULKNER**—I have never noticed it!

**Gen. Cosgrove**—and my occasional intemperate language. If I do have a flaw, it is that I feel, and always have done, fiercely protective of the people I have the honour to command, albeit only for a few more days. I do very much respect the parliamentary process and would like to leave on the note that, even when from time to time I become a little bit churlish, I do at that moment also acknowledge the very important nature of parliamentary scrutiny of what we do. So thank you to the committee.

**Committee adjourned at 9.03 pm**