



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

ESTIMATES

(Supplementary Budget Estimates)

WEDNESDAY, 2 NOVEMBER 2005

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SENATE**FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE****Wednesday, 2 November 2005**

Members: Senator Johnston (*Chair*), Senator Hutchins (*Deputy Chair*), Senators Bishop, Ferguson, Payne and Stott Despoja

Senators in attendance: Senators Adams, Allison, Mark Bishop, Chapman, Eggleston, Faulkner, Forshaw, Hogg, Hurley, Johnston, Joyce, Ludwig, Sterle and Trood

Committee met at 9.02 am

DEFENCE PORTFOLIO**In Attendance**

Senator Hill, Minister for Defence

Department of Defence**Portfolio overview and major corporate issues****Portfolio overview****Budget summary (financial statements, capital investment budget and improvement initiatives)****Capability development**

Mr Ric Smith AO, PSM, Secretary of Defence

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

Lieutenant General Ken Gillespie, AO, DSC, CSM, Vice Chief of the Defence Force

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

Mr Ken Moore, Acting Chief Finance Officer

Mr Shane Carmody, Deputy Secretary, Strategy

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

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

Ms Shireane McKinnie, Head, Electronic and Weapon Systems

Air Vice Marshal Clive Rossiter, Head, Aerospace Systems Division

Rear Admiral Trevor Ruting, AM, CSSC, Head, Maritime Systems Division

Brigadier David McGahey, Director-General, Materiel Information Systems

Mr Colin Sharp, AM, CSC, Head, Land Systems

Mr Peter Crosser, Head, Industry Division

Ms Gillian Marks, General Counsel

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

Major capital facilities projects

Mr Alan Henderson, Deputy Secretary, Corporate Services

Mr Geoffrey Beck, Head, Infrastructure Division

Air Commodore Brian (Jack) Plenty AM, Director, General Headquarters Joint Operations Command Project

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

Vice Admiral Russ Shalders, AO, CSC, Chief of Navy

Rear Admiral Max Hancock, RAN, Deputy Chief of Navy

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 Geoff Shepherd, AM, Chief of Air Force

Business processes

Corporate Services

Mr Alan Henderson, Deputy Secretary, Corporate Services

Mr Mark Cunliffe, Head, Defence Legal

Mr Frank Roberts, Head, National Operations Division

Mr Geoffrey Beck, Head, Infrastructure Division

People

Defence Personnel

Major General Mark Evans, DSC, AM, Head, Defence Personnel Executive

Mr Peter Sharp, First Assistant Secretary, Personnel

Mr Peter Lush, Director-General, Personnel Systems

Department of Veterans' Affairs

Portfolio overview

Corporate and general matters

Mr Mark Sullivan, Secretary

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

1.1: Means tested income support, pension and allowances

1.2: Compensation pensions, allowances etc

1.3: Veterans' Review Board

1.4: Defence Home Loans Scheme

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

1.6: Individual merit reviews of MCRS decisions

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

1.8: Individual merit reviews of MRCA decisions

Mr Ed Killesteyn, Deputy President

Mr Ken Douglas, Division Head, Health

Mr Barry Telford, Division Head, Compensation and Support

Ms Helen Devlin, Branch Head, Defence Links, Compensation and Support

Dr Keith Horsley, Director, Research Studies

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

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

Ms Jeanette Ricketts, Branch Head, Income Support, Compensation and Support

Mr Ted Harrison, Acting Branch Head, Legal Services, Compensation and Support

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

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

2.1: Arrangement for delivery of services

2.2: Counselling and referral services

2.3: Deliver medical, rehabilitation ... under MCRS

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

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Mr Ken Douglas, Division Head, Health

Mr Roger Winzenberg, Branch Head, Health Services, Health

Mr Pablo Carpay, Branch Head, Younger Veterans, Health

Mr David Morton, Branch Head, VVCS, Health

Mr Richard Bartlett, Acting Branch Head, Hospitals and Business Development, Health

Mr Adam Luckhurst Acting Branch Head, Health Infrastructure, Health

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

Mr Barry Telford, Division Head, Compensation and Support

Dr Keith Horsley, Director, Research Studies

Dr Graeme Killer, Principal Medical Adviser

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

3.1: Commemorative activities

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

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Ms Kerry Blackburn, Division Head, Corporate

Mr Ian Kelly, Branch Head, Commemorations, Corporate

Mr Geoff Stonehouse, Acting Director, Office of Australian War Graves

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

Output group 6: Provision of services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcomes 1 to 5.

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Ms Kerry Blackburn, Division Head, Corporate

Mr Barry Telford, Division Head, Compensation and Support

Mr Russell McLaughlan, Branch Head, People Services, Corporate

Mr Neil Bayles, Chief Finance Officer, Resources, Corporate

Ms Marie Sweet, Acting Branch Head, Parliamentary and Corporate Affairs, Corporate

Mr Ted Harrison, Acting Branch Head, Legal Services, Compensation and Support

Mr Bob Hay, Chief Information Officer, Corporate

Ms Karin Malmberg, Director, Resources, Corporate

Mr Chris Harding, General Manager, Business Integrity

Ms Jo Schumann, Project Manager, Service Delivery Review

Mr Matthew Cartledge, Senior Director, Contracts Advisory Unit

Mr Geoff Kavanagh, Director, Output Pricing and Ownership

CHAIR (Senator Johnston)—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I welcome Senator Robert Hill, the Minister for Defence; Air Chief Marshal Angus Houston, Chief of Defence Force; Mr Ric Smith, Secretary of the Department of Defence; and officers of the Defence organisation. The committee will consider the topics nominated by senators for the Defence organisation, beginning with the portfolio overview. We will then move on to the outcomes.

When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions and the questions will be forwarded to the department for an answer. The committee has resolved that Thursday, 15 December 2005 is the return date for answers to questions taken on notice at these hearings. Please note that Senate standing order 26(1) requires that all evidence taken during estimates hearings must be public evidence. That includes answers to questions on notice. There is no capacity to receive evidence, including answers to questions on notice, in camera or on a confidential basis. Answers provided by your department will be automatically published on receipt by the committee. It is the department's responsibility to ensure that answers are accurate and that there are no impediments to them appearing on the public record.

Witnesses are reminded that evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the

committee may constitute a contempt of the Senate. The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, they may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked of the officer to a superior officer or to a minister. Minister, do you or any officers wish to make an opening statement?

Senator Hill—Firstly, Mr Chairman, congratulations on your appointment to the chairmanship of this esteemed committee. I do not personally want to make a statement but I propose that the Chief of Defence Force make a brief statement to bring the committee up to date on operational matters and policy directions with the Australian Defence Force. I am suggesting that, when we get to the output that deals with financial affairs, accounting, auditing et cetera, the Secretary of the Department of Defence then make a statement on that part if that meets the committee's requirement.

CHAIR—I think that is fine. Air Chief Marshal, would you like to make an opening statement?

Air Chief Marshal Houston—I have been in the job for just on four months and this is my first SEC. As CDF, I thought it was a good opportunity to inform you of my vision for the ADF, give you a brief overview of current ADF operations and provide you with a good idea of what I intend to concentrate on during my time as CDF.

My vision for the ADF is that it be a balanced, networked and deployable force manned by dedicated and professional people which excels at joint and coalition operations. This is what our force needs to be today and into the future. Currently, the ADF has over 1,500 personnel deployed on more than 10 operations around the world. Our people are using a wide variety of skills from war fighting to peacekeeping. They are undertaking border surveillance, fisheries protection, support to United Nations mandated operations, coalition operations, national support tasks and third country deployments.

More generally, the Australian Defence organisation is busy supporting the deployment, sustainment, redeployment and reconstitution of forces. The demands of concurrent operations continue to test our capacity in the critical areas of medical support, operational logistics, lift capability and communications. The lessons of recent years have shown that these capabilities are much in demand and are central to the ADF being about to mount and sustain operations. These critical areas have to be, and are being, carefully managed. I am deeply proud of the effort that is being applied by our people on operations and by those working tirelessly in support of these operations.

Very briefly, I will take you through two of our operations: Operation Slipper and Operation Catalyst. Operation Slipper is the ADF's contribution to the International Coalition Against Terrorism—a Special Operations Task Group consisting of Special Air Service Regiment, commandos, Incident Response Regiment and logistics support personnel deployed to Afghanistan to conduct special operations in support of security and

reconstruction efforts. We are also providing advice to government on the possible options to contribute to a provincial reconstruction team next year. The Special Operations Task Group operate under Australian national command but remain responsive to the operational requirements of our coalition partners. They provide reconnaissance, surveillance and other specialised capabilities to the coalition's continuing operations against al-Qaeda and the Taliban.

Due to the security requirements inherent in their role, I am limited in what information I can provide this morning. Obviously my main concern here is the safety of our people on operations. What I will say is that Afghanistan remains a dangerous place. Our people are operating in a difficult environment and facing an active and determined adversary. You would be aware that the Special Operations Task Group have been involved in several engagements with insurgents since deploying. The Special Operations Task Group are highly skilled and well trained, led and equipped. They are giving a very good account of themselves. I have the utmost confidence in their abilities.

Operation Catalyst is the ADF contribution to the whole-of-government effort to the rehabilitation and reconstruction of Iraq. Australia's contribution to the multinational force currently involves approximately 1,320 ADF personnel. Commodore Geoff Ledger is the commander of all ADF units deployed in the Middle East area of operations. He will soon be replaced by Brigadier Paul Simons.

Iraq is a hard and challenging environment and our people are facing a very real and lethal threat. I know each and every one of us looks forward to the day when our men and women can come home from Iraq, but there remains important work to be done which will require perseverance. The men and women deployed on Operation Catalyst are making real progress in restoring key institutions that will allow the people of Iraq to rebuild their lives. Their work is highly regarded by the Iraqi people and our coalition partners.

I would like to conclude this section of my statement by reinforcing that the men and women of the Australian Defence Force deployed on all our operations do an absolutely magnificent job. Despite the many challenges we throw at them, they continue to display a high degree of professionalism and are held in very high regard by our coalition partners in all operations in which they are involved. You can be sure that they are serving our nation very well.

I would now like to move on to my intent. My intent in the CDF is defined by seven themes. These are: our people; our values; our operational performance and preparedness; our strategic direction; our capability; our relationships; and our governance, management and administration. As I do not want to take too long this morning, and having already spoken briefly about operations, I will only expand on two of these themes—our people and our values.

Our people provide our capability; our people enable our capability. It is essential that all leaders in Defence are working tirelessly for our people. This is a very high priority for me. Today, under this theme, I will speak about safety, the Sea King Board of Inquiry and recruiting and retention. The service chiefs, the secretary and I, are absolutely committed to ensuring that we meet our duty of care for the safety and wellbeing of our people. The nature

of our profession does mean that we have to train for the realities of facing an enemy, placing our people in higher risk situations than other occupations would experience.

We have taken considerable action over recent years to redress some shortfalls in our system and have established the defence safety management system. The system recognises the importance of occupational health and safety and its contribution to preserving capability through protecting our people. The death of Trooper Angus Lawrence from heat illness a year ago was a tragic event that we deeply regret. The loss of this fine soldier immediately sparked a range of reviews and updates to training and procedures. We must learn from this tragedy and work hard to eliminate the possibility of further similar accidents. We will continue to improve the way we look after our people.

We are currently investigating the circumstances surrounding the loss of a Sea King helicopter on the island of Nias earlier this year. Sadly, we lost nine ADF personnel in this crash—six members of the Royal Australian Navy and three members of the Royal Australian Air Force. This loss continues to be deeply felt across the ADF and Defence. They will be warmly remembered and their professionalism and sacrifice will not be forgotten. Our sympathies and thoughts remain with their families and our thoughts are also with the two survivors and their families. We continue to provide support to those affected by this tragedy.

A comprehensive analysis of the crash was conducted by the Aircraft Accident Investigation Team and a board of inquiry started proceedings on Tuesday, 6 September. It would be inappropriate for me to comment on specific details being raised before the board, but I do want to reaffirm that we are closely following proceedings before the BOI and we are committed to thoroughly reviewing all findings and recommendations made by the board to ensure that a tragedy of this type does not happen again.

I will turn now to recruitment and retention. A significant people challenge we face which is critical to the ADF and the defence organisation is recruitment and retention. We are a relatively small force relying on well-trained and motivated people to deliver the capability that the government requires. The ADF must be able to compete effectively in a very competitive labour market. We need to be able to win our share of quality people and we must be an employer of choice—an organisation where people want to be and stay. Over the next 12 to 14 months a number of reviews and evaluations will be undertaken in this regard. These reviews will consider the best methods to recruit and retain personnel who are critical to providing ADF capabilities. I am confident that we will find our way through. Defence offers an interesting, challenging and rewarding life. We have a proud history over a century of duty to Australia. I will work to ensure that the ADF is an attractive option for Australians who want to serve our country and her people.

The second of my key themes and the last one I will touch on this morning is our values. I will speak about values generally before focusing on the military justice inquiry. There is an extensive framework of values in Defence. This reflects the long, proud and distinctive identities of the Navy, Army, Air Force and the Australian Public Service. At the end of the day, our values are all about behaviour. The wrong sorts of behaviour can be very destructive to an organisation, but the right sorts of behaviour can be very productive and constructive. Whilst statements on values are fine in their own right, the real challenge that any

organisation faces is to embed its values and its culture and to ensure that its values shape the behaviour of its people.

During my tenure as CDF I will invest a great deal of personal effort to ensure that our values are at the heart of the way we do our business in Defence and, most importantly, that we are emphasising values based leadership at all levels. There have been some instances where our people have not been treated very well. I have made it very clear that I expect everybody in Defence to be treated with respect and to get a fair go. That is the Australian way and that is the Australian Defence Force way. I expect to see that right across the three services and right across the whole defence organisation.

For the ADF to be effective and efficient, we require highly disciplined behaviour from our people governed by a system of military justice. This system allows the ADF to deal with matters that pertain directly to the effectiveness, efficiency and morale of the military. Military justice is integral to military discipline and critical to operational effectiveness, and is a core responsibility of command. I welcome the Senate committee's report into Australia's military justice. The government has agreed in full or in principle to 30 of the 40 recommendations from the Senate committee's report. This will result in fundamental changes to the existing military justice system. I am confident that the government's reforms to our military justice system will deliver a revamped system with greater impartiality, rigour and transparency, and fairer outcomes.

These reforms ensure effective discipline in the ADF and protect individuals and their rights. I am deeply committed to driving the implementation of these reforms. The Secretary, the Vice Chief of the Defence Force, service chiefs and I will meet each month to review and monitor progress made in implementing these reforms, as well as recommendations that Defence is already implementing as a result of previous reviews. We will provide progress reports every six months over the next two years. Admiral Bonser has been appointed to lead a fully resourced and dedicated defence team to oversee the implementation of the reforms. In order to ensure the ADF is adequately resourced to implement these reforms, 35 new positions will initially be created across the defence organisation, as well as the appointment of three new military judge advocates for the Australian Military Court and the allocation of an additional \$3.5 million in funding each year.

In closing, I would like to reiterate that there is no doubt in my mind that the Australian defence organisation continues to be among the very best defence organisations in the world. Our heritage, our performance on operations and our achievements in peacekeeping over the past few decades provide a powerful validation of that fact. There are challenges. There will always be challenges. But our people will continue to work hard for Australia. The men and women of the three services are seasoned, our civilians are professional and our leadership is experienced. Thank you, and I would be delighted to elaborate on any of the operations or points that I have raised.

CHAIR—Thank you, Air Chief Marshal. As I believe this is your first estimates as CDF, before I call on Senator Bishop to lead off with questions can I, on behalf of the committee, formally congratulate you on your appointment and wish you all the very best in the future in that important role. As one of those privileged to have been to Baghdad last week, I congratulate you also on the leadership of Colonel Roger Noble and of Commodore Geoff

Ledger, up in Baghdad. That deployment and the quality of personnel and equipment in that deployment was simply outstanding, as agreed by all seven members of the group that were there. I pause to congratulate you on that, for the week that we spent there last week looking at how many of the things you have just mentioned are actually played out in the field. Without further ado, can I go to Senator Bishop for questions.

Senator MARK BISHOP—Thank you, Chair. Air Chief Marshal, on behalf of the opposition can I say I concur completely with the chair's sentiments and welcome you for the first time to this committee in your current role. The opposition trusts that we will continue to have a mutually productive and beneficial relationship, particularly at this level in this committee and other committees of the parliament, because, as was implicit in your remarks, the ADF does act as servant on behalf of the entire Australian people. I also welcome your seven-point paradigm in which you are going to address issues within the ADF in your period as the CDF. I observe in passing that the two issues that you regard as critical in terms of some development this morning were priority issues for discussion today by the opposition. At the appropriate time in today's proceedings I and my colleagues will address some of the issues that logically derive from those you have identified as both important and paramount in your time as the CDF of the Australian forces. With those brief remarks, we welcome you and also the other officials of the Australian defence forces and the Department of Defence here for today's proceedings.

To start the questions I might go first, as you did at the outset, to overseas operations and to the current role of our forces in Iraq, that much-troubled nation. Can I ask you for a general update on our current role in that province, particularly in training, security and the protection of people of other nations such as the Japanese, and our role in the training of the Iraqis? Can you highlight any changes that have occurred since the original mission statement was established and the men and women were located there? In other words, can you give us a brief update?

Air Chief Marshal Houston—I think I will start with the Navy because essentially the Navy has been very much involved in a very important security task in the north Arabian Gulf. You might recall that we had a very effective role in commanding Task Force 58, which provides the whole maritime security for the north Arabian Gulf. What is important to highlight here is that that was a very crucial leadership role done very well by our people. What we were doing was providing security for the two vital oil terminals that are at the northern end of the Arabian Gulf. A fleet of 10 ships provides that security. That was under Australian command until a very short time ago—about six weeks ago. Obviously, our frigate is also involved in that activity. *Newcastle* is about to come home and she will be replaced by *Parramatta*.

The point I want to make is that it is an absolutely vital role because 95 per cent of the oil coming out of Iraq comes through those two terminals and they provide about 80 per cent to 85 per cent of the gross domestic product of Iraq. So the job was very well done. The whole concept of how that security is being performed was developed by the Australian command team. We are very proud of our achievement in that particular area. Of course, *Parramatta* will continue to provide one of the 10 ships that provide security in that part of the gulf.

I will move to the Air Force next. The C-130s, as members of your committee would have seen, continue to support our forces and coalition activity right across the Middle East, not only into Iraq but also into Afghanistan. We have increased the number of crews for that particular element because we have the additional load of supporting our operations in Afghanistan. That operation continues and it is done very well. The AP3-C Orions are also continuing to do good work. They have a very diverse role. They operate over the ocean in the traditional maritime patrol way. They operate in the gulf and they also operate in the north Arabian Sea against terrorist lines of communication. They also provide a very vital role in supporting ground forces usually in contact in Iraq. The Vice Chief of the Defence Force recently observed that very closely. Our people were using their very advanced sensors to support and inform ground operations in progress in northern Iraq. They do a fair bit of that and they do it very well.

I will move to the Army elements. We have the Al Muthanna Task Group. Again, they are doing a magnificent job. I visited them recently with the Prime Minister, and the RSM of the regiment said to the Prime Minister that in his 30 years in the Army he had never seen a unit that was better equipped than the Al Muthanna Task Group. The equipment that we have is, in his view, the envy of our allies. Of course, we are co-located with British and American people in Camp Smitty. They are particularly impressed with the ASLAV, the Australian light armoured vehicle, and the new Bushmasters that are in production at the moment. Both armoured vehicles are doing a superb job for us in Iraq, not only in Al Muthanna but also up in Baghdad. Their principal task there is to provide a secure environment for the Japanese reconstruction efforts in Al Samawa, and they also support Army Training Team 4, who have been doing a magnificent job training the brigade headquarters and also the battalion that is located in the province. At this point, Training Team 4 have trained 900 Iraqi officers and men in the brigade headquarters and in the battalion. They have also done some training up at Tallil, more basic training. They have trained 650 people up there.

You would be aware that the rotation from Al Muthanna Task Group 1 to task group 2 is in full swing at the moment. Lieutenant Colonel Peter Short is taking over from Roger Noble, and that is a seamless transition. I have to tell you that I am deeply impressed with the way the Chief of Army and his team have prepared that particular force. I have never seen a force as well prepared as that element that is in the process of deployment at the moment. I observed their final mission rehearsal exercise recently and left very uplifted by, very impressed with, the quality of the training, the quality of the preparation and the exploitation of modern technology to give these people the very best preparation that they need for a very challenging environment.

That really covers the training task. I guess that by the end of this month Al Muthanna Task Group 2 will be fully on the ground. There will be a new training team, Training Team 5. They will continue the business of training the Iraqis in the province. We continue to have a very good relationship with our Japanese colleagues who are at Al Samawa, the Samawa camp. Just staying on the training line, I will move to the logistics training. We have Army Training Team 3, which up to date has trained 1,000 logisticians. This has been a huge success. It is located at Taji, just north of Baghdad. I visited this element six weeks ago and what I saw were Australians and Iraqis working hand in hand in a very cooperative, very

culturally sensitive way. That is going well, although we have reduced our contribution to that training team quite substantially since then. That will continue through into the early part of next year.

Close to Taji is Balad, and at Balad we have half-a-dozen air traffic controllers who are fully embedded into the coalition air traffic control for the whole of Iraq, and they do a magnificent job. They are very unsung but play a very vital role. We have 20 health people, and we are now into our third rotation. Whenever you get one of these bad bombings nearby, they do an absolutely magnificent job in caring for the victims of the outrages that have occurred nearby and provide very good health support for the coalition in Balad. The comments I have had back from the commander of that hospital have been simply magnificent. He compares the quality of our people to the people of the American west. The only thing he mentions that is a bit of a difficulty is that we travel down the wrong side of the corridor, but that is the only difficulty. I think we are doing very well. Again, they are doing great work.

Moving into Baghdad, we still have the security detachment. We have just over 100 people performing that role. It is a very dangerous role. They look after our ambassador. They transport him around the international zone and out into other areas beyond the international zone, and they also provide the vital communication link to the airport and the headquarters. Again, they do a great job.

We have about 100 people at the headquarters at Camp Victory, and they provide the overall command and control of our efforts. We also have a large number of people embedded within the coalition agencies, the coalition headquarters and the headquarters that is responsible for the transition from the coalition to the Iraqi security forces. Several of our people are performing very key and important roles in those agencies. I think I have just about covered everybody. Is there anybody I have forgotten? No, I have covered everybody. The service chiefs are happy. I could expand a little on Afghanistan as well, if you like.

Senator MARK BISHOP—We might come to Afghanistan in due course. I want to have a discussion about some of the matters that you have identified in Iraq at the moment. If we turn firstly to our task in the Al Muthanna province, I think you said that we have trained 900 officers and men to date. Is their training concluded?

Air Chief Marshal Houston—Yes. The brigade headquarters is more or less complete. I would have to take advice on that, but my understanding is that that training is more or less complete.

Senator MARK BISHOP—Is that military training or civil training or a combination of both?

Air Chief Marshal Houston—It is training so that they can perform their security tasks in the province of Al Muthanna. At this stage, essentially, a brigade headquarters and a battalion have been fully trained. There is still one battalion to be trained, and they will be the major focus for the new Army training team 5 that is deploying to Iraq as we speak.

Senator MARK BISHOP—What was the training period for those 900 officers and men? Was it six months?

Air Chief Marshal Houston—I am not across the detail of that, but we give them very comprehensive training. I will come back to you on that in detail, unless someone here has the precise details. I have just been advised that about five months is the period training for those two groups. Of course, as I have stated publicly a few times, the training for the second battalion will be completed by May.

Senator MARK BISHOP—By May of next year?

Air Chief Marshal Houston—Yes, by May of next year.

Senator MARK BISHOP—By May of next year that second battalion will have concluded full training. Something in the order of 2,000 officers and men will have concluded their training and it is expected then that those men and women will then return to their relevant Army position for the Iraqi defence forces.

Air Chief Marshal Houston—The way things are organised in southern Iraq in our expectation is that that brigade and the two battalions that are part of it will take over the security of Al Muthanna province.

Senator MARK BISHOP—I will come to that point in a minute. You also said that there was more basic training of 650 people occurring at Tallil—is that correct?

Air Chief Marshal Houston—At Tallil, yes. Tallil is some distance away. It is in southern Iraq, to the east of our main deployment.

Senator MARK BISHOP—In that province?

Air Chief Marshal Houston—I think that it might be in another province, but it is nearby.

Senator MARK BISHOP—Was that part of the original task that our people were given when they were sent or has that been added on since?

Air Chief Marshal Houston—Their task was to provide training for the Iraqi security forces, primarily in Al Muthanna. These are young people who have been recruited in and it was the basic individual training that was being provided at Tallil as opposed to the more expansive collective training that has been provided—

Senator MARK BISHOP—So this is basic entry level training for young men who are joining the armed forces?

Air Chief Marshal Houston—Correct. They are young people who want to join the Iraqi security forces and this is their basic training.

Senator MARK BISHOP—When you use the words ‘Iraqi security forces’ do you mean them as a synonym for the Australian Defence Force? When we use the word ‘security’ it has a slightly different connotation. It has more of an intelligence connotation.

Air Chief Marshal Houston—I am using it in much the same way as I would use ‘Australian Defence Force’, yes.

Senator MARK BISHOP—Has the government made any decisions as yet for the continuation of our role in Al Muthanna post May of next year, when the basic training of those two battalions and the brigade is concluded?

Air Chief Marshal Houston—The government has authorised our deployment through until May. That covers the deployment of the people who are deploying right now. As you know, we never get too far ahead of ourselves and we constantly review where we are at. It is a very dynamic environment. All members of the coalition have stated very clearly that they are working to events rather than to a timetable, so we review how those events are being achieved and then provide advice to government. At the end of the day it is up to government to decide where we go with a particular set of circumstances.

Senator MARK BISHOP—Let me ask the question in a slightly different way. In your professional assessment will 2,000 officers and men, fully trained by next year, be adequate to ensure security in that Al Muthanna province post May next year?

Air Chief Marshal Houston—My expectation is that we will complete our training task in Al Muthanna by May next year and I think that the brigade that will be in place will provide a good level of security for the province as conditions currently are—so, yes.

Senator HOGG—Do the existing officers who are trained go back into their own units and work independently of our forces or do they work together with our forces post their training?

Air Chief Marshal Houston—We are working very closely with them. Basically we do all the training necessary to enable them to go out and patrol and then we go out and work with them when they exercise those skills around the province.

Senator HOGG—So there is an ongoing operation capacity with them post their training?

Air Chief Marshal Houston—Yes. We are working with them to give them the best possible preparation for the challenging task that lies in front of them. We believe in working with people. I think that is one of the great and positive features of our Defence Force: we engage the Iraqis. We work with them. They enjoy the experience and the value that we are able to provide to them in terms of passing on our experience and passing on our expertise. That is exactly what we are doing.

Senator HOGG—Who is in command in those circumstances, the Iraqi forces or the Australian forces? Who exercises the control?

Air Chief Marshal Houston—Bear in mind that we have other coalition members there as well. If you really want a detailed rundown on this, I can come back to you, because fundamentally it depends on the circumstances. It depends on the level of competence that the particular group of Iraqis have reached. There are fully trained Iraqis in Al Muthanna at one end of the scale; at the other end of the scale we have people who are just coming out of the training system. With the people who are coming out of the training system, we would obviously be taking a very leading role as they start to pursue their initial efforts at patrolling. But, if they have been doing that for a long time, we tend to sit back and let them get on with it.

Senator MARK BISHOP—Just to go back to that line of questioning I was engaging in: correct me if I am wrong, but you said that by about May next year you will have concluded the training of the two battalions and the brigades. That will be roughly 2,000 officers and men. They will be back as part of the Iraqi security forces and, in the current environment and

without a change in circumstances, that would be sufficient for the Iraqis to guarantee their national security in that province, in your professional assessment.

Air Chief Marshal Houston—I would like to come back to you with the precise number. I think it is probably more than 2,000, and I would like to come back to you with the precise number. I think it is more likely to be around 3,000, but I have not got the precise number and I will take that on notice. But, yes, our assessment is that this is a good-news story. This province is about to be able to make the transition to Iraqi control. It is something that we have really enjoyed being involved in, because everything we have set out to achieve is being achieved, and being achieved in a very effective and professional way.

Senator MARK BISHOP—So, in your mind, the benchmarks or the purpose that the government determined for our forces in Iraq, on current expectations, will have been fully met by May or June next year?

Air Chief Marshal Houston—In terms of the training of the Iraqis, we will have achieved our objectives. We are confident that we will do that. The other side of the coin is that we are there with other coalition partners, the principal partner being Japan.

Senator MARK BISHOP—Yes. I will come to that. I was aware of that.

Air Chief Marshal Houston—Japan is one of our—

Senator MARK BISHOP—Different.

Air Chief Marshal Houston—There are two aspects to our mission. The training part of it is taken care of, but the other one is to provide security for our Japanese colleagues. Clearly that is another thing that we are focused on.

Senator MARK BISHOP—We will come to that shortly. Earlier—I think in your introduction—you used the words ‘secure environment’. The Prime Minister, in his press release in February 2005, also deliberately used the words ‘secure environment’. He said that one of our two tasks was:

... to provide a secure environment for the Japanese ... support forces which are making a valuable humanitarian contribution to the rebuilding process.

Can you further develop for us what is meant by a secure environment? Does it mean more than the first part of our discussion?

Air Chief Marshal Houston—We are working to provide for a secure environment. We know, for example, that Iraq is a very dangerous place. By doing what we have been doing in Al Muthanna, we have been neutralising any initiatives by anticoalition militia. We have been neutralising their efforts to interfere with the provision of a secure environment in Al Muthanna. That is what we are talking about.

Senator MARK BISHOP—Apart from eliminating, reducing or minimising terrorist activity in the field, does your brief go on to the positive and include the elimination of civil disturbances and the creation or restoration of civil law and order? Is that part of your brief?

Air Chief Marshal Houston—What we have in Al Muthanna is quite a complex set of circumstances. We obviously have a police force in Al Muthanna, and obviously if there is any form of civil disturbance the first institution that becomes involved is the police force. In

circumstances where the police are unable to handle things, the second line would be the Iraqi security forces. We would only be used in the last resort. We have not been used in those circumstances. We have not done that sort of work, so we are very happy with the way things are proceeding in Al Muthanna.

Senator MARK BISHOP—Sorry to labour this point, but your brief includes a training role, a military role, the elimination of civil disturbance and the handover to the indigenous administration in terms of ongoing national security but does not go to the establishment of the rule of law or law and order in the major population centres on an ongoing basis in that province. Is that right?

Air Chief Marshal Houston—No. If what you are getting at is whether we are involved in being a pseudo police force, no, we are not.

Senator MARK BISHOP—Can you advise the committee of any intent on the part of the Japanese government to extend the role of the Japanese Self Defence Force post May next year?

Senator Hill—The Japanese government has not made any public statement on that that I am aware of. They are to respond to the Diet on that subject in December, and no doubt they are considering the matter.

Senator MARK BISHOP—Are we in discussions with them as to their future role at this moment?

Senator Hill—We are working with the Japanese, therefore we are broadly in discussion with them, but the decision as to their continuing presence in Iraq is a decision for Japan, not for Australia.

Senator MARK BISHOP—Yes, but our role is one of providing a secure environment for them as well, so I presume that we would be consulted.

Senator Hill—That is correct. If they come to us and want to discuss what future support we might be able to give them, we will obviously discuss that with them.

Senator MARK BISHOP—But they have not initiated those discussions as yet?

Senator Hill—Not in any specific way.

Senator MARK BISHOP—But in a general way have discussions commenced?

Senator Hill—Only in a general way in the sense that we are working together, but the issue of their future deployment, and any decisions that they might make, is a decision for them. If they come to us and say that they feel they would need further or ongoing support from Australia to ensure a security environment in which their humanitarian mission is able to act, then that would be a matter that would be considered by our government.

Senator FAULKNER—Can I ask you a question, Air Chief Marshal. Let me join the others, by the way, in congratulating you, sir. You may or may not be aware of this but I did ask a couple of questions in the DOFA estimates about the issue of an act of grace payment that I think had been paid to two Iraqi families. I believe the corrected figure of the act of grace payments is \$A10,540. That is obviously a matter for DOFA and not necessarily core business of Defence. I appreciate that. I know, firstly, that the total amount of \$A10,540 is the

corrected evidence and, secondly, that there are two such act of grace payments. Are you, or one of your officers, able to say to the committee why this compensation was paid?

Air Chief Marshal Houston—First of all, I would say that it is not actually compensation. If we have a driving accident in Iraq and we injure somebody we pay compensation. But if an Iraqi citizen is injured during the course of military operations, in those circumstances we will look at the circumstances and do a full investigation. If we determine that the Iraqi has been injured or indeed has suffered property damage as a consequence of the military action or military circumstances that occurred, our people in Baghdad will put forward a submission suggesting that an act of grace payment be made to the individual for the injuries they sustained or the damage to property that occurred. The process runs from Baghdad through the operational chain of command. It comes through to the Vice Chief of the Defence Force, who then puts that submission up to the minister and, if the minister believes that the circumstances warrant an act of grace payment, we then move across to Finance who have the delegation for these payments. It is as simple as that.

Senator Hill—I think technically the decision is made by the Minister for Finance and Administration but a recommendation may come from Defence.

Senator FAULKNER—Thanks for that. I appreciate that the correct terminology is ‘act of grace payments’. I assume from what you are saying that it is the result of some sort of vehicle accident in Iraq, but I was just wondering if you could briefly outline to us the circumstances. I do not know whether there were two separate incidents, and you might indicate that to us, or whether it was two separate payments made in relation to the one incident. I am not sure of that; it is unclear. It seems that it might be the latter. But you might just for the record say that too, if you could. Just briefly outline what the background to this is, if you could, please.

Air Chief Marshal Houston—There was one incident which involved two payments. This one incident resulted in two act of grace payments for injuries that were received in a set of circumstances. I do not want to go into detail here, and there is nothing sinister in this—

Senator FAULKNER—I was not suggesting there was anything sinister in it.

Air Chief Marshal Houston—No, but essentially I just want to say that we did not want to go into detail because identifying individual Iraqis and the sums of money that they got potentially could increase the threat to them. The other thing that I think is important here is that we do not want to reveal details of our tactics, techniques and procedures in the sort of circumstances where these injuries were sustained. I just want to say that because I think it is important that we cannot get into perhaps the level of detail you would want me to go, because I have an obligation to protect my people. I think I also have an obligation to protect those individual Iraqis we have paid those sums of money to.

Senator FAULKNER—As you know, I have consistently taken the view that with any questions at estimates committees that might involve some security elements I tend not to progress them. I have a very strong record in that regard. I did ask you, in what I had hoped was a carefully framed question, for just the broad circumstances that were involved here. There is a balance here between accountability for public moneys, taxpayers’ money, that is spent and—as I see it and, I think, any reasonable person would see it—the need for us not to

hear evidence that might have unfortunate consequences or some negative impact in Iraq. I accept that. That is why I asked if you could just give us a broad picture of this.

Air Chief Marshal Houston—What I could do, if you wish, is provide the detail but I would provide the detail in camera or with a caveat that it would not be subject to public release so that I can assure you that public moneys are being used in the right way.

CHAIR—We have a problem with in camera evidence: we cannot have in camera evidence in this particular hearing.

Senator FAULKNER—But even if you could, Air Chief Marshal, I would not ask you to do that. Let me frame my question in another way. Do you feel comfortable or able to provide further information in relation to these acts of grace payments? If provided here obviously it is very public because of the *Hansard* record. What can you say to us about the circumstances surrounding this that does not impinge on the principle that you laid down and that, in broad terms, I accept?

Air Chief Marshal Houston—I guess the way I would put it is that we are vitally aware that we need to look after the people that we engage with in Iraq. Unfortunately, in circumstances where something happens, people occasionally get hurt. And in those circumstances we fully investigate the circumstances. If we consider that the individual that has been involved has been disadvantaged in whatever way we then initiate paperwork to ensure that that individual gets an appropriate level of payment. The way we do it is an act of grace payment in accordance with section 33 of the Financial Management and Accountability Act 1997. We go through all the normal processes associated with that act.

Senator FAULKNER—If you were to say to this committee that this is a result, for example, of a traffic accident—which I thought might be the case from earlier evidence—I do not understand how that could possibly impinge on the important principles that you outlined to the committee. Could it?

Air Chief Marshal Houston—If I reveal all the details of the incident in question it will expose our tactics, techniques and procedures. I am not going to expose those to this committee. I am delighted to tell you with a confidential caveat that it cannot be released, but I am not prepared to do it in public.

Senator FAULKNER—I could seek a private briefing from you and I am sure you would oblige, as you do, but the committee itself does not have the capacity to hear in camera evidence. Even if it did, I certainly would not suggest we should. I am simply trying to establish at this point whether, without going into sensitive matters, you are able to provide any information of the broad picture of why this was necessary. Does it really offend these principles, for example, to say it involved some form of vehicle accident or the like? I do not really understand how that could possibly offend the principles that you have laid down, which generally I accept are important ones.

Air Chief Marshal Houston—I mentioned vehicle accidents earlier. If we have a vehicle accident and we have a set of circumstances where we are liable, we pay compensation to the other party.

Senator FAULKNER—I did not understand. You are drawing a distinction between that and the act of grace payment?

Air Chief Marshal Houston—The act of grace payment relates to military circumstances or if there is military action. Because of the way we operate in Iraq, we have no liability for what has happened. These circumstances really relate, for example, to where somebody threatens our people and our people act within the rules of engagement and somebody gets hurt. In those circumstances we investigate what has happened, and where appropriate we will pay an act of grace payment. It is as simple as that.

Senator FAULKNER—You draw a distinction. Your nuanced response is to say that there is a distinction, if you like, between act of grace payments and the possible payment of compensation which might be for an incident like a vehicle accident of some description. Is that right?

Air Chief Marshal Houston—If we have a vehicle accident it is almost the same as if it happened in Australia.

Senator FAULKNER—In relation to the Iraq involvement, are these the only two act of grace payments that have been made—that is, the ones that were canvassed at this estimates committee yesterday with the Department of Finance and Administration?

Air Chief Marshal Houston—There have only been two act of grace payments to this time. There is a second incident being processed, and I would anticipate that, as that goes through, there might be a further act of grace payment. There is a third incident under investigation which, at some future stage, might result in an act of grace payment.

Senator FAULKNER—The second incident that you refer to is obviously further advanced in terms of internal processes. I think that is what you are suggesting. Is that correct?

Air Chief Marshal Houston—Yes, but no payment has been made.

Senator FAULKNER—I appreciate that, at the end of the day, the decision maker here is the Department of Finance and Administration, although effectively the responsible department is Defence. Finance strongly put the case that they make the decision, but effectively the assessment and the work is done and the effort is put in in your department, not Finance. Do you accept that that is broadly the picture about how these act of grace payments work?

Air Chief Marshal Houston—Yes, absolutely. Any time there is any sort of military action in, say, Baghdad, within the rules of engagement and somebody gets hurt, we fully investigate it. We take great care of the Iraqi who has been caught up in what has occurred and we want to provide what we think is a just payment for the injury or loss that has occurred.

Senator FAULKNER—Can an act of grace payment also be paid for, say, serious property damage and the like, or is that more in the compensation area?

Air Chief Marshal Houston—Any time there is military action in Iraq and somebody gets injured or loses something—for example, their car—or their house is damaged, we could use act of grace payments.

Senator FAULKNER—I was informed by the Department of Finance and Administration that the two acts of grace payments paid were as a result of personal injury. Can you confirm that?

Air Chief Marshal Houston—I can confirm that.

Senator FAULKNER—Does the second one, which you said might lead to a possible act of grace payment—or is perhaps a little bit further along the pipeline than that—and the third incident, also relate to personal injury issues?

Air Chief Marshal Houston—I am not across the detail of that. I would like to come back—

Senator Hill—The second one was a personal injury issue and the third one is still being investigated.

Senator FAULKNER—Has a decision been made in Defence as to whether the Department of Finance and Administration will be approached to make an act of grace payment in relation to the second one? Has it reached that stage yet?

Air Chief Marshal Houston—No.

Senator Hill—I supported a recommendation on the second one.

Senator FAULKNER—A recommendation that the matter be—

Senator Hill—That an act of grace payment be made. It is now up to the Minister for Finance and Administration. The third one is still being investigated.

Senator FAULKNER—And you would expect the second one to go to the Department of Finance and Administration soon?

Senator Hill—That is correct.

Senator FAULKNER—Let us go to the issue of the separate category, if you like, of compensation.

Air Chief Marshal Houston—Sure.

Senator FAULKNER—I do not know if there is a third or fourth category. These payments basically come under two categories, don't they? There are the act of grace payments—and I think we understand the nature of those—and then there is compensation paid for other matters. Is that right? Are there any other categories of payment?

Air Chief Marshal Houston—If an incident occurs that is not in connection with ADF military operations, compensation is paid.

Senator FAULKNER—Is the distinction that act of grace relates to a military operation and a compensation payment might be paid in an incident involving ADF personnel and the like but not when fulfilling a direct military function. Is that the distinction?

Air Chief Marshal Houston—Let me give you an example. If an ASLAV collides with an Iraqi car, that is nonmilitary in nature. That is two vehicles colliding.

Senator Hill—The ASLAVs are large and, for obvious reasons, they travel fast on open roads. They may be conveying the ambassador, for example, from the airport to the green

zone. If there is a collision between the ASLAV and another private vehicle on the road, that is the sort of circumstance that would be looked at in terms of compensation. Whether or not compensation would be offered would depend on the circumstances of the accident. If the other private vehicle was behaving erratically or if it drove in front of our vehicle, we may not pay compensation. So, depending on the circumstance of the accident, we may offer compensation.

Senator FAULKNER—That is fair enough, but I think there is also a distinction, as I understand it, Minister, between an act of grace payment paid as a result of a direct military operation and compensation paid for an incident involving ADF personnel or equipment which were not involved in a direct military function at the time. Is that also a fair distinction to draw?

Senator Hill—That is how it has turned out in practice.

Senator FAULKNER—Air Chief Marshal Houston, could you or one of your officials assist with this: what is the number of compensation payments that we have had in Iraq?

Air Chief Marshal Houston—I will answer it this way: there have been a number of them and the claims have ranged from \$US50 to \$US3,000. There have been 25 compensation claims paid in that theatre.

Senator FAULKNER—Were they paid to Iraqi civilians?

Air Chief Marshal Houston—Correct.

Senator FAULKNER—Okay, so there have been 25 amounts of compensation paid to Iraqi civilians. What is the total? It does not sound like it is a massive amount of money, judging from the level of the claims that you are speaking about. Do you have a total figure there for those 25 claims.

Air Chief Marshal Houston—I am delighted to be able to give you that information. It is \$US16,896.50.

Senator FAULKNER—Okay, so it is in US dollars. With the act of grace payments, and for that matter with these compensation claims, what happens on the ground in Iraq in terms of assessment and inquiry into possible claims?

Air Chief Marshal Houston—As I mentioned earlier, these circumstances are investigated but, in terms of those 25 incidents, I do not have that sort of detail.

Senator FAULKNER—That is okay. I am asking: what triggers the investigation? Does Defence itself—

Air Chief Marshal Houston—It usually does. A lot of these have been vehicle collisions. It is a fairly chaotic place sometimes. If there is some sort of vehicle collision, we investigate it, the details are sorted out and compensation is paid. It is paid on the ground in Baghdad. The commander there has a delegation to handle those sorts of things. But, when we have military circumstances and something happens, we do not pay compensation. We do not have a liability. In fact, the Commonwealth is not legally liable in those circumstances. If we think an act of grace payment is appropriate in the circumstances for the loss that has been

sustained, we come back through the process that you are very familiar with that I mentioned earlier.

Senator FAULKNER—It sounds like the act of grace payment may well be something that is kicked off by Defence itself—or is it as a result of requests from some aggrieved Iraqi party?

Air Chief Marshal Houston—It could go either way. We can initiate it or, if an Iraqi approaches us and indicates that he has sustained some sort of injury as a consequence of being involved in something where we have done something military, he can put in a claim. We have had those circumstances, but we have had other circumstances where it has been initiated by us. Regardless of the circumstances, they are fully investigated by us. Every time we have any sort of incident involving the use of military force, we have an investigation, and, if in those circumstances we think that an Iraqi has suffered as a consequence, we will initiate an act of grace payment.

Senator FAULKNER—Is there effectively a protocol in Defence about when inquiries are made about these things? The situation so far has been that \$10,540 of public money has been paid into act of grace payments. It seems reasonable to me that the fact that an act of grace payment has been made, and the level of it, can be made public. You have concerns about going any further. That is a different issue. Wouldn't it be perfectly reasonable for Defence, if asked, to at least be able to give that level of information in the circumstances? As I understand it, that is not how these matters are dealt with at the moment. It seems both unremarkable and quite proper that, if an act of grace payment is made to a certain value, there is absolutely no reason why the fact that it has been made could not be stated publicly if an agency were asked.

Senator Hill—I stated it publicly some months ago.

Senator FAULKNER—The amount?

Senator Hill—I think it was the amount. I could go back and check the records.

Senator FAULKNER—I would be very surprised if that were the case. In fact, DOFA had to correct evidence yesterday on the amount. I suspect that they may have given a figure for just one amount.

Senator Hill—I will check. Some months ago there were press inquiries about act of grace payments and compensation, and the information that is being provided is what I recall we confirmed to the press.

Senator FAULKNER—I had read in the media that there were FOI requests. I do not know of their nature; I only know that it was reported in the media that FOI requests seeking details of the compensation process and program had been denied. I cannot comment on whether that is accurate or not and I do not know the reasons. I am not the decision maker and I have no intention of asking Rear Admiral Moffitt why that was the case.

Senator Hill—Well, you can.

Senator FAULKNER—I suppose I am asking about establishing a reasonable protocol about this that allows an appropriate amount of information into the public arena without crossing the line.

Senator Hill—I have no problem with that at all. The fact is that two act of grace payments have been made—it is public money—arising out of one incident. I have no problem with saying that and how much the amount of money is. We do not want to provide the names of those who received it or details of the incidents in which it occurred, because that could have some consequence for the security of ongoing operations.

Senator FAULKNER—I will quote from a newspaper article. This is why I asked the question. The article says:

The amount paid and number of payments are being kept secret because the ADF claims the information could compromise Commonwealth finances and international relations.

Senator Hill—That certainly has not come from me.

Senator FAULKNER—I do not know whether that is accurately reported or not. You might have more of an idea than I. Nevertheless, that is the issue. I do not believe—and certainly from what I hear from CDF he does not believe—that the amount paid and the number of payments could possibly compromise any security concerns that the ADF has. Is that fair enough?

Air Chief Marshal Houston—As I said earlier, we do not want to get into too much detail here. Baghdad is a very dangerous place and, if people find out that so-and-so got a certain amount of money and they know how much, we put those people at great risk. I support what Minister Hill said in that regard. The other thing about it is that if it gets out there about how much we pay then that actually creates expectations and perhaps something of a market out there. That is another consideration to take into account.

Senator FAULKNER—Isn't it true that the ADF has actually worked with other members of the coalition of the willing to establish compensation rates to be paid to civilian victims? That work has gone on, hasn't it?

Senator Hill—My understanding is that the other coalition states have similar arrangements under their laws and practices.

Senator FAULKNER—Let me ask this directly: have the ADF liaised with US and UK military authorities, in the broad, to establish appropriate compensation rates for civilian victims in Iraq?

Air Chief Marshal Houston—I would like to take that on notice. The way I would answer at the moment is to say: not to my knowledge, but I will take that on notice.

Senator FAULKNER—I would appreciate it if you would.

CHAIR—Can we clarify that that is for compensation?

Senator Hill—I assume that the word 'compensation' was used loosely.

CHAIR—There is a distinction between act of grace payments where there might well be some protocol, and compensation.

Senator FAULKNER—I think it is compensation. Let us talk about both.

CHAIR—It is a civil tortious situation on the one hand as opposed to a military operation or liability on the other hand.

Senator Hill—We will answer the question in relation to both sorts of payments.

Senator FAULKNER—Both act of grace payments and compensation payments, but I certainly did mean compensation. It has been alleged that compensation rates have been worked out between the coalition of the willing partners. For the completeness of the answer, please take that on notice.

Air Chief Marshal Houston—I have the response now. We do not consult with our partners on any of these matters. This is something we do unilaterally as Australians.

Senator MARK BISHOP—I want to go back to the discussion on training. You were quite fulsome in your praise of the training role and your assessment as to the capability of the people who had been trained in the province we are directly involved in—Al Muthanna in the south. Do we have people embedded, participating or observing—whatever the word is—in the training regime in other provinces of Iraq; that is, not the ones we are directly tasked to cater for?

Air Chief Marshal Houston—The logistics training that I mentioned—Training Team 3—are at a place called Taji, which is just to the north of Baghdad. The other area where we have people involved in the training function is in the coalition transitional headquarters MNSTC-I that is responsible for the transition from the coalition to the Iraqi security forces. We have individuals involved in the strategic management of the whole transition program.

Senator MARK BISHOP—So we have direct participation in those two programs, hence direct observation and direct knowledge. Outside those two areas, do we have any—

Air Chief Marshal Houston—A lot of our embedded people are working on this issue of transition from the coalition to the Iraqi security forces, and that is being done at a number of levels.

Senator MARK BISHOP—That is being done primarily or exclusively in Baghdad?

Air Chief Marshal Houston—Mainly in headquarters functions—

Senator MARK BISHOP—Mainly headquarters, strategy, and policy and planning functions?

Air Chief Marshal Houston—Policy and strategic management of that very challenging task.

Senator MARK BISHOP—You now have direct experience—and, hence, knowledge—of the training role, and you are able to make accurate assessments of the capability of all the people trained in Al Muthanna. You made the comment earlier that, in due course, you will assess them as being capable of providing adequate national security functions in their own province, if things do not change—

Air Chief Marshal Houston—Provided they achieve their training milestones and we are able to sign off, at the end of the training period, that they are competent and capable in their security functions.

Senator MARK BISHOP—We have had that discussion, and you have direct knowledge, and you have answered the questions. I wanted to lead to a discussion on the adequacy of the training elsewhere in Iraq, your professional assessment as to whether it has been adequate for

the task, and when the security forces in those other provinces will be capable of looking after their own provinces, as the men you have trained in Al Muthanna will be capable.

Senator Hill—The security environment differs substantially from province to province.

Senator MARK BISHOP—It does, and that is why I led in by asking—

Air Chief Marshal Houston—It is an impossible question to answer, really, because we do not have close visibility of what is happening, province by province, but what I can tell you is that the program is being run from headquarters MNSTC-I—the headquarters responsible for the transition to the Iraqi security forces. They are working not to a timetable but to an events based program. In other words, units are not declared competent and capable until such time as they have achieved all the training objectives that have been set for them. My conclusion from that is that, once a battalion is declared as being operational, it will be able to meet the requirements in whichever province it happens to be.

Senator MARK BISHOP—Have any other battalions been declared—if that is the appropriate word—as having satisfied all the relevant events, so they are ready to carry out their task?

Air Chief Marshal Houston—I am not across the detail of the whole coalition at this time.

Senator MARK BISHOP—The reason I ask is that there are now constant reports emanating from the US congress and think tanks in the US that the adequacy of training has been much underestimated. The quality of the people is not what had been hoped for and, accordingly, their operational readiness is going to be much later than had been anticipated when the training requirements initially commenced. Do you have any comment on that?

Air Chief Marshal Houston—The comment I would make is that transitioning from a coalition to an Iraqi security force requires a massive training task. It is a task that will take a long period of time and it is something that needs to be events based not timetable based. I think some of the initial projections that were made earlier in the piece were based on time lines that were simply not realistic.

Senator MARK BISHOP—As to the time lines that were initially established or, I suspect, are now hoped for, how were such qualitatively incorrect assessments made?

Air Chief Marshal Houston—I do not think they have been. The time line I refer to is the time line a lot of commentators were talking about. When I was last in Baghdad I spoke to the commanding general at the time, General Patreas, about the whole program and he left me in absolutely no doubt that what was happening in his command was that they were working to a program which was based on events. In other words, they were achieving milestones that would eventually lead to each battalion becoming operationally capable. That is a challenging task when you are talking about 109 battalions, and the training task at that stage was going quite well.

Senator Hill—In a very short period of time.

Senator MARK BISHOP—The training has been under way now for the best part of two years.

Senator Hill—More than that.

Senator MARK BISHOP—More than that?

Senator Hill—Let us say two years.

Senator MARK BISHOP—It takes a while to scale up. I accept that.

Senator Hill—The security force is now a hundred and—

Air Chief Marshal Houston—It is 170,000 to 180,000.

Senator Hill—I was going to say 170,000. The logistics side and the commander control have been built up, but to take it that next step to being an effective fighting force against a significant insurgency is another level again. The insurgency has grown during the course of those two years. So when you talk about whether the security forces are adequate to address issues in the south or in the north, we may well be approaching the stage at which they are able to do that. You then asked, ‘Can they do it in the middle of the insurgency in the Baghdad triangle?’ That is—

Senator MARK BISHOP—Problematic.

Senator Hill—Problematic. Having said that, I disagree with you a bit on your assessment. I have read assessments that suggest that the force have made significant achievements to date in those very difficult areas. They have part of the responsibility for security within Baghdad itself. We know from their saving the life of one Australian that they are quite effective. It is easy to criticise the new Iraqi security force but I think a fair assessment is that they have made quite extraordinary strides within a very short period of time.

Senator MARK BISHOP—Let me correct the record, Senator Hill, in case I misled you or those who might read the *Hansard*. I was not in any way attempting to criticise the capability of the Iraqi defence force. I was simply seeking to establish when they would be capable of engaging in operations on their own—that is, trained to carry out their task. My second point was that some of the initial projections on time lines for training had been perhaps generous or exaggerated. Now, as the air chief marshal has outlined, it is going to be many years before there is a set of battalions fully capable of carrying out the necessary defence activity in those critical areas of engagement.

Air Chief Marshal Houston—Can I just say that the question is posed as though there were no capability there at all. Iraqi battalions are fighting the battle right now. You may be aware of the very successful operation in Tal Afar.

Senator MARK BISHOP—Yes.

Air Chief Marshal Houston—Only one-third of that force was American or coalition. The rest was Iraqi. There was an Iraqi brigade, an Iraqi police brigade and a US brigade. They operated together and had a very successful operation in Tal Afar, which was full of anticoalition elements. So they are out there doing the business. It is just that the training task involves raising 109 battalions or 10 divisions. That is a training task of huge proportions. If we were to start right now to raise a battalion from scratch here in Australia and we had to start by individually training—by recruiting people off the street and raising a battalion—we would be talking about at least a couple of years to turn that into something that would be operationally capable. I will take advice on that from the Chief of Army, but I think you will find that it is in that order.

Senator MARK BISHOP—You referred to that key battle, which was one-third American and two-thirds Iraqi—I think they were roughly the figures you said.

Air Chief Marshal Houston—Yes.

Senator MARK BISHOP—But at the moment there are no battalions in Iraq as yet fully trained and capable of effective military operations on their own. Is that correct?

Air Chief Marshal Houston—I will take that on notice, because I think you are referring to General Casey's appearance before the—

Senator MARK BISHOP—I am specifically referring to that. He made that comment and it has received a lot of notoriety.

Air Chief Marshal Houston—I think his words referred to the fact that there was one battalion that was capable of operating completely independently on its own.

Senator MARK BISHOP—The quote I have is that there is currently only one fully autonomous Iraqi battalion capable of independent operations.

Air Chief Marshal Houston—I think that the question related to whether there was a unit that could operate completely on its own. Yes, there was one, but there are many others that can operate with the coalition on combined operations.

Senator MARK BISHOP—In your experience, in both 12 months and two years time, will we be getting to the stage where there are five, 10 or 15 battalions in Iraq capable of independent operations as outlined by General Casey?

Air Chief Marshal Houston—I have seen the program. The program is very ambitious. The program is event based. I am confident that there will be a huge increase in the number of competent battalions over the next 12 months. But I am not going to put a figure on it because there are also some variables at play. Certainly, I am confident that that program is moving along in a very productive way.

Senator MARK BISHOP—So men are being recruited, the training is ongoing and their abilities are being raised over time, but you are unable to advise us that there will be five or 10 fully trained and capable battalions in 12 months or two years?

Air Chief Marshal Houston—I am confident that, in 12 months time, we will be talking about a large number of battalions that will be completely capable, independent or working with the coalition. Indeed, right now, there are a large number of battalions that are capable of working with coalition forces in combined operations.

Senator MARK BISHOP—I have not been seeking to have a discussion on joint forces or joint leadership. We are training over 100 battalions. Senator Hill referred to 170,000 men. I am really asking when we are going to be able to see that there are indications of serious critical mass—five, 10, 15 or 20 battalions—in the difficult areas capable of carrying out their own security needs. You are saying to me in response now that your professional assessment is that in 12 months time there will be a serious number of battalions so capable. Is that correct?

Air Chief Marshal Houston—Yes, that is correct.

Senator MARK BISHOP—Thank you.

Proceedings suspended from 10.45 am to 10.57 am

CHAIR—I call the committee to order. Air Chief Marshal Houston, we will proceed even though the minister is not here. I am sure he will forgive us. Senator Trood has some questions.

Senator TROOD—I have a couple of questions, particularly about command training for the Iraqi military forces. You have been talking in generalities about the training that we have been undertaking, but could you say a word or two about the training of the officers within the organisation and whether that is being undertaken centrally in some specifically created staff college or something equivalent to it? Are we having a part to play in the command training?

Air Chief Marshal Houston—We are not directly involved in that. I will get Lieutenant General Gillespie to come forward and address that specific issue.

Lt Gen. Gillespie—We have been involved in some leadership training in terms of preparing the battalions that we have trained with, particularly in the north of the country where we had access to the leadership of the battalions slightly ahead of the arrival of their recruits. In that way, we trained the leadership of the battalions that we worked on in the north with training teams one and two and then we assisted that leadership team in training their own people.

We have not been involved in the broader coalition overview or training senior officers et cetera, except that we have brought some Iraqi officers to Australia and trained them in our staff colleges. We have been participating in the provision of advice through the Iraqi Ministry of Defence Development and the MNSTC-I organisation in setting the policy for the development of senior Iraqi leadership.

Senator TROOD—Is that senior officer training taking place at a particular place under the control of the activities of perhaps the Americans and the British?

Lt Gen. Gillespie—Not to my knowledge. It is happening more in situ. One of the luxuries that the Iraqis do not have is to do their training and then consider operations. It is happening in situ as we develop organisations, brigades, divisions et cetera. We are training them as they are receiving their initial trainees and then very quickly the coalition—we in the south but the coalition more broadly throughout the country—are working with those people and mentoring them as they commence operations.

Senator TROOD—Are you planning to expand the exchange arrangements with the Iraqi officers that have been in Australia?

Lt Gen. Gillespie—There is no plan to expand the level of training that we do in Australia. Places at our college are well sought after by many nations and we do what we can in that regard.

Senator TROOD—Do we have any here at the moment?

Lt Gen. Gillespie—Two.

Senator TROOD—I met them both a couple of days ago when I was out at the college. They are enjoying their time in Australia and getting a lot out of the course.

CHAIR—What particular disciplines or skills are we giving them in terms of their capability?

Lt Gen. Gillespie—We are giving them basically the same skills we are giving our own officers at the junior staff college level. It is more of a broadening, whole-of-defence look. There are tactical phases to that but the majority of the course is about broadening them for middle management.

Senator TROOD—How long will they remain here?

Lt Gen. Gillespie—They will do the 12-month course.

Senator MARK BISHOP—Continuing with that training discussion, the Air Chief Marshal indicated in his opening statement that Army Group 3 had trained 1,000 logisticians in more recent times. Where has that occurred? What has been the level of training? What types of people are involved and what tasks are covered? Can you develop that a little?

Lt Gen. Gillespie—Our training team helped establish in Iraq a logistics training centre. Previously the focus had been on the training of infantry battalions. We established a logistics training centre with two real foci of training. One was to get some early practitioners in logistics through the training and the other was to train some Iraqi logistician instructors who could take responsibility for doing that. There was an early focus on the mechanics of it. The latter part of that was actually establishing the organisation and, using our training techniques, to take modern training methods, have them interpreted into the local language, and then train the people to use the sorts of methods that we would use to train their people. Currently, the remaining few people who are there are continuing to supervise that. It is working very well. It was a training system that was developed for Iraqis; it was not a training system that was taken from Australia or the United States or somewhere else and imposed on them. They have become very comfortable with the product that we developed.

Senator MARK BISHOP—How many people do we have involved in that training now?

Lt Gen. Gillespie—There are six at the present time.

Senator MARK BISHOP—How many did we have at its peak?

Lt Gen. Gillespie—We had approximately 55.

Senator MARK BISHOP—We have downscaled our role significantly.

Lt Gen. Gillespie—That is right.

Senator MARK BISHOP—For the less informed amongst us, what is comprehended by a logistician?

Lt Gen. Gillespie—It is to do with transport, supply, medical and repair, and those sorts of issues.

Senator MARK BISHOP—Backup and support functions for operational people.

Lt Gen. Gillespie—That is right.

Senator MARK BISHOP—Does that include officer training or simply entry and NCO level training?

Lt Gen. Gillespie—The focus on the organisation at the present time is on supervisors at NCO and junior officer level.

Senator MARK BISHOP—Do I take it that that program will continue?

Lt Gen. Gillespie—It certainly will. It is one of the successes of training and it is one of those areas where the Iraqi army has really grasped the success of this early program. I was there a couple of months ago and they are very proud of what they are achieving.

Senator MARK BISHOP—It is not battalion located; it is across the entire Iraqi security forces?

Lt Gen. Gillespie—It is an Iraqi security forces logistic training centre.

Senator MARK BISHOP—Do people from the security forces in the different provinces or regions get sent to this centre for training?

Lt Gen. Gillespie—They do.

Senator MARK BISHOP—And when they are trained they go back to their own location?

Lt Gen. Gillespie—They do.

Senator MARK BISHOP—Essentially, we are in a transition role and our role is becoming quite minimal—is that a fair conclusion?

Lt Gen. Gillespie—Our role has become minimal. The broad lifting part of supervision and making sure that it is properly resourced has been taken over by another coalition organisation.

Senator MARK BISHOP—If you were going to be asked to become re-engaged that is a matter for government at a later stage—is that correct?.

Lt Gen. Gillespie—It is.

Air Chief Marshal Houston—Senator, I could give you a bit of a snapshot about our Navy's involvement in training. They have done a magnificent job as well. Are you interested?

Senator MARK BISHOP—I am interested, but time limits me at this stage. I am interested more in the operational people, but thank you. I want to turn to the Senate Foreign Affairs, Defence and Trade References Committee report *Duties of Australian personnel in Iraq*. That was a unanimous report of the committee which came down in August 2005. The committee only had one recommendation. Has the government yet responded to that recommendation, Senator Hill?

Senator Hill—Which one?

Senator MARK BISHOP—The Foreign affairs Defence and Trade References Committee report of August this year into the duties of Australian personnel in Iraq, arising out of that interview/interrogation issue.

Senator Hill—What was the recommendation?

Senator MARK BISHOP—It was the Barton matter. There was only one recommendation:

The committee recommends that the ADF review its procedures for instructing personnel about the various codes of conduct, ADF instructions or Concepts of Operations governing the conduct of Australian personnel while engaged in overseas operations especially where Australian personnel are deployed with third country operations. All Australian personnel must be made aware of their obligations with regard to human rights issues which includes their obligation to report any activity that seems illegal.

My question simply was: has the government yet responded to that committee report?

Senator Hill—I do not think we have. I would argue that we do that anyway, but if the committee is urging us to continue to do it and to look for ways in which we can improve communication then we would receive that advice positively. We would see that as constructive and positive advice.

Senator MARK BISHOP—Of course it is; motherhood stuff. Perhaps it is an operational question, Air Chief Marshal. Has the ADF taken any steps to implement that series of comments in the committee's recommendation and, if so, what steps?

Air Chief Marshal Houston—We have taken every possible step to improve the way we do business in sensitive areas. What we have done in recent times is increase and improve the amount of preparation with regard to predeployment training before people go overseas. We address all the issues relating to sensitive areas, like detainees, Australian citizens overseas and so on. We are very mindful of the fact that we need to be squeaky clean in all of these areas. Our people are very well prepared, particularly those who are going into embedded positions and working on coalition headquarters staff.

Senator MARK BISHOP—Let me tell you some of the specific concerns of that committee, noting that it was a unanimous response by the committee. The committee found that there appeared to be a merging of the concepts of interview and interrogation in the process that was undertaken. Has the ADF taken any steps to more precisely or exactly define the concepts of interrogation and interview? Or are you satisfied with what it was?

Air Chief Marshal Houston—I am very comfortable with what we are doing overseas at the moment. We are essentially handling our detainees in a way that I am completely comfortable with.

Senator MARK BISHOP—Is that any different to the way you were handling detainees prior to this committee's report?

Air Chief Marshal Houston—I think what we have now is a very robust procedure that we follow to the letter, and I am totally confident that we are conforming with all requirements with regard to looking after people's human rights.

Senator MARK BISHOP—But, before this became an issue, your predecessor and Chief of Army was also confident that you were acting entirely properly and consistently with procedures and having proper respect for human rights issues. That was said repeatedly. The committee did not come to that conclusion, and my question is: in terms of the merger of the words 'interview' and 'interrogate', have you thought it necessary to institute any different procedures from that which you had prior to this becoming a public issue?

Air Chief Marshal Houston—I will invite the Chief of Army to come up to the table. We are putting a lot of emphasis on getting these sorts of matters right. In my opening remarks I mentioned the mission rehearsal exercise and the fact that we had sent a body of men across who were as well prepared as any who have left these shores. They have been fully trained and prepared in these sorts of areas. I will let the Chief of Army run you through what we have done in terms of changing our doctrine and what we have done in terms of preparing our people for the challenges they face in the operational environment.

Senator MARK BISHOP—I am not interested in unnecessarily prolonging this discussion, General; my question goes to what changes, if any, Defence has instituted in reaction to the public inquiry and the committee's recommendations.

Lt Gen. Leahy—Army as the responsible authority for interrogation training has reworked and reissued the interrogation manual. It was modified in some areas, but substantially it remains the same. The comments we made previously in relation to the conduct of our soldiers and their responsibilities in interrogation are extant—that is, they did follow the procedures, particularly in relation to interrogation. We are at all times acting in accordance with international and domestic regulations. What we have done is revise our interrogation doctrine. That has been done in conjunction with civil authorities in Australia, and we have been very careful to look at what the practice is in other countries. So I think we have taken quite considerable steps to review and revise. The revisions are more explanatory of what rights and responsibilities are, by way of giving examples. We also, as CDF has suggested, do a lot of training. People are made very well aware of their rights and responsibilities before they depart on any operation.

Air Chief Marshal Houston—Just to take that one step further: I mentioned the embedded officers. We have increased the amount of training in these sorts of sensitive areas. They are fully aware of what their responsibilities are and how they have to comply with our requirements and the requirements of international law. We have also revised all our directives to responsible officers—commanders—and all of this is sharply focused in the pre-deployment training. I mentioned that mission rehearsal exercise. All of this is played out, I think, in a very realistic way in the exercise environment.

CHAIR—I can assist the senator. In Al Muthanna you have a lieutenant colonel who is an academic expert on treaties and conventions relating to detainees. He is a full-time barrister whom I met when I was there. He is in fact an expert on this area and he is actually in theatre.

Senator MARK BISHOP—Thank you. General, you used the words 'suitable authorities' that you had consulted in the review of your manuals.

Lt Gen. Leahy—The Attorney-General's Department reviewed the doctrine and provided responses to that doctrine. We were able then to work with them in making modifications to them.

Senator MARK BISHOP—They provided a legal review of your activities?

Lt Gen. Leahy—Yes.

Senator Hill—I would not want a false impression to be left. Whilst a process of continuous improvement is obviously sensible and is the way in which the ADF operates, the

ADF on the other hand in my view has got nothing to be embarrassed about in this regard. My observation has been that in relation to adhering to treaty obligations and going beyond treaty obligations in respect for human rights they have a commendable record. I have seen nothing to suggest anything otherwise.

Senator MARK BISHOP—Neither have I. I was not making any allegations at all. I was simply addressing one recommendation in the report and asking for ADF's response to that recommendation, which the air chief marshal and the general have somewhat outlined. The committee, in its report on the duty of Australian personnel in Iraq found:

... ineffective record keeping, unclear and haphazard reporting processes, and poor communication networks—

had meant that both department and the ADF were:

unable to present a coherent, detailed and accurate account of the matters of concern to the committee—in their investigation of the duties of Australian personnel in Iraq. How do you react to that?

Air Chief Marshal Houston—That is exactly the sort of area we have been very focused on. We have put an awful lot of effort over the last six months into trying to improve in all of these areas. That is what a lot of the preparation beforehand is focused on: helping people understand that, once they get into the routine of working over there in a coalition headquarters, the fact is that some of the issues they are dealing with might seem fairly routine to them but are quite sensitive in terms of—

Senator MARK BISHOP—Other environments?

Air Chief Marshal Houston—the way we would regard it. We have a whole bunch of training focused on that and the need to report back on matters of sensitivity and on matters where they might not feel completely comfortable. We have very robust procedures to take on board the concerns of the committee.

Senator MARK BISHOP—Thank you. I turn now to ADF operations in Afghanistan. Back in May or June the Prime Minister made an announcement about a provisional reconstruction team to be deployed to Afghanistan. You also mentioned that in your introductory remarks, Air Chief Marshal. Where is your planning at on that issue? Do you intend to take a recommendation to government in due course?

Air Chief Marshal Houston—We are not really into the detailed operational planning stage. We have been engaging potential partners. NATO has moved into Afghanistan in a big way and there are a number of potential partners. We have been working to establish who might be a suitable partner, where we might go and the sorts of arrangements that might apply for Australian involvement in a particular province with a particular partner. At this stage we have some reasonable ideas as to where we might go, but we have yet to present those to government and, unfortunately, I cannot share the detail of that with you. But suffice it to say we are working along with a view to probably deploying a PRT somewhere in the middle of next year.

Senator MARK BISHOP—Are you still at scoping stage?

Air Chief Marshal Houston—I suppose you could call it scoping. We have done an awful lot of work. We wanted to get a understanding of what NATO were planning to do, how they

were going to do it and how that might differ from the way the Americans have run operations in Afghanistan up to now.

Senator MARK BISHOP—You identified NATO's enhanced role in more recent times and there are similar discussions going on with a range of other European governments as to their role in civil reconstruction in parts of Afghanistan. Is the scoping and planning you are doing about an 'Australia alone' role or is it about a combined role with one or more allied countries that might be working in the same area with us?

Air Chief Marshal Houston—I would anticipate that whatever we do will be in partnership with somebody else. Government has given in principle guidance which says, 'Go and look at what you can do in terms of a PRT of about 200.' Two hundred is probably insufficient to handle a province all on our own so, whilst we have had a look at that, I would anticipate that we will be doing something with a suitable partner. Obviously there are many NATO countries who would like to work with us.

Senator MARK BISHOP—The sorts of things you are thinking about: are they infrastructure building, construction work, education roles, hospital construction, or other?

Air Chief Marshal Houston—What we are looking at is reconstruction and improving the lives of Afghans. Having said that, I have a responsibility and accountability for the safety of our people and there would obviously have to be some sort of force protection element within that provincial reconstruction team. There would also have to be a command element and all of the enablers that are required for that. And of course we also have to have suitable logistics arrangements. Ideally, what we would like to do is plug into somebody else's logistics so that we can minimise our own contribution in that regard.

Senator MARK BISHOP—You said the task was going to be reconstruction and, I think, welfare?

Air Chief Marshal Houston—Reconstruction and the wellbeing of the Afghani people. I think what government wants us to do is find something whereby we can contribute in a substantial way to the reconstruction and rehabilitation of Afghanistan.

Senator Hill—There is no 'one size fits all' PRT. There is a range of different provincial reconstruction teams across Afghanistan and they are all modelled to suit the circumstance of the particular region in which they are located, from both a security perspective and a needs perspective. In terms of building economic infrastructure or social infrastructure, it would differ depending on the circumstances of the particular location. If we were to accept a task, for example, in the south of Afghanistan, which is the proposed next phase, phase 3, under the NATO umbrella, there would be more serious security concerns than there might be in the north. So that will affect the structure of the PRT as well. All these issues are being examined by the ADF at the moment, advice is being given to government, and government will consider that advice and make a decision in due course.

Senator MARK BISHOP—Thank you. I want to establish whether, when you used the word 'reconstruction', you meant the actual building of the school, the hospital or the dam or more the reconstruction of civil institutions, the education system or the hospital administration system.

Air Chief Marshal Houston—It is very hard to be definitive at this stage, but all of those sorts of things are a possibility. Fundamentally we would seek to come up with a solution which encourages the maximum participation of Afghanis to do the work. We would want to perhaps manage their participation in building a school or whatever. That is the sort of way we are thinking at this stage. Of course, there are a number of options within a provincial reconstruction team. If you look around Afghanistan, you will see that, as the minister said, it is not one size fits all. Some countries have a PRT, which is essentially a security team that goes into areas and enables other organisations to do reconstruction and rehabilitation work. Other PRTs have embedded within them a military engineering function that goes out and builds roads and so on.

Senator MARK BISHOP—I understand. Obviously, the Australian government will cover the labour costs, the transport costs, the security costs and all of those attached costs. In terms of funding for the erection of schools, hospitals, roads or dams—those sorts of physical assets—is it expected that the Australian government will fund those matters as well, or are those funds to come from elsewhere?

Air Chief Marshal Houston—We have not gone into that level of detail at this stage. Clearly, that needs to be brought into our planning at an early stage.

Senator MARK BISHOP—That is really a question for the minister. It is a government decision whether, in due course, you would fund the construction of hospitals, roads and schools.

Senator Hill—Yes. If we were going to do that in any substantial way, that would be from within our aid program. We would have to take into account the priorities of that program. We have not got to that stage yet.

Senator MARK BISHOP—I will turn to something closer to home—East Timor. Recently comments were made by the UN chief in East Timor, Sukehiro Hasegawa, concerning alleged Indonesian military—TNI—multiple border violations along and across the border between the two countries. Can you give us an update on the initial complaint, its veracity, our assessment of the truth of it and any developments arising from that whole business, Air Chief Marshal?

Air Chief Marshal Houston—I spoke to the chief of the East Timor Defence Force and I raised this with him. He did not have any matters of concern to pass on to me. I just say that in passing, but I will ask General Gillespie to give you more information.

Senator MARK BISHOP—Did you raise it in a similar context to the way in which I have raised it with you?

Air Chief Marshal Houston—Yes, I did. He did not seem to be overly concerned.

Lt Gen. Gillespie—The issue that is being discussed, and is in the press, is far from new; it has been going on for 30-odd years. The border is ill-defined and, in some ways, does not take into account the social habits of the villagers and tribal people who occupy different parts of the border, so you can have the village on one side and their grazing rights on the other side. As these are being negotiated by East Timor and Indonesia, with some United Nations assistance, to try to set them in a more formal setting, we will see these sorts of things come

to the fore, because they affect people, their livelihoods and their view on sovereignty. So it is not a new issue; it is one that is there and it is one that I think, in dealing with our compatriots, they are going to take in their stead.

Senator MARK BISHOP—On the complaint that has received more relevant press attention over the last four to six weeks, I was not aware that it concerned migration or shifting patterns of villagers. I thought the complaint related to alleged Indonesian army involvement in military transgressions across the border—not the shifting of cattle or villagers from one part of the land another. Is that understanding incorrect?

Lt Gen. Gillespie—I never gave an indication that it was to do with migration. That is certainly not the case. It is to do with where people live in that border region and the issues of trying to establish a clearly delineated border between Timor Leste and Indonesia. I lived this for nearly 12 months, when I was responsible for border operations for the UN. It was a thorn in my side then because we were trying to bring clarity to the situation so that we could enforce sovereignty, and of course it is very hard to bring clarity when people and villages are sprawled across what becomes the demarcation line. That is going to have pressures and people are going to have to work those through as they try to establish an appropriate demarcation of international borders.

Senator MARK BISHOP—I understand the point you are making about the habits of the people up there, the need to identify a border, the sovereignty issues that arise from the lack of a clearly delineated border and that it is probably a longstanding problem. I appreciate your comments in that respect. That is not the issue I am trying to get information on. The issue I am trying to address is whether there has been any inappropriate military activity on the part of the Indonesian government to assert its rights in that border area.

Senator Hill—Our view is that the Indonesian government and the Indonesian military continue to be helpful in relations with East Timor. From time to time there may be challenges, but those challenges are being managed. We have no complaint to make about the Indonesians in that regard; quite the contrary. I think that is the opinion of the East Timorese government as well, if I am allowed to speak on their behalf.

Senator MARK BISHOP—That was certainly the indication of the chief—

Senator Hill—Relations are good. There are still plenty of challenges, including challenges along the border, but most of them relate to these people movement issues and trade issues—trade is probably legitimising it a little. But it is not a concern between nations or a concern between military forces.

Senator MARK BISHOP—I have noted the comments of the East Timorese foreign minister, Mr Ramos-Horta, which confirm the comments made by General Gillespie. I was just trying to see if we had any other reasons for concern. You say ‘no’, Senator Hill, and that confirms what the CDF also said on direct advice from the chief of the East Timorese armed forces.

Air Chief Marshal Houston—General Ruak said it was almost as if it were just normal business, and I think it reflects exactly the sort of detail you have heard from General Gillespie.

Senator MARK BISHOP—Fine. Can we now turn briefly to the special planning for the Commonwealth Games next year, down in Melbourne. The Premier of Victoria, Mr Bracks, made some comments, which I presume were accurately reported, about how there should be ADF units permanently based in or around Melbourne for counter-terrorism response. Putting aside the state parochialism argument, is consideration being given to that for the purpose of the Commonwealth Games?

Air Chief Marshal Houston—We will play our part in the Commonwealth Games. I will get General Gillespie to run through some of the detail of that. We have engaged with the Victorian authorities. I was down in Melbourne a couple of weeks ago to see how our joint preparations were going. I met with Chief Commissioner Nixon. We had a discussion about the arrangements between police and ADF. I am very happy with that relationship and how it will work if we have an incident during the games. We will have over a thousand ADF people who will be involved in supporting the civil authority, the Victorian police, in providing security for the games. With those brief words of introduction I will ask General Gillespie to run through some of the detail of what we will have in place.

Senator Hill—Just before he does, I will add that Mr Bracks recently wrote and asked if we would brief his relevant cabinet subcommittee, which I have agreed to. The letter was very positive in terms of the contribution that the ADF was making.

Senator MARK BISHOP—Thank you, Minister. Just to follow that up before you respond, General, is the domestic security organisation for the Commonwealth Games in Victoria primarily a Victorian police matter or is it primarily a national security-defence matter heavily supplemented by the Victorian police?

Air Chief Marshal Houston—The jurisdiction down there is very much the jurisdiction of the Victorian police, and the sort of work we will be doing is in support of them. Clearly, if there is an extreme situation the Victorian government can call for assistance from the federal government. But that would be in extremis, and we hope that that does not happen. Everything that we are putting in place is in support of the Victorian authorities, primarily the Victorian police.

Senator MARK BISHOP—Okay. General Gillespie.

Lt Gen. Gillespie—Our support to the Commonwealth Games will take a very similar format to that that we provided to Sydney for the Olympic Games. It will be a slightly smaller endeavour but very similar in nature. There are three areas where we are focused at the present time. The first is where Defence provides or fulfils national obligations, which are our counter-terrorist type capabilities. That is the first arm of what support we might provide. The second is where we have unique ADF capabilities that may be required by the Victorian jurisdiction. In that area we are talking about our bomb search and high-risk search type capabilities for clearing venues and making sure that they are safe for people to use. The third facet of our support will be those things the ADF does like ADF ceremonial support, bands, those sorts of issues.

We have established a task force to do that. It is based on one of our Army brigade-level headquarters. There is already established in Victoria, working with the Victorian authorities, a small headquarters team. That has been established since the start of this year, with about 15

people. At its height, ADF support is likely to be around the 2½ thousand mark. It will include those things that I have mentioned. It will include some of those specialist capabilities we have for underwater search and those sorts of issues.

Senator HOGG—Is there any supplementation in the budget for the costs associated with your operation?

Lt Gen. Gillespie—There is some supplementation in our budget. It is \$13 million. At this stage we expect that we will absorb somewhere around \$49 million.

Senator HOGG—49 out of how many?

Lt Gen. Gillespie—I am not quite sure what the total government support to this is, but in the defence realm it is supplementation of \$13 million.

Senator MARK BISHOP—Can we now turn to your proposed ADF operations up in the Philippines. This might be more a decision for you, Minister. I am aware that United States took almost three years to negotiate their status of forces agreement with the Philippines. I noticed in the press, correct me if I am wrong, that you indicated that our agreement is likely to be finalised by Christmas of this year—the status of forces agreement between the government of Australia and the government of the Philippines. Have we been engaged in discussions and negotiations on that status of forces agreement for sometime?

Senator Hill—I do not know of any planned operations in the Philippines. We have been negotiating the status of forces agreement for a while but not as long as is normally the case in these things. I am not sure when it started. Progress has been—

Air Chief Marshal Houston—I think it has been underway for about two years.

Senator MARK BISHOP—It has been underway for about two years, has it?

Air Chief Marshal Houston—Yes. It is to cover training activities. We cannot do operations in the Philippines. Their constitution forbids that.

Senator MARK BISHOP—Okay.

Senator Hill—It was the view of both myself and the Philippines' secretary for defence that it could be concluded by the end of the year. Both sides are anxious for it to be concluded because they appreciate our support and it would enable us to give some further support, which we believe is in our interests as well as theirs. It will then have to go to the Philippines' Senate for approval and, as is the way with—

Senator MARK BISHOP—Senates?

Senator Hill—legislatures, that process is out of our control and their control. That will take a little while longer.

Senator MARK BISHOP—Is that status of forces agreement akin to a treaty?

Senator Hill—I will take advice from the lawyers, but I think it will need to go through the treaty process of this parliament.

Senator MARK BISHOP—Of this parliament, as well?

Senator Hill—Yes. That follows an agreement having been reached.

Senator MARK BISHOP—So it has to be approved by the respective parliaments of both countries?

Senator Hill—No, it does not have to be approved by our parliament but, under the obligations we accept, it goes to our parliament for consideration.

Senator MARK BISHOP—I see, yes.

Senator Hill—It has to be approved by their Senate.

Senator MARK BISHOP—I accept the distinction, yes.

Senator Hill—They have a status of forces agreement with the United States at the moment, they are negotiating this one with us—we would be the second—and they have also started the process of negotiating with the other ASEAN countries. From the Philippines government's perspective, they recognise the value in all of us working more closely together to ensure the best possible capability in responding to common threats. In particular, we would like to work with them more in helping them build their counter-terrorism capabilities.

Senator MARK BISHOP—What does the status of forces agreement cover? Can that be publicly discussed at this stage?

Senator Hill—I will get the draft if you like and perhaps have a look at it at lunchtime and see if I can give you a summary of it.

Senator MARK BISHOP—I am looking for a summary of its purpose.

Senator Hill—There is nothing extraordinary in it—

Senator MARK BISHOP—I would not have thought so.

Senator Hill—but it will give us greater flexibility to support them in training, in particular.

Senator MARK BISHOP—Is it essentially a training agreement between our two countries?

Senator Hill—It deals with legal obligations and forces that may be within the Philippines, from our perspective, providing the usual protections. But from their perspective, it is necessary because of the Philippines' constitutional constraint.

Senator MARK BISHOP—At this stage, generally, if the status of forces agreement is signed off on by both countries, there will be a fairly significant training role for the Australian Defence Force up there for the people of the Philippines. Does that also comprehend—

Senator Hill—That would have to be negotiated with the Philippines government. But we believe it is in our interests to offer them further training in the counter-terrorism and counter-hijack type areas.

Senator MARK BISHOP—Yes. My question was based on the assumption that the negotiation phase was concluded and both countries signed-off on the agreement. We then have an agreed document imposing obligations or responsibilities on both countries—

Senator Hill—We are not imposing obligations but, in effect, providing protections and the opportunity for governments to reach agreement and to provide such training.

Senator MARK BISHOP—I am not sure I know what the distinction means, but I accept your wording. In any event, when we do have a finalised status of forces agreement, will that comprehend conducting joint ground troop operations?

Senator Hill—We do not have any intention of joint ground troop operations, and I do not think they do either. We are looking at providing them with further training support. We will be able to do that within the framework of the new status of forces agreement.

Senator MARK BISHOP—What sort of people do we envisage we will have based up in the Philippines, and for how long?

Senator Hill—We have not got to that stage. We have identified areas with the Philippines government and the Philippines armed forces in which we think we can offer them useful assistance. Particularly, such areas include maritime surveillance, some small boat operations in areas where they lack a capability at the moment and where it is believed terrorists find sanctuary, and some other areas.

Senator MARK BISHOP—So we have identified these areas of opportunity, but the placement of people, if that is going to occur at all, has yet to be agreed on?

Senator Hill—That is correct. We have scoped a need with them, and that has been done to mutual benefit. But we cannot take it further until the Philippines government and their Senate approve the status of forces agreement.

Senator MARK BISHOP—What are you advised as to the time it will take the Philippines Senate to approve or reject the proposal as they might want?

Senator Hill—I have not been given a time line. I have spoken to the Deputy President of the Senate. The President was away.

Senator MARK BISHOP—Our Deputy President or theirs?

Senator Hill—Theirs. It would be presumptuous of me to hazard a guess as to how long they might take in their deliberations.

Senator MARK BISHOP—Does the Australian government regard it as a matter of some priority?

Senator Hill—Yes, we do. We believe that terrorism in our region can be most effectively combated by cooperative action. We believe that we can offer useful capability enhancements to the Philippines armed forces. They seem to be of the same view. It is in our interests that we have the opportunity to provide that support as soon as possible.

Senator MARK BISHOP—Have you sought advice from any of our departments or agencies as to the likely time lines involved in the Senate process up there?

Senator Hill—No. We have to complete the agreement between governments. I have no doubt that the Philippines government would then be looking to the Senate to consider the matter as quickly as possible, but that will be in the hands of the Philippines Senate.

Senator MARK BISHOP—We have had some problems with legal immunity for, I think, both military personnel and civil personnel in PNG over the last 12 or 18 months. At one stage that issue became quite critical. Is legal immunity for Australian military and civilian

personnel an issue for discussion and resolution with the Philippines government in this set of negotiations?

Senator Hill—Somebody can provide the detail, but we have existing protections that do not apply to other agencies. So it has not been such an issue to us as it has been to, say, the Australian Federal Police.

Mr Smith—I believe I am right in saying we have a status of forces agreement, a SOFA, with Papua New Guinea. That provides, for our ADF personnel there, the sorts of protections that we are seeking to provide through the provision of a SOFA in the Philippines.

Senator MARK BISHOP—So we are seeking legal immunity in the SOFA with the Philippines?

Mr Smith—I am not sure that immunity is quite the right word.

CHAIR—Protections.

Mr Smith—Yes.

Senator MARK BISHOP—But a similar approach.

Mr Smith—Yes.

Senator MARK BISHOP—Because that was finally resolved in PNG.

Mr Smith—Yes. For ADF personnel that has been in place for a number of years.

Senator MARK BISHOP—I thought there was some discussion the best part of 12 months ago arising out of dispute between the two governments as to the liability for breaches of the law by both military and non-military personnel in PNG.

Mr Smith—That would apply to police or civilian personnel but the ADF personnel were not a part of that issue.

Senator MARK BISHOP—And they are not a part of this issue with the Philippines?

Mr Smith—They will be the subject of a SOFA that we negotiate with the Philippines, like the one we have with PNG. But the issue in regard to the Enhanced Cooperation Program with PNG was relating to immunities or protection for police and civilians in line positions. Since we already had the SOFA for the ADF, that concern does not arise for them. But we could not put the police in PNG under the SOFA.

Senator MARK BISHOP—I understand. Who is the lead agency for these negotiations in respect of the military personnel? Is it the department of foreign affairs or is it Defence doing the SOFA with the Philippines government?

Mr Smith—Defence with the Attorney-General's Department.

Senator MARK BISHOP—So Defence is the proper agency.

Mr Smith—And DFAT is involved too. I cannot tell you off the top of my head how many SOFAs we have around the world, but it is a few.

Senator MARK BISHOP—Can you provide us on notice with a list of the existing SOFAs that we have with other governments.

Mr Smith—Yes.

Senator FAULKNER—Air Chief Marshal I have a question following on from my earlier question. I do know if it is actually related or not. There had been some press reports back in January this year—I am sure you would be aware of them—about an Iraqi who was allegedly shot by Australian troops after leaving a vehicle, which I think may have had drums of petrol in it outside the Baghdad Embassy. The suggestion was that this particular person had died of wounds.

General Cosgrove did make a statement about this. He said that that was being investigated. I hope I am doing justice to this—I think I am—and accurately reflecting the public description of what occurred. Or what has been reported, at least—whether that occurred, I have no idea. I wondered if you could say anything about that incident. I wonder whether you are able to say where the investigation of that incident had led. I will leave the question broad.

Air Chief Marshall Houston—I might just cast around the room. I am not across the detail of that.

Lt Gen. Gillespie—It is on public record that there was an incident. We have investigated it. The issue for our investigation was whether or not our troops' actions were appropriate under the circumstances. We have no reason to believe that their actions were not appropriate under the circumstances. The rules of engagement were applied, the reactions of the people were appropriate and we are quite comfortable that with the outcomes we did not transgress the way we should operate.

Senator FAULKNER—So that investigation has been finalised?

Lt Gen. Gillespie—The investigation has been finalised. It is going through the Defence legal process at the present time while we get advice and we will be putting advice to the minister some time this month.

Senator FAULKNER—I see. I am not sure of the link between being finalised and then you providing advice to the minister. Is it a matter of course that the outcomes of such investigations are reported to the minister?

Air Chief Marshall Houston—It is process, really. A report is finished. It is going through legal review. It will then come to me and then go to the minister. After the minister has made his determination on it, that would be the time of finalisation—if he chooses to finalise it at that time.

Senator FAULKNER—In the broad, if, for example—and I am not suggesting it would be in this case at all—an act of grace payment were to be proposed, that would come after the finalisation of these sorts of processes, would it? Is that how it works.

Lt Gen. Gillespie—There are two parts to the investigation. One part is whether or not we have conducted ourselves in an appropriate manner and the other part is the about how the people who were involved in the activities from both sides conducted themselves. From that will come a view as to the sorts of recommendations we might put to our minister.

Senator FAULKNER—Let us move away from this particular, specific incident, if we can, and look at the broad picture. We spoke about three instances where there has either been a—

Lt Gen. Gillespie—Let me clarify here so we do not keep going. We told you earlier on that there was one issue under investigation. That is the issue. So we have not gone through that process of it going through me to the CDF and then to the minister at the present time. We are getting close to that.

Senator FAULKNER—That is fine. I do not need to ask any further questions about it. That is the third instance that we referred to this morning. I might return to that at another estimates committee to find where the processes have ended up, but I appreciate the points that were made earlier about those investigations.

I notice that one other thing has changed—and again this is a result of newspaper reports—since previous meetings of this estimates committee. In fact, I saw some newspaper reports yesterday indicating that the military of the United States had conceded that it in fact was keeping records or estimates of Iraqi civilian deaths. I do not know if you saw the newspaper articles that I am referring to, but I assume it would have come through the Defence clips, so you would be aware at least of those public reports.

This does appear to be a little different—there is no criticism contained in my comments—from some evidence I had heard at some estimates committees in the broad, not necessarily at this estimates committee or from Defence, in the sense that I had been left with the impression that there was no Australian knowledge of such record-keeping on the part of the US defence authorities. I wonder if you are able to confirm or otherwise any official knowledge of any such activity taking place—in other words, whether you have from any official sources become aware of such activities being conducted in relation to the keeping of records regarding Iraqi casualties by our coalition partners.

Air Chief Marshal Houston—We do not have accurate figures on the total civilian casualties on Iraq since military action began in March 2003. Essentially, there are no authoritative estimates of the total number of Iraqi civilian casualties since the start of that military action, from either US, Australian or Iraqi sources. However, several organisations do extract data from public reports to produce estimates of military and civilian fatalities in Iraq. But these can vary considerably, as they place a very heavy reliance on media reporting. We are, however, aware that the United States has been keeping specific records of certain civilian casualties in Iraq, including those known to have been accidentally killed by coalition forces. We have no current information on these numbers, and not all civilian casualties are able to be reported.

Senator FAULKNER—Thank you for that. Are you able to say to the committee when Defence became aware that the US military was keeping these records?

Air Chief Marshal Houston—I am not aware when we as an organisation had the first indication. All I can say is that I only recently learned of the fact that they were doing that.

Senator FAULKNER—Would I be able to follow through at a later stage with someone who perhaps has an indication? I am most interested in understanding when and how Australia became officially informed of this. You may or may not be aware of this, but I have asked some questions about civilian casualties. I have been concerned about this issue for some many months now and have asked about it at previous estimates committee rounds. I do appreciate the point that you make—that you have only been recently informed about this—

but could we try to nail that down? I do not necessarily mean when you were informed but the official line of reporting from the US about this.

Air Chief Marshal Houston—I will just say again that we do not have any authoritative figures. The only thing we have is probably what you have, gleaned from media reporting. We do not actually have something that has been sent to us in an official form from the United States. But I am happy to follow up on your request.

Senator FAULKNER—Thank you for explaining that. It is a little different from what I had thought that you had indicated. So, to your knowledge, there has not effectively been any official reporting of this or exchange or provision of information from the US on this?

Air Chief Marshal Houston—Certainly not in the time that I have been Chief of the Defence Force.

Senator FAULKNER—Has Defence received a copy of the report that was compiled by the Pentagon for the US Congress which I think is where this new information emanates from?

Air Chief Marshal Houston—I understand on 13 October the US Department of Defense released a report to congress titled *Measuring stability and security in Iraq*. Is that the report you refer to?

Senator FAULKNER—Yes. You are saying that has been released publicly?

Air Chief Marshal Houston—It has been released to the congress, yes.

Senator FAULKNER—That is helpful, but has Defence received a copy of that report?

Air Chief Marshal Houston—No, not to my knowledge.

Senator FAULKNER—Is Defence able to indicate whether some of the content of that report—for example, that attacks by insurgents have tripled from under 200 a week at the start of 2004 to more than 650 now—is either accurate figures or reflecting an accurate trend?

Air Chief Marshal Houston—I would like to take that on notice. We do keep a track on numbers of attacks. That is something that we do track through various processes. But I would like to come back to you in more detail on this at a later stage.

Senator FAULKNER—I would appreciate that, and thank you for it. The point that I would make to you is this: I have effectively been told by a number of agencies now for some time that what are described as body counts, for want of a better description, or civilian body counts have not been undertaken by us or by any of our coalition partners. I am not critical of the agencies or those giving evidence who have informed me of that, because I do not know that they are necessarily even aware of it, but it does appear that the picture actually is a little different to what I had previously been informed. In other words, the report compiled by the Pentagon for the US Congress may not be complete. I appreciate the qualifications that you make in answer to my earlier question—I acknowledge that—but it does appear as if some considerable work has been undertaken at least at some level in the Pentagon about compiling these sorts of figures. That is a little different to what I had been led to understand. Mainly this is an interplay that has occurred at other estimates committees, but I have raised it with a

number of agencies and departments and it does appear a little different to my understanding and, as a result, I was quite surprised when I read these most recent reports.

Air Chief Marshal Houston—I would say again we have not had anything official from the United States. We are aware of this report, which I understand details average casualties on a daily basis, but we have not received that officially. With regard to your queries, I think we probably need to go away, have a close look at this document, analyse it and come back to you at a later stage.

Senator FAULKNER—If that could be done I would appreciate it.

Senator MARK BISHOP—Returning to the Philippines discussion, can you tell me how much we are spending on counter-terrorism assistance to the Philippines this year? Do we have those figures available

Air Chief Marshal Houston—I think we can get that for you, but I do not know how quickly, unless somebody has it at their fingertips.

Mr Smith—We will seek that figure for you, Senator.

Senator MARK BISHOP—Thank you.

Mr Smith—Just one point to clarify, as we have returned to the general subject: the SOFA with Papua New Guinea was concluded in 1977.

Senator MARK BISHOP—So the discussion that was in the press last year was on the non-military personnel and the amenities up there?

Mr Smith—That is correct.

Senator MARK BISHOP—It had nothing to do with Defence?

Mr Smith—No.

Air Chief Marshal Houston—I have the information that you requested. It is \$10 million per annum.

Senator MARK BISHOP—So for the last financial year to June 2005 it was \$10 million, was it?

Air Chief Marshal Houston—The government recently increased it to \$10 million.

Senator MARK BISHOP—For the 2006 financial year?

Lt Gen. Gillespie—It was a government initiative to double their CT investment in the Philippines to \$10 million.

Senator MARK BISHOP—Is that in anticipation of the SOFA being finalised and some of the work up there or is that unrelated?

Air Chief Marshal Houston—I think it is all part of a coherent program. Essentially, we have a defence cooperation program that has been around for a while. I think what is happening here is that that program is being strengthened. There is a very heavy emphasis on counter-terrorism, and funding for that is being increased.

Senator MARK BISHOP—There has been a range of press reports that Jemaah Islamiah and Abu Sayyafa have established terror camps in and around in the southern part of the

Philippines. Apart from those two organisations are there other terrorist organisations that we are aware of that are operating in that area? Or is just those two?

Mr Smith—There would be a number of them but, in particular, another would be the Abu Sayyafa group.

Senator MARK BISHOP—So there is the Abu Sayyafa group and Jemaah Islamiah.

Mr Smith—Yes.

Senator MARK BISHOP—So they are two primary organisations?

Mr Smith—Yes.

Air Chief Marshal Houston—The MILF is also active there as well.

Mr Smith—That is right.

Senator MARK BISHOP—Is the MILF a Marxist organisation or is it Islamic based?

Air Chief Marshal Houston—I think it is more generic, but, because it is in Mindanao, it obviously has an Islamic basis.

Mr Smith—It is a successor group to the Moro National Liberation Front, which was an Islamic group. The MILF was originally a nationalist or separatist kind of group and it maintains that particular stance with regard to independence for the Muslim parts of Mindanao. That has been the case for a number of decades. It probably hosts these other two groups.

Senator MARK BISHOP—Apart from those three, are there other terrorist organisations operating in that area?

Mr Smith—There may be. I am not expert enough to make the call. I will see if anyone else here is. But they are the two principal groups with international connections.

Air Chief Marshal Houston—The New People's Army also operate in the Philippines but they need to be more broadly based. I think their strength is away from Mindanao.

Senator MARK BISHOP—Are those three groups that you just identified—Abu Sayyafa, Jemaah Islamiah and MILF—proscribed in this country?

Mr Smith—I do not think we are the authority on that.

Mr Bonighton—I do not know the answer to that at this point but we can certainly find out.

Senator MARK BISHOP—Is that really a question properly directed to DFAT or someone?

Mr Smith—The Attorney-General's Department.

Senator MARK BISHOP—It is their line responsibility, is it?

Mr Smith—Yes.

Senator MARK BISHOP—Mr Bonighton, could you take on notice and advise us whether those three organisations are proscribed in this country?

Mr Bonighton—Certainly.

Senator MARK BISHOP—I now want to switch to international defence relationships and suggest an initiative in terms of US global peace operations and potential Australian involvement. I refer to a report recently released by the US Congressional Research Services reporting that the US is working to ‘extend the training to nations from Asia, Europe and Latin America’. Is our government involved in any specific plans for this region in terms of training?

Mr Carmody—The answer is no, although we have had some discussions with the United States on their Global Peace Operations Initiative. At this stage we are trying to ascertain what their intentions are, how broadly it will be spread and those sorts of issues.

Senator MARK BISHOP—So it is in the very early stages.

Mr Carmody—It is quite preliminary. We talk to the United States about our engagement programs more broadly in the region. At the moment we are trying to work out where something like the Global Peace Operations Initiative might rub up against our defence cooperation programs in the region, for example, or other programs that they have, and where there might be opportunities to cooperate.

Senator MARK BISHOP—The Global Peace Operations Initiative is about developing worldwide peacekeeping capabilities, is it not?

Mr Carmody—It is. That is it in the broadest definition, but there are lots of things that you could generally fit under training that would support peacekeeping operations. So the answer is yes, but it could be broad and we expect it to be.

Senator MARK BISHOP—So the report has been released. The US government are considering it. We are aware of it. We are having preliminary discussions with them as to their intent and are seeing where it might mesh in or not mesh in with our activities in the region.

Mr Carmody—That is correct, and we have not reached any agreement or made any undertakings to participate.

Senator MARK BISHOP—Who initiated those discussions? Was it us or them?

Mr Carmody—The United States.

Senator MARK BISHOP—Have they made any requests or demands of us as yet, of any nature?

Mr Carmody—No, not to my knowledge. The first time it was raised was in our policy talks in Washington earlier this year, when they started talking about the GPOI. From then on we have engaged in occasional dialogue on it as their views firm and as our understanding increases.

Senator MARK BISHOP—Is that a job for Defence or DFAT?

Mr Carmody—It will be a Defence task, we expect. It was raised by the Pentagon. My understanding is that those initiatives, in the broad, would be managed by the Pentagon. Therefore, we would manage them from Defence.

Senator MARK BISHOP—We are at a very preliminary stage. Can you make any comments on whether the program has the potential to supplement the number of Australian police and military personnel in current and future deployments, or is that for the future?

Mr Carmody—I would not be in a position to comment on either the police or the military. I think it is still quite early, as we work out what this program is really about.

Senator MARK BISHOP—Let us cut to the chase. How long do you think those information-gathering negotiations are going to take? Do they have a firm and final view or are they still evolving their thinking?

Mr Carmody—My understanding is that they are still evolving what they intend to do. In other words, they have a general program. I presume they have some funding. Now they are trying to work out how they would apply that program globally. As I said, we are trying to work out where it might rub up against the things that we do. I think it is still going to take some time. It might take another 12 months or so before their position becomes firm and our understanding increases to the extent that we really know what they want and where we might achieve something together.

Senator MARK BISHOP—My understanding is that the GPOI makes the point that, because of the large numbers of US soldiers in active operations in various parts of the world, a lot of the training that might have to be done would be contracted out to private contractors. Do we see any role for ourselves in either arranging private contractors in this country or tendering for some of the work?

Mr Carmody—I apologise, but I think it is a bit early at this stage to know what the role might be for us.

Senator MARK BISHOP—So at this stage we have our own plans and activities which we are progressing in the region in the peacekeeping and counter-terrorism areas. The US have an initiative. They are consulting. We are engaging in dialogue. You think it will take 12 months. Should I come back and ask some serious questions then?

Mr Carmody—Thanks, Senator. We might be closer to it then and we will see where it fits.

Senator MARK BISHOP—Okay. I want to talk about what is going on with Kopassus up there in Indonesia. Is that properly done here?

Mr Carmody—Yes.

Senator MARK BISHOP—There have been press reports loosely to the effect of—let me paraphrase it—a form of re-engagement or recontact with Kopassus up there in Indonesia. Can you put on the record where we are at, if anywhere, in terms of those discussions or negotiations?

Mr Carmody—I certainly can. We are undertaking some work with Kopassus but engagement with Kopassus at present consists of establishment of senior level links, attendance at relevant counterterrorism conferences, observer opportunities at counterterrorism exercises and some skills demonstration and information exchange. You will be aware that the government agreed that we could re-engage with Kopassus in particular areas in the counterterrorism area. The anti-hijack, counter-hijack and hostage recovery area is

specifically with Kopassus. Those are the areas in which we are engaging and working with them.

Senator MARK BISHOP—How long have we been re-engaging?

Mr Carmody—It would be about 12 months in the sense that we invited them to a counterterrorism operations and policy level conference in Bowral last year. They attended, along with a range of other regional nations. That led to some discussion with them and a range of other nations on subject matter expert exchange, so it is a bit more than a year but not much more.

Senator MARK BISHOP—Is that call to re-engage a decision of the minister, the department or the National Security Committee?

Mr Smith—The government.

Senator MARK BISHOP—Was that appropriately made at National Security Committee level or at departmental level?

Mr Smith—It was made at the government level; not just at the level of the department, no.

Senator MARK BISHOP—Is the appropriate body the National Security Committee or is it another body?

Mr Smith—That is the body that does those things, yes.

Senator MARK BISHOP—And that is the body that made that decision?

Mr Smith—Do I have to tell you the decisions that cabinet makes? It was made by government.

Senator MARK BISHOP—And I am asking you what organ of government it was. Was it the national security subcommittee of cabinet that made that decision?

Mr Smith—Yes.

Senator MARK BISHOP—Was the department given a general brief to re-engage over time, or a limited and particular brief, as outlined by Mr Carmody?

Mr Smith—The brief broadly was to engage in the sorts of areas that Mr Carmody has spoken of.

Senator MARK BISHOP—Any other areas?

Mr Carmody—No, just those two areas.

Senator MARK BISHOP—So, if it was the desire of the department or the ADF to engage in other areas, that would have to go back up the chain for decision making by that same body, Mr Smith?

Mr Smith—Yes.

Senator MARK BISHOP—Is that under current consideration?

Mr Smith—We are comfortable with where we are headed at present. The purpose of this was to ensure that we know each other better because the sorts of contingencies that Kopassus and our special forces might have to deal with are broader than they ever were. We need to

know what they can do. We would like them to understand what we can do. We would like all the countries in the region to have a pretty good network among their special forces and we want Kopassus to be a part of that with us. That is the sort of approach we have taken so far.

Senator MARK BISHOP—Well, that does sound like a more generalist and expansionist role in terms of our relationship with them in the future than is currently the case as outlined by Mr Carmody—is that a fair conclusion?

Mr Smith—We will move forward at a pace, as we say, with the Indonesians, which is comfortable to both sides, and we are getting comfortable with this level. I do not want to foresee how far this will go for either side, but we are comfortable and we think that they are comfortable working with us at the level that Mr Carmody has described.

Senator MARK BISHOP—You talked about the establishment of senior officer contact, attendance at appropriate fora and observer appearance for local operations—what does that mean, ‘observer status’?

Mr Carmody—That means observer status at counterterrorism exercises. So, for example, if we are running a counterterrorism exercise—as we did for Mercury 05, the multijurisdictional exercise which has just been completed—Indonesian officers were invited as observers to that exercise, and did observe; they did not participate.

Senator MARK BISHOP—Skills and information exchange—all right. That is fine. I turn now to ADF involvement in civil emergencies. My question is in the context of the sort of massive US deployment of home guard and military people down along the southern coast there, in the context of the hurricanes and other things, and also the fears of a major crisis arising out of the bird flu that could come to pass in this country. Is there any move in Australia on the part of the ADF to give a legislative capacity for our military involvement in similar types of situations? Or is that already covered by existing legislation?

Air Chief Marshal Houston—We have very robust procedures in place for providing whatever assistance is needed to the civil community. It is Defence aid to the civil community. We have a number of categories, and we can swing into action in a way which is very responsive to whatever is required after a natural disaster.

Senator MARK BISHOP—Yes, and you have done many times—in fire and drought and flood.

Air Chief Marshal Houston—We have done it, time and time again—fires, floods, locust plagues: whatever is required, we respond to government’s requirements and go out and do it.

Senator MARK BISHOP—Yes. I turn now to the exercise program. Can we get an update on the status of the 2004-05 ADF exercise program, and beyond?

Air Chief Marshal Houston—Certainly. Are these joint exercises you are interested in? The 2004-05 exercise program? Or 2005-06?

Senator MARK BISHOP—There were 56 exercises identified in the 2004-05 exercise program, and about a third of those were cancelled, from memory—or perhaps more. I want to have a discussion about that.

Air Chief Marshal Houston—Yes, there were a number of changes to the exercise program, and that was brought about by the very high level of operational tempo that we had across the board. Some exercises were cancelled, others were heavily modified and, in others, the originally planned participants did not take part because they had been involved in operations such as Tsunami Assist and so on. But I will get General Gillespie to take you through the detail of that.

Senator MARK BISHOP—General, what I am interested in is the original number of exercise programs: those that were cancelled, for what reason, what the operational requirements were that necessitated the cancellation, and what your plans are for reinstatement of the cancelled operations, if any—that sort of discussion.

Lt Gen. Gillespie—Exercise programs are multifaceted. There are joint exercises, which I take an active interest in, but each of the services conducts their own exercise activities in their own raise, train and sustain environment. The principal cause for the cancellation of major exercises was the tsunami. The tsunami had an effect on a major joint exercise that we were going to conduct with the Kiwis. The platforms that were necessary to provide support were earmarked for the exercise. Without those platforms, because they were needed in Sumatra, the exercise did not stand up. The Kiwis themselves did not want to participate, because they too were providing support to what was at that time the world's greatest disaster. So that was a major contributing factor. In some of our other joint or combined exercises that we do with other nations, other nations also have periods of high operational tempo, and in general terms cancellation of a joint exercise of a multinational nature is generally done on a mutually agreed basis. Principally, it was our partners who were stressed, rather than us, at that stage. They are just broad generalities.

CHAIR—General, if I can interrupt you there, we are going to adjourn for lunch. After lunch, I think the senator would like to know which particular exercises were cancelled, what plans there are to reinstate them, if any, and what the program is for 2005-06.

Proceedings suspended from 12.31 pm to 1.31 pm

CHAIR—I call the committee to order. General Gillespie, regarding those exercises—

Lt Gen. Gillespie—It has made for an interesting lunch. Before we go to that, can I make a clarifying statement?

CHAIR—Certainly.

Lt Gen. Gillespie—There was a question asked on how much money the government was spending on counter-terrorism in the Philippines, and we gave the answer of \$10 million. That is a whole-of-government initiative; it is not for Defence. On top of that, we have in the 2004-05 budget \$3.07 million that we spend on defence cooperation with the Philippines, but it is not dedicated solely to the counter-terrorism business. I just wanted to clarify that the \$10 million that we mentioned was a whole-of-government initiative, not one that was completely expended through Defence.

Senator MARK BISHOP—So it is \$10 million for a range of agencies?

Lt Gen. Gillespie—That is right. On the issue of joint exercises, we can step through these activities for 2004-05. We conducted Squadex 04 to train amphibious maritime land elements.

It is an Australian exercise. Squadex 05, again, was conducted as a maritime joint activity in Australia.

CHAIR—Do these have other names?

Lt Gen. Gillespie—No.

CHAIR—Okay. So Squadex is the identifying—

Lt Gen. Gillespie—Squadex 04 was a specific exercise; Squadex 05 was a specific exercise. Exercise Vital Prospect 05 was cancelled because of our commitment to Operation Sumatra Assist. Vital Prospect is a rolling exercise; we do it each year and we will pick it up in the next financial year's activity program.

CHAIR—What does that exercise involve?

Lt Gen. Gillespie—It is to practise using our deployable joint force headquarter as a combined task force headquarters and it includes all our staff and joint planning processes. As it turned out, despite the fact that we did not have a vital prospect this year, that organisation helped us plan Operation Sumatra Assist, so we actually stepped through those processes.

For combined ADF-United States exercises, Air Warrior II 05 was conducted to train airlift and ground force crews in short notice tactical operations. Dugong 04 was a Navy exercise in mine countermeasures that was conducted. Then we had a series of exercises called Extendex: Extendex 04-3, 05-1, 05-2 and 05-3. They were all cancelled. They were about the conduct of maritime patrol activity and undersea warfare training. They are rolling programs that we do each year with the United States, and they are platform dependent. The US platforms were not available, so they were cancelled for this iteration. We hope to pick them up again this year.

CHAIR—I take it that it is not uncommon that platforms are unavailable.

Lt Gen. Gillespie—It is not uncommon, and with some of the rolling activities that we have with the United States we simply pick them up in the next iteration. Exercise Gold Eagle 04 was conducted to develop interoperability between the Australian Army and the United States Marine Corps. Exercise Gold Eagle 05, which was similar, was conducted. Exercise Lone Arrow 05 was to conduct C-130 training for selected combat airlift instructors and air crew. It was cancelled because of Operation Sumatra Assist. Again, it is a rolling program and we will pick that up in the next year's activities program.

Exercise Lungfish, which is a Navy and Air Force activity to practise undersea warfare with the Royal Australian Navy and the United States Navy, was conducted. Exercise Tendi Run, to further develop the ADF's response to multiple short notice military contingencies, was conducted. Miracle Play 04, to practise Australian-US special forces in combined special operations, was conducted. Exercise Red Flag 05, to conduct coalition conjoint air combat operations in high density integrated air defence systems, was conducted.

Exercise Tricab 05, which is a Navy exercise to exercise EOD/IED operators in a combined control element in a field exercise, was cancelled at the request of the United States Navy. It is a rolling program, and we will pick up the specific skill sets again in an exercise this year. Talisman Sabre 05, to exercise appropriate joint and combined forces, was conducted. For combined activities between the ADF and the five power defence arrangement exercises, there

were exercises Bersama Lima 04, Suman Warrior 04 and Bersama Shield 05. They were all conducted with the Malaysian, New Zealand, Singapore and UK forces.

For combined Australian and New Zealand exercises, Anti Submarine Warfare Exercise 04 was cancelled due to submarine unavailability. Exercise Joint Kiwi 05, which I mentioned before the lunchbreak, was cancelled at New Zealand's request because of assets, Sumatra Assist and the fact that both defence forces were participating in Sumatra Assist. Exercise Tasmanex, which is a Navy and Air Force activity to elevate closer defence relations between Australia and New Zealand, was conducted. Exercise Ocean Protector 04 is a rolling program activity with the Navy and Air Force. It is designed to improve surface combatant and major amphibious float activities. That was cancelled due to operational tempo. Ocean Protector 05-1, a similar activity, was conducted.

Principal Warfare Officers Sea Assessment Week was conducted. A second principal warfare officers activity was conducted. Exercise Swift Eagle, which is an ADF activity to practise entry by air and sea in mid-intensity ground operations, was conducted. There is a list of other exercises. Austhai 04, was conducted with Thailand to develop basic interoperability aspects of maritime warfare. Goodwill 04, which was a Navy activity with the Japanese Navy to further develop interoperability there, was conducted. There was joint maritime course, 043, which involved the Air Force, to train participants in maritime warfare roles. It was conducted in Scotland and, due to our operational tempo, we did not provide an Australian student. So it was not an exercise that was cancelled; it was nonparticipation in a course.

Exercise Lumbas 04 is with the Philippines to develop interoperability in a coordinated or combined maritime patrol and surveillance operation. That is between the two navies. That was conducted. Exercise Mastex 04 is a Navy activity with the Malaysian Navy. It was conducted. Exercise Night Lion, an Army activity with the Singapore armed forces to develop and enhance interoperability with Singapore special forces, was conducted. Exercise Night Tiger was conducted with the Malaysians to develop relations and enhance interoperability. Pacific Airlift Rally 2005 is an Air Force activity with many nations including Bangladesh, Brunei, Canada, India, Indonesia, Japan, Laos, Malaysia and so on—Pacific rim nations, by and large—is to enhance regional engagement and coalition airlift development through a military airlift symposium. That was conducted.

Penguin 04 was a Navy and Air Force activity conducted with the Bruneians. Pirap Jabiru 04, an ADF activity—principally an Air Force activity—was conducted with Thailand. Then there was a series of exercises. Pitch Black was conducted with the French, Singaporean and Thai air forces. The Royal Australian Navy MCMEX—mine countermeasures exercise—was conducted with Malaysia, New Zealand, the Philippines, Singapore, Thailand, the UK and the US. The Rimpac Navy and Air Force activity was conducted with Canada, Chile, Japan, the Republic of Korea, the UK and the US. Singaroo was conducted with the Singaporeans. There were two rotations of that: Singaroo 04 and Singaroo 05. Taa Nok In Sii, an exercise with the Thai air force, was conducted. A second iteration of Taa Nok In Sii was conducted.

Tamex 04-3, a Navy and Air Force activity with the New Zealand or the United States was conducted—with the United States this year, I believe. Tamex 04-4 was cancelled due to a lack of United States assets. Again, Tamex exercises are rolling programs which are platform dependent. They sometimes slip out when platform that are necessary for us to practise skills

with the US are not available to us, and we simply roll them into the next year. Vigilant Pacific, a command and control exercise with Canada, the UK and the US, was conducted. Wyvern Sun, an activity with Thailand to rehearse response and offshore counter-terrorism and recovery incidents, was conducted.

So you can see from that exhaustive list that the vast majority of activities were conducted. Those that were cancelled were principally to do with Operation Sumatra Assist or with the non-availability of US or New Zealand assets: one to do with Sumatra Assist, the rest of them to do with the operational tempo of those forces. That takes us through 2004-05. Rather than go through the same activity for 2005-06, the activities are described in the PBS. We are currently not intending to cancel any of those activities. The other part of your question was: would we re-roll some of these exercises and conduct them again? You can see that where we have cancelled them they are generally in a rotational mode, and we will pick up the major intended objectives from last year when the assets become available this year or next year.

Senator MARK BISHOP—Thank you for that work. I appreciate it. Can I just return to the previous topic we were discussing: ADF involvement in civil emergencies, particularly in the context of concerns in the press about the potential spread of bird flu here. My question is: are there any ADF capabilities that could be utilised in the event of a pandemic that are currently in an ambiguous legal position with regard to their call out, or is the legal situation in that context clear-cut?

Air Chief Marshal Houston—The preparations for a pandemic are well under way. The ministry of health and ageing have the lead role. We are supporting them and we have been actively involved in a whole-of-government approach to the plans for quite a long time. We have also been out in the region, engaging our regional friends, and have engaged the United States. We have had a lot of very useful interaction about plans for the whole region.

In terms of our detailed planning, the vice-chief is well advanced with his team in developing a full-blown ADF plan that would support the whole-of-government plan that is already in place—there is an interim plan that is published; it has been out on the streets for several months now. That will come to me in the very near future and I will consider that and then we will probably go forward to the minister to inform him of everything that we could do in circumstances where we have a major emergency on our hands.

Senator MARK BISHOP—There is legislative coverage for call-out of ADF personnel in situations of natural disaster, as you identified. You have had divisions and programs extant for many years. Do you see that legislative cover as being adequate and sufficient to extend into the pandemic area?

Air Chief Marshal Houston—Yes, I think those provisions—they are laid out in a DIG which covers all categories of defence assistance to the civil community—are more than adequate to handle the utilisation of defence capabilities and defence people for the sort of disaster emergency that would be presented by a pandemic.

Senator MARK BISHOP—That is fine. You are saying that there is coverage there, that there has been a significant degree of planning, that there is a whole-of-government approach and you are awaiting the final report to come to you and that there has been regional negotiation and, as well, contact with the US.

Air Chief Marshal Houston—Indeed, last week I presented on this matter to the chiefs of defence of the whole region at the Commander Pacific's meeting in Hawaii. Other nations are also, I think, very well prepared. I was very impressed with Thailand's preparations, which are very well advanced.

Senator MARK BISHOP—Just switching the subject slightly to ADF involvement in domestic security and localised terrorist activity on Australia soil, which is particularly topical in light of current moves in the parliament, there was an article in one of the papers in the last few weeks suggesting that there was not sufficient legislative covered for ADF involvement in domestic activities, particularly power of arrest and control, the use of firearms and that sort of operational activity in either domestic violence or a terrorist situation. Is that your view, or are you satisfied there is sufficient power in existing legislation for your people to engage in that specific type of activity if necessary?

Air Chief Marshal Houston—This legislation is all covered in part III AAA, and I presume that is what you are getting at.

Senator MARK BISHOP—Yes, the Defence Legislation Amendment (Aid to Civilian Authorities) Act.

Air Chief Marshal Houston—As you know, there was a fairly extensive process of upgrading the legislation for the Sydney Olympics. It is my view that it needs further refinement and upgrading to face the sorts of challenges that we have got out there with the threat from terrorism.

Senator MARK BISHOP—What sort of shortcomings or deficiencies have you identified in that act, if any?

Air Chief Marshal Houston—For a start off, the use of the reserves is quite problematic. We like to use the reserves to provide some sort of response force. At the moment we cannot do that easily. We have to convince the government that there are not permanent people available, so having a rapid reaction, highly ready reserve force to respond becomes difficult. There is also an issue with protections for ADF people who become involved in counter-terrorist operations here in Australia. So there are a number of areas—in fact, we can run through them.

Senator MARK BISHOP—Do you mind doing that?

Air Chief Marshal Houston—Not at all.

Mr Smith—While Air Chief Marshal Houston is taking that question, I should just respond to a question you asked earlier, about agencies which are proscribed, or about terrorist organisations. JI is proscribed, the Abu Sayyafa group is proscribed, but I am advised that the MILF is not. That is broadly consistent with what we have said about the domestic focus.

Senator MARK BISHOP—Understood. Thanks, Mr Smith.

Senator Hill—Do you want proposed changes to part III AAA?

Senator MARK BISHOP—The question, Minister, was whether the chief was aware of any shortcomings or deficiencies in the existing aid to civilian authorities act that would inhibit the use of ADF personnel in a situation of arrest and control, and use of firearms in a

domestic situation, or a localised terrorist situation, and whether there was sufficient legislative coverage and granting of powers that allowed them to be involved, and the chief was about to identify a range of deficiencies that he had identified post the Olympics review of the legislation.

Senator Hill—The government is considering amendments to part III AAA at the moment, which will streamline the processes that have proven to be quite awkward and cover a number of areas where we do not believe that the existing legislation provides adequate coverage. The details of that are to be considered by government in the very near future. In anticipation of a positive response, I think we have requested that drafting commence and, subject to all the usual steps, we would hope to have legislative change in place by the Commonwealth Games.

Senator MARK BISHOP—By the Commonwealth Games?

Senator Hill—Yes.

Senator MARK BISHOP—They are scheduled to start in March, aren't they? So that is this year. You would have to have it done by—

Senator Hill—I would hope that we would finalise it and be able to vote on the change at the beginning of the next parliamentary session, and perhaps have some form of parliamentary examination in the meantime.

Senator MARK BISHOP—Understood. I presume there has been an internal, formal review done by—

Senator Hill—There was a formal review of the existing legislation and my recollection is that that was tabled.

Mr Smith—That was in February 2004.

Senator Hill—February 2004—so that is on the public record.

Senator MARK BISHOP—What was that entitled?

Mr Smith—It was a review of part III AAA of the Defence Act.

Senator MARK BISHOP—So that is extant.

Mr Smith—The act had been amended in anticipation of the Olympic Games, and there was a requirement for government to review it after a fixed period of that amendment having been introduced, and that is what it was.

Senator MARK BISHOP—So that review has been conducted and it is in the parliament—shortcomings have been identified, the report has gone to the minister, it is going to cabinet, and we anticipate conclusion early this year, but certainly prior to the commencement of the Commonwealth Games. Yes.

Senator Hill—That is our objective.

Senator MARK BISHOP—And does that—and I know it is getting into a grey area here—address the powers of ADF personnel in a potential terrorist situation: arrest, control, use of firearms, use of defensive measures and those sorts of things?

Senator Hill—My recollection is that it is not so much that. It is the awkward process that is currently in place for the call-out, requiring a sequence of approvals and events which

might be difficult to implement in practice. Secondly, it addresses areas of deficiency in relation particular types of terrorist attacks, such as maritime, offshore and some issues of that nature.

Senator HOGG—Do the changes that are proposed go beyond those that were recommended in the review? In other words, does it take into account what is happening contemporaneously?

Senator Hill—It takes into account the review and our broader experiences. Rather than speculate on what government might adopt, I think it would be better to see wait and see what the bill—

Senator HOGG—I was not trying to speculate on that. I was just trying to find out whether it took into account might be happening at the current time, given that the review was tabled some time ago.

Senator Hill—The review identified what it saw as deficiencies and awkward process. Since then the whole debate on terrorism has advanced somewhat, so the government's response will take that into account.

Senator MARK BISHOP—I want to turn now to the defence budget.

CHAIR—Before you start asking questions, I believe Mr Smith might want to make an opening statement on that.

Mr Smith—Yes, thank you. Senators, as the committee does take a close interest in financial management matters I would like to make some brief comments on the situation with regard to our annual financial statements for 2004-05. With the Acting Chief Finance Officer, Mr Moore, I have again concluded that we are unable to form an opinion on our three financial statements for the last financial year. That will not surprise you because I said in this committee on 16 February last that it would be unusual for a corporation of our size to move from a 'no opinion' finding, which we had last year, back to an 'except for' finding in just one year. At the best we might have been able to reach a 'true and fair except for' opinion on the statement of financial position, but I am advised that, not least for technical reasons following from our opening position, we would not have been able to reach a 'true and fair' opinion on all three statements.

One of the reasons for the delay in finalising our opinion until recently—that is, last Friday—is that in the light of the progress we seemed to have made against our remediation plans over the past year we really did want to explore very thoroughly the possibility of concluding a 'true and fair except for' opinion on that statement of financial position. But in the end, after consulting closely with our externally chaired audit committee, we concluded that we could not reasonably determine that the statements were true and fair, even with some 'except for' qualifications.

That said, the outcome does reflect progress compared with last year. We have removed completely one of last year's qualifications, that on the value of land and buildings; reduced the overall level of uncertainty by some 17 per cent; and submitted to the ANAO, for their clearance, responses to 53 of last year's 95 category A, B and C audit findings. And, perhaps above all, we have learned even more about our financial structure and the challenges ahead.

For that progress I thank my colleagues, in particular Mr Moore here and others in the CFO Group for the at times heroic efforts their people have made, and also the other senior members of the defence executive who have worked with me on our Financial Statements Project Board. A great deal of effort has gone into this work. Our current assessment is that we have devoted some \$65 million to it in 2004-05, including \$30 million worth of staff time, and we expect to spend at least another \$77 million on it, including \$42 million worth of staff time this year. It is a lot of money—though, incidentally, not inconsistent with what I am told some private sector corporations are spending on some of the new compliance issues and, of course, small by comparison with the \$US1 billion which the Pentagon's Deputy CFO told me recently that she would have to spend.

Our work continues to be based on our 16 remediation plans, which we have made available to this committee and to other interested committees in the parliament. We continue to add to and refine them, even as we implement them. I am confident we are on the right track, but much time will be needed to see it all through. I was gratified in this regard to hear the Auditor-General, Mr McPhee, say earlier this year that he thought the plans were things as good of their kind as he had seen in his 30 years in the public service, while the officer who leads the ANAO's work on our financial statements described them on one occasion as 'if not world's best practice then close to it'.

Training or retraining our staff is essential if we are to achieve what we must, so I do want to highlight what we are putting into training ADF members and public service staff in this area. Last financial year, some 7,000 Defence people participated in a range of financial management and systems training activities, some 5,000 of them on our financial management systems. It is a big effort that we are making. All this has been done, let me add, during a time when we also completed the demerger of the accounts of Defence and DMO, and the arrangements for establishing DMO as a prescribed agency under the FMA Act.

As to when we might get back to a true and fair judgment—or at least a 'true and fair except for' judgment—on the statement of financial position, I would like to think we could get there this financial year, and I will certainly put the work in, but I cannot be certain of the outcome. The ANAO is very demanding, and we continue to learn of new issues, even as we probe old ones. As well, issues of a deeply technical nature have a habit of arising. This year, for instance, a large block of uncertainty was determined by ANAO quite late in the piece, on the basis of analysis of the method by which the value of some explosive ordnance was journalised, and the qualification we will have this year on civilian leave records reflects in part a disagreement about our sampling methodology.

Let me make two important points here. First, as last year, our cash and budget management has not been called into question. Our statement, on sign-off, will say that in our opinion all cash, receivables, revenues from government, quantities of explosive ordnance, provision for military long-service leave, land and buildings and specialist military equipment, exclusive of the repair of items, are fairly stated. I expect the Auditor-General, in his opinion, will confirm this. Second, the challenges we face in this area do not affect our military operations. I have asserted that before. The evidence of it is constantly before us and, as the commander of our joint logistics organisation will attest, the demand satisfaction rate for logistics support in the ADF is at 89 per cent.

Looking ahead, my vision remains to make Defence an organisation which is respected for its financial management within five years. The focus and effort to this end will continue and, for my part, I am determined to see the necessary changes embedded. I welcome CDF's support for that. I will, of course, continue to keep the parliament informed through its various committees.

That said, we have to be realistic. The accounting and audit standards to which we are working were designed for organisations very different from ours. We will use those standards to drive necessary reform and to achieve essential compliance requirements. But if we judge that this compliance is not material, and can only be achieved at undue cost, or amounts to accounting for accounting's sake, as one of our audit advisers described one aspect of it all, then we will not be able to devote large amounts of resources to it. We might just have to bear some scars.

In this regard, I note and welcome the support of comments and recommendations of the recent report of the Joint Committee of Public Accounts and Audit. The acting CFO, Mr Moore, and I are available to answer your questions. So too is Dr Gumley, the CEO of DMO, who will present his own financial statements at the end of 2005-06.

Senator MARK BISHOP—So the net of that is that for the second year in a row you, as the responsible officer, are unable to form an opinion on all three statements of the accounts, and you are aiming to be able to do so but cannot guarantee to do so for the 2005-06 financial year. Is that correct?

Mr Smith—That is correct.

Senator MARK BISHOP—Let us go through some of the issues that you have identified for further discussion. When we have had that discussion on your work in progress on the qualifications to the accounts and the various remediation programs, ANAO report No. 56 and the recommendations of the joint committee—all of which I am, as you would expect, familiar with—we might have a brief discussion as to the comments of Dr Henry as reported in the *Defender* journal about a fortnight ago, and more latterly reported in the press, which go to the heart of some of the issues that you are in the process of addressing in terms of the future.

To go firstly to the remediation work to date and the ANAO work done in conjunction with your own agency and its report, in that report, as well as the 14 specific qualifications, ANAO also noted that there remains a large number of previous qualifications which seem to have slipped off the radar. I think there are now 27 rated A—very serious—and 48 rated B, making 75 in total and you suggested there were some 95 audit findings of which 53 have gone to ANAO. Is that correct?

Mr Smith—That is correct. There is one point we can clarify.

Mr Moore—The secretary, in his statement, stated that we have 95 old audit findings. There are 27 category A, 48 category B and 20 category C. I think that in Audit report No. 56 they do not list the 20 category Cs. They list 75 of the 95 findings.

Senator MARK BISHOP—Correct.

Mr Moore—When we refer to clearing 53, we refer to clearing 53 of the 95. So of the 27 category As, we have sent nine to the ANAO for closure.

Senator MARK BISHOP—Nine of 27?

Mr Moore—Yes. We have sent 33 of the 48 category Bs and 11 of the 20 category Cs. Of the 53 sent to the ANAO, they have so far agreed to the closure of 20 of them. We are awaiting their advice on the 33.

Senator MARK BISHOP—Okay. Stop there, Mr Moore. There is a lot of information coming out. Of the 53 sent to ANAO that they have agreed to sign off—

Mr Smith—To clarify, they have not agreed to sign off. We have submitted them and I think they have agreed to clear 20 of the 53.

Mr Moore—Yes, 20 of the 53.

Senator MARK BISHOP—By A, B and C.

Senator HOGG—In what categories?

Mr Moore—I have not got that detail.

Senator HOGG—You do not have that detail. All right.

Senator MARK BISHOP—Are they As, Bs or Cs?

Mr Moore—They are mainly Bs and Cs.

Senator MARK BISHOP—With As being the more serious problem areas?

Mr Smith—Yes.

Mr Moore—Correct.

Senator MARK BISHOP—When you say those 20 mainly Bs and Cs have been given closure by ANAO, what does that mean exactly?

Mr Moore—We have remediated the finding to their satisfaction. So in their audits in successive financial years they might come and test our controls and our IT system or whatever. We respond to that as to whether we agree with it or not. If we do, we then have to put a plan in place to remediate a particular problem. We then have to produce evidentiary documents to the ANAO to satisfy them that we have fixed the problem—and that is what we have done.

Senator MARK BISHOP—So those 20 mainly Bs and Cs are not agreed plans for implementation?

Mr Moore—No, they have gone.

Senator MARK BISHOP—They are concluded work that does not have to be done again?

Mr Moore—That is right. They are finished.

CHAIR—How many of the 95 is that?

Mr Moore—Of the 95, we have closed 20.

Senator HOGG—Of those 20 that you have closed, can those problems come back again?

Mr Moore—If we went off the boil and fell back into our old ways, yes. That would then be a new finding. But they would not reopen the old findings.

Senator HOGG—You cannot open them. That is fine.

CHAIR—Of the 27 category As, you have submitted nine. Can you tell us how many of those were successful?

Mr Smith—How many are in the 20?

Mr Moore—I do not think any are in the 20. I will check that.

Senator MARK BISHOP—It is not mainly; it is totally.

Mr Moore—Yes.

Senator MARK BISHOP—So 20 category B and C remediation plans have been signed off, implemented and finished but none of the 27 category As are finished and none of the nine that have been approved have been finished either?

Mr Moore—None have been closed. We believe we have done enough work to convince the auditors that those nine should be closed.

Senator MARK BISHOP—But the auditor has not yet agreed.

Mr Moore—He has not yet agreed. It is a timing issue. We have been progressively releasing these findings for their consideration to close for a number of months. To be fair to them, they have been very busy in the last three months with the rest of the Defence audit. These are queued, if you like, in the Audit Office until they have a chance to thoroughly review them.

Senator MARK BISHOP—That is all right. We are not yet engaging in discussion or criticism, Mr Moore. We are still establishing the facts.

Mr Moore—We are hopeful that all 53 will be closed because, of the first 20 they reviewed, they agreed to close all 20.

Senator MARK BISHOP—So 20 of the 95 are done. That leaves 75 of which nine of 27 of the 75 are As. When do you expect ANAO to come back to you on those nine of the 27 As?

Mr Moore—On the remaining 33, including the nine category As, I would hope it will be within the next few months but I cannot guarantee that. By the time they finalise their various—

Senator MARK BISHOP—Is that a sign-off for implementation of an agreed plan or is that a sign-off that the work has been done?

Mr Moore—That the work has been done.

Senator MARK BISHOP—So when we meet in May next year, two estimates out, you would seriously be able to say to me that they are done?

Mr Moore—Not only would I hope to say all 53 have been closed but I would also hope that of the 42 that are remaining—the difference between the 95 and the 53—we would have a fair number with the Audit Office for closure as well. We do this progressively throughout the year as the work is done.

Senator MARK BISHOP—Let us identify those nine of the 27 As that are currently with ANAO being inspected. What are the nine?

Mr Moore—No. 1 is ‘Asset management: impairment of assets’. Impairment is when, in an accounting sense, something that we have—a piece of military equipment—for whatever reason is not performing to requirement and we have to write down its value on the balance sheet. No. 2 is SDSS. From 2002-03 there was a category A for provision for obsolescence. There was another category A on the useful lives of specialised military equipment.

Senator MARK BISHOP—Is that No. 3?

Mr Moore—Yes. No 4. is SDSS to ROMAN reconciliation, SDSS being our inventory system and ROMAN being our financial system. The interface between those two systems was an issue with respect to general stores inventory.

Senator MARK BISHOP—What is the heading there? ‘General stores inventory’, is it?

Mr Moore—General stores inventory is a category of inventory that we have on our balance sheet.

Senator MARK BISHOP—What is No. 5?

Mr Moore—It is the componentisation of our assets when we break up a major platform like a ship into its various parts. Under a general heading called ‘Financial reporting framework’, there is the way we manage and report our appropriations and in terms of the standard Defence supply system, our accounting policies for general stores inventory. The next one is security administration within ROMAN, our financial system.

Senator MARK BISHOP—That is the access issue, is it?

Mr Moore—Yes, user access and the way we administer that. I have not been counting these up.

Senator MARK BISHOP—That is eight.

Mr Moore—I must have missed one.

Senator MARK BISHOP—Give it to us in due course. So those eight or nine plans really are the heart and soul of Defence accounts, because you are talking about your assets, your equipment, your platforms, your measurement processes, your life process, the level of your inventory, your accounting processes for the inventory, your systems for access by staff and the interface between the various aspects of the financial and accounting system, aren’t you? They are the nine critical aspects that need to be signed off by ANAO before Mr Smith can honour his commitment next year, aren’t they?

Mr Smith—They are nine of the audit findings. They are not the plan that we have. We have 16 plans that we have described to you before. One of those plans is to work our way through the audit findings. It is those particular findings that we are now addressing. You are quite right: they are all critical to our business operations, and that is why they are called category As.

Mr Moore—These are not qualifications. These 95 are audit findings. If we do not remediate a category A, though, it can escalate into a qualification.

Senator MARK BISHOP—That is right.

Mr Moore—The ninth one was related to our explosive ordnance system called COMSARM. There are similar issues to the other two systems. I stress that we believe we have remediated all nine of those findings and we are just awaiting the ANAO's confirmation that they agree they are closed. So we think we have fixed all of those problems.

CHAIR—When is that due? When will you know whether you have been accepted in terms of your remediation?

Mr Moore—The ANAO have not given us a specific timetable to advise us of closure. I am hopeful that they will do that as part of finalising the 2004-05 audit before they issue their management letter and their report in early December, but I cannot guarantee that.

CHAIR—Are we holding up the annual report because of this?

Mr Smith—We completed our statements of opinion on them on Friday and could then have proceeded to table the annual report yesterday. But as Senator Hill had been away and I wanted the opportunity to brief him very fully on it and to enable him to question me, which he has done, we have deferred tabling the annual report. It will now be done when it is printed.

Senator MARK BISHOP—Okay. We have those nine mediation plans waiting for sign-off by ANAO. What is the plan for the remaining 18 of the 27?

Mr Moore—We have a plan for each of them, and, as I said before, as we believe—

Senator MARK BISHOP—Let me be more specific in my questioning: what is the plan to dispense with those other 18 issues that need to go to ANAO for approval?

Mr Smith—Another 42 need to go to them for approval.

CHAIR—Including B and C categories.

Mr Smith—Yes. It is the category As that you are asking about.

Senator MARK BISHOP—My discussion at this stage is about the As—the most serious ones. We will come to the Bs and Cs later if necessary. What are the plans for the other 18 As that have not gone forward as yet to ANAO?

Mr Moore—In terms of the remaining 18, I am hopeful that, in the course of this financial year, we will be able to send most if not all of them to the ANAO for closure. So we are well advanced on a number of them. Some of them will be affected by the results of the 2004-05 audit and we may have to recalibrate what we are doing in terms of remediating them. We will have to take a fresh look at that. We have not had a chance to do that yet. My expectation is that not only the 18 remaining category As but most, if not all, of the category Bs and Cs that we still have outstanding will be sent to the ANAO as part of the 2005-06 audit.

Senator HOGG—In sending them back to the ANAO, are they aware of the workload that you will be putting upon them? Do you know whether they have the resources, the capacity, to examine the material that you send back to them?

Mr Moore—They certainly do have the capacity to get to them, but they have been a lower priority while they completed other audit activity in Defence. I should also mention that in the

course of the 2004-05 audit we received 53 new findings from the ANAO in return for closing 53 old ones, so this a rolling process. What we are doing is catching up. Some 95 outstanding findings had built up over a number of years. They did not all come out of the 2003-04 audit—some were years older than that. We have put in an extra effort over the last 12 months to clean up all those old findings. By today's date we have succeeded, we think, in doing enough to close 53 of the 95. Hopefully we can close the remaining 42, or most of them, in the course of the next 12 months. We also now have to start working on the 53 new ones. I would not be surprised if we get some additional new findings before the ANAO has completed its 2004-05 audit.

Mr Smith—Mr Moore is too modest to say that last year we cleaned up just one, and this year he has cleaned up 20 and got another 33 waiting. It has been a big effort.

Senator MARK BISHOP—That is in the context of the government having given you, over a two year period, an extra \$140-odd million for accountancy resolution.

Mr Smith—I do not think it has given it to us.

Senator MARK BISHOP—You said earlier, Mr Smith, that it had cost \$65 million and \$77 million.

Mr Smith—I found that money from within our own resources by trading off other administrative costs. It hurts us doubly.

Senator MARK BISHOP—I am sorry but, whatever, you have spent \$140 million to date—

Mr Smith—We will have, yes.

Senator MARK BISHOP—which could have been spent elsewhere.

Senator FAULKNER—Is it true that three major submissions have been put on hold? One relates to the new strategic update paper, one relates to real budget increases, and the other relates to the \$1.8 billion plan to restructure or harden and network the Army for fighting in future wars.

Senator Hill—No, nothing has been put on hold.

Senator FAULKNER—Is the press commentary on this not accurate?

Senator Hill—I do not know that it is for me to comment on press commentary.

Senator FAULKNER—It has been reported publicly. I assume it was leaked by someone senior in government that these three submissions were to go to the National Security Committee on 8 November but have been put on hold at the insistence of the Prime Minister. You cannot confirm that?

Senator Hill—You have asked me the question whether certain projects are on hold and my answer is that nothing is on hold.

Senator FAULKNER—If they are not on hold, what is their status?

Senator Hill—I said that we would do a strategic update in 2005. That project is progressing—

Senator FAULKNER—There is not much time left on that, is there?

Senator Hill—You did not let me finish my answer. The strategic update has been written. It has gone through the whole-of-government secretaries process. It has been lodged for cabinet discussion and it will progress according to the cabinet timetable.

Senator FAULKNER—It is true, isn't it, that in relation to the strategic update you previously have committed that this would be publicly released by the end of this calendar year?

Senator Hill—I have certainly said that that was my objective. It was to be a 2005 update and it has been designed in that time frame. It was always going to receive whole-of-government consideration late in the year.

Senator FAULKNER—Do you mean that your commitment to releasing the strategic update by December this year, which is within the next two months, has now been downgraded to an objective? Is that what I hear? There appears to be a very significant change of tune.

Senator Hill—There has been no change of tune.

Senator FAULKNER—So your commitment to have the strategic update paper public by the end of this calendar year remains in place?

Senator Hill—My objective is to complete a strategic update this year and to release it this year. That is still my objective. If you want to call that a commitment, you can call it a commitment, but it has certainly been, and remains, my objective.

Senator FAULKNER—As I understand it—and you or Mr Smith can correct me if I am wrong—a Defence team has been working on the update paper for some six months. That is right, isn't it?

Mr Smith—That is not quite correct, Senator. Work has been done on it over a number of months but it is not as though there is a team standing by at all.

Senator FAULKNER—Who is coordinating it?

Mr Smith—In the last analysis the CDF and I are, but it is being directed by our Strategic Policy Division. The head of that division has prepared a couple of drafts for our discussion over the last couple of months and for discussion among other agencies. That is the normal process that goes on.

Senator FAULKNER—How many of your officials or officers are working on this, Mr Smith?

Mr Smith—As I speak, probably one, in the sense that he is seeking comments from other agencies. Over the last few months I do not know how many people would have contributed to it. There would not have been a team but a few people in that division.

Senator FAULKNER—Let us not use the terminology 'team'. Let us use the terminology 'a number of people in the division'. I would be more specific if I heard from you what the number was. You cannot tell me, and that is fair enough, so let us just use the terminology 'a number of people in the division'. So a number of people in the division have been working on this. Can you say what stage it is up to?

Mr Smith—It is up to the stage where we have a draft which—

Senator Hill—I have answered that question.

Senator FAULKNER—It is at draft stage?

Senator Hill—No. I have answered the question.

Senator FAULKNER—I am sorry but I thought Mr Smith just told us that we have a draft.

Senator Hill—I have answered the question. A draft submission has been lodged for cabinet consideration.

Senator FAULKNER—Can you say this afternoon, as you have said previously publicly, that the strategic review will be released by next month? Are you committed to a public release next month? Can you confirm that or do you now back away and say that that has been downgraded to an objective only?

Senator Hill—Nothing has been downgraded. I can say today what I have said in the past: it has been and remains my objective to have this paper considered by government and hopefully adopted by government, and therefore released by the end of the year.

Senator FAULKNER—What about the submission on real budget increases for Defence beyond the year 2010? Where is that up to process-wise? Has that been put on hold too?

Senator Hill—I am not sure exactly what paper you are referring to there.

Senator FAULKNER—To be frank with you, I am not sure what paper I am referring to either. I am merely referring to something that has been reported in the media.

Senator Hill—That might be your first mistake!

Senator FAULKNER—It would not be my mistake, it would be a journalist's mistake. You can tell me if it is not true. You know my view on these things, Senator Hill. I do not necessarily believe everything I read in the newspapers about me, about you or about a whole range of things. When I read in the newspaper that there are three key submissions and that one 'concerns future real budget increases for Defence beyond 2010', I merely say that I have read that. You can tell me, firstly, if there is such a submission and, secondly, if it has been put on hold.

Senator Hill—As you might recall, this portfolio has certain assurances of real budget increases of three per cent that are factored in until the year 2010-11. It is well known that this issue has to be considered in the reasonably near future as to whether that will continue, because at the moment our forecasts beyond that date are on the basis that the three per cent does not continue, so there needs to be a decision from government in that regard. There were some discussions at the last budget about whether it might have been in the last budget. Some journalists had an expectation that it would be, but it has not been decided by government. Government has not yet decided when it will make that decision. The most logical time to make that decision is at a budget.

Senator FAULKNER—You are quoted in the same article—and I assume that you are not being misquoted; you can tell me if your are—as saying about those particular submissions, 'I am working on the basis they will be considered next week.'

Senator Hill—That depends on the question.

Senator FAULKNER—Your words are being reported.

Senator Hill—You do not know the question that was asked of me that I was responding to.

Senator FAULKNER—That is very true. What was the question you were asked, so we know what your answer meant?

Senator Hill—In terms of the strategic update, as I said, it has been lodged and I am hopeful that it will be considered by cabinet soon. What was the third one?

Senator FAULKNER—According to this newspaper article—a newspaper article in which you are quoted—there are three. The first I would describe as the strategic update paper.

Senator Hill—Okay. I have said that that one has been lodged.

Senator FAULKNER—The second one relates to what we have just been canvassing, the future real budget increases for defence beyond 2010-11.

Senator Hill—There is no submission that I can recall that just deals with that particular issue.

Senator FAULKNER—The third one relates to a \$1.8 billion plan to restructure or harden and network the Army for fighting in future wars. This might not be correct and you can tell us what the truth is. It is suggested that these three major submissions have been put on ice. When you came back from an overseas trip you said:

I am working on the basis they will be considered next week.

Yes, you are right: I do not know what question you were asked. Were you quoted accurately in the *Australian* of Monday, 31 October?

Senator Hill—I was quoted accurately, but the article does not state a question and an answer.

Senator FAULKNER—True.

Senator Hill—The article states the answer.

Senator FAULKNER—You can let us all in on the secret: what question were you asked that you were answering?

Senator Hill—That is what I have been trying to tell you for some time, but it is not your best practice to listen.

Senator FAULKNER—I am rather good at it.

Senator Hill—The third issue is a proposal for further hardening and networking of the Army. It is well known that there are proposals to further that objective. I hope that they will be considered in the not too distant future as well.

Senator FAULKNER—What does that mean? You said on 31 October that it would be 'next week'. Is that how we define the 'not too far distant future' or are they just some sort of weasel words?

Senator Hill—It means that matters get scheduled but they do not always get dealt with on a scheduled day.

Senator FAULKNER—Have you seen the article, Senator Hill? It was published in the *Australian* on Monday, 31 October—and I am forced to identify it. It says, ‘Hill’s future in doubt.’ That is what the article says.

Senator Hill—That is a different issue.

Senator FAULKNER—Is it? We would be interested to hear that too. You can tell us what you like about your own future. The thrust of the article is:

Mr Howard has put off major decisions on the direction of the defence force ... prompting renewed speculation ...

on your future—in other words, your departure. It further says:

... a trio of long-awaited submissions to cabinet’s national security committee on November 8 ... have been put on hold ...

I did not want to go to the question of your future but you forced me to in order to identify the article. I am very interested in your future, of course, as we all are—we all think about those things a great deal—but I am actually looking at the substance of this in relation to the three submissions. Did you see the article?

Senator Hill—I read the article, yes.

Senator FAULKNER—Were you offended enough with any of the content of the article to take any action to correct it?

Senator Hill—It certainly did not offend me.

Senator FAULKNER—I have always noticed that you are quite easy to offend so, if it did not offend you, it must be pretty accurate.

Senator Hill—I do not think that is right—quite the contrary, I would suggest, Senator.

Senator FAULKNER—Can you tell us what question you were answering when you were quoted correctly as saying:

I am working on the basis they will be considered next week.

What is ‘they’?

Senator Hill—I was referring to the strategic update and further proposals to harden and network the Army.

Senator FAULKNER—Is there growing uncertainty as a result of all the speculation about your future? Is this starting to affect and impact the work of Defence? It seems to be from reading that. Can you put our minds at rest that uncertainty about your future is not affecting this important work of Defence?

Senator Hill—I do not know of any uncertainty about my future.

Senator FAULKNER—All your colleagues seem to.

Senator Hill—We have a great deal of work and it is progressing well.

Senator FAULKNER—Have these things been put off because senior ministers are heavily occupied with other responsibilities?

Senator Hill—I have not said—

Senator FAULKNER—Obviously the National Security Committee has important issues before it. There is other legislation before the parliament. Is this why this stuff has been put on hold?

Senator Hill—I have not said that anything has been put on hold; quite the contrary. But I am prepared to concede that there is a large volume of material before the National Security Committee of cabinet at the moment—not surprisingly, considering the number of operations that we are involved in, plus various terrorism issues and a whole range of other things.

Senator FAULKNER—Are you concerned that speculation about your future is affecting morale in Defence?

Senator Hill—No.

Senator FAULKNER—It may be improving morale, for all I know!

Senator Hill—It might! But I do appreciate your interest.

Senator FAULKNER—I am here to help.

Senator Hill—Thank you.

Senator MARK BISHOP—Mr Smith, going back to those sums of money you identified for fixing up the accounts and budgets and whatever, I think you said that, of the \$65 million for this year, \$30 million was for staff. What is the other \$35 million being spent on?

Mr Smith—Mr Moore will give you some of the details of that.

Mr Moore—In 2004-05 we estimated we spent about \$65 million on our audit remediation work. About \$30 million of that was for our Defence staff effort; the remaining \$35 million was for what we call supplier expenses—that is, the engagement of contractors, consultants and other suppliers to assist us in that work.

Senator MARK BISHOP—Stop there, Mr Moore. Can you go through the expenses for suppliers, consultants and others in some detail—that \$35 million?

Mr Moore—Do you want that by remediation plan?

Senator MARK BISHOP—No, I want that horizontally, generally. You have allocated \$30 million for staff costs out of the \$65 million for remediation work; I want a subunit break-up of the \$35 million.

Mr Moore—Of the \$35 million, about \$8 million was for consultant costs, and the remainder of it was for what we call professional service providers or contractors. So we are engaging industry.

Senator MARK BISHOP—So there is \$27 million for what you call professional service providers. What is the difference between a professional service provider and a consultant?

Mr Moore—A professional service provider is somebody from industry who actually works in a line position in Defence, because we cannot recruit either a civilian or a military person.

Senator MARK BISHOP—So it is an independent contractor that you have retained for a job?

Mr Moore—Yes, whereas a contractor is not in a line position.

Senator MARK BISHOP—No. You are unable to recruit them on a full-time basis?

Mr Moore—It is not cost effective to do so because it is a niche expertise that we need only for a specific period of time. By the time we recruited someone and trained them up—

Senator MARK BISHOP—So, essentially, it is a short-term staff cost under another heading.

Mr Moore—Yes. The other thing I would say is that we often seek external quality assurance on our work. That is a deliberate strategy we have for third party verification. We have engaged pretty heavily large accounting companies like Ernst and Young to support our activity.

Senator MARK BISHOP—Is that third party verification costed under the \$27 million or the \$8 million?

Mr Moore—It is split, depending on what we use them for. If they were in just to do a defined job for a month or two, we would call them a consultant. But, if they had a longer term relationship with us or, in fact, we had an accounting expert sitting in a line position, we would account for it under the \$27 million. It depends on how we use them, but they could come out of the same company, you are right.

Senator MARK BISHOP—Of the \$65 million in the 2004-05 year, \$30 million was on staff, \$8 million was on consultants and \$27 million was on professional service providers or contractors. You spent \$8 million for consultants in the 2004-05 year. Could you outline the generality of their work for me and the costings attached.

Mr Moore—A lot of them are for accounting advice or accounting support. My group is engaged pretty heavily with Ernst and Young on the development of the audit remediation plans. A partner from Ernst and Young sits on our financial statements project board. He is an independent adviser to the minister. Other parts of Defence have used other accounting companies, such as KPMG and Deloitte. A lot of that is in straight accounting support.

Senator MARK BISHOP—Of that \$8 million, give me the five largest sums that were spent in the 2004-05 year for the accountancy firms.

Mr Moore—I do not have that with me. I would have to take that on notice.

Senator MARK BISHOP—You do not have with you how much was paid to Ernst and Young for consultancy work?

Mr Moore—I would prefer to take that on notice rather than hazard a guess. If I did, I would say about half of that would have been paid to Ernst and Young.

Senator MARK BISHOP—So that is around \$4 million, give or take, given to Ernst and Young for accountancy consultancy advice. Did the other \$4 million go predominantly to one firm or to a range of smaller suppliers?

Mr Moore—We spread our business around. Because of the large task in Defence, we are less interested in the name of the company and more interested in whom we can get—particularly in Canberra, where the accounting expertise we are after is quite limited. We tend to use KPMG, Deloitte and Ernst and Young. The other big one, PricewaterhouseCoopers, is under contract to the ANAO, so we cannot use them.

Senator MARK BISHOP—So the two principal firms are Ernst and Young and KPMG.

Mr Moore—And Deloitte.

Senator MARK BISHOP—So those three get the bulk of the work, do they?

Mr Moore—That is right. The other company that I would mention is Walter Turnbull.

Senator MARK BISHOP—Who?

Mr Moore—Walter Turnbull. They are less known.

Senator FAULKNER—Tell me, is it true that Treasury have insisted on tougher scrutiny of Defence budgets now?

Mr Moore—Treasury?

Senator FAULKNER—Treasury—in fact, the head of Treasury, Dr Ken Henry.

Mr Smith—Over a number of years, government agencies have become more engaged in our budget. We prepare, for instance, a 10-year financial management plan. We have done that for the last several years. That is made available to Treasury, Finance and the Department of the Prime Minister and Cabinet, and they all pay careful attention to it. That is the sort of increased attention that we are talking about.

Senator FAULKNER—I am not really interested in your reading habits, but I wonder if you have ever read the journal *Defender*?

Mr Smith—I do, because I am often mentioned in it.

Senator FAULKNER—I hope they are always positive mentions.

Mr Smith—Very rarely, I am afraid.

Senator FAULKNER—Dr Henry wrote an article for *Defender*. It is the journal of the Australian Defence Association.

Mr Smith—That is correct.

Senator FAULKNER—You are aware of Dr Henry's article?

Mr Smith—Yes. It was based on an address he gave to the senior leadership of Defence. We meet a couple of times a year with the one-star military officers and above and the SES officers and we have, as a rule, a relevant guest speaker. At my request, Dr Henry came and delivered that address, which was really interesting and which stimulated a lot of discussion.

Senator FAULKNER—In that article he said:

Defence is not subject to the same level of budgetary scrutiny as is applied to some other key areas of government spending.

It is fair to say that probably no-one would argue that. Would you disagree with that?

Mr Smith—If he says so. I do not know what scrutiny they give to the pharmaceutical benefits system. I take his word for it.

Senator FAULKNER—He says:

... defence spending is usually considered pretty much in isolation from everything else. But I venture that this will not be the case for many more years.

I suppose that is the point. He goes on to state:

... I would venture that, with slower GDP growth and increasing funding pressures elsewhere in the budget, Defence will find it increasingly difficult to maintain its call on the nation's people and financial resources, let alone increase its share.

To be fair to him, he puts a caveat in there about a deterioration in the strategic environment. I wondered whether this was a shot across the bows from Treasury to Defence—do you think it was?

Mr Smith—I have known Dr Henry for quite a few years, and I have heard him put this view over a long period. That is to say, that there will be increasing competition for the government purse over the next 20 years, and that is what he is saying again here. I do not think there is anything particularly new or particularly relevant to the circumstances this year.

Senator FAULKNER—Senator Hill might prefer to answer this—I am not sure; maybe it is appropriate that you do not, Mr Smith. My understanding is that for some time now there has been an ongoing commitment to a three per cent annual increase in Defence funding. I think that is true, isn't it?

Mr Smith—Yes—from the white paper through to 2010-11.

Senator FAULKNER—Yes. So the broad question here is: do the Secretary of the Treasury's comments foreshadow some sort of warning that that commitment might be at risk? I think that is a reasonable question to ask, given these things are floating around now in the public arena—even if it is in a journal that sometimes criticises Mr Smith. I suspect it has had the odd go at me, too, Mr Smith, so that is something we have in common.

Senator Hill—There has been no suggestion that the commitment after 2010 and 2011 is at risk. This was a decision that, as the secretary said, was taken out of the white paper, and it was deliberately made to cover the decade, to give assurance and confidence in planning, particularly in relation to the acquisition program, but also broader areas of sustainability within the ADF.

Senator FAULKNER—I have described this speech as a bit of a shot across the bows—I thought you would like a naval analogy—and that seems to be a reasonable way of describing it, but is it anything more formal than that? Have there been any discussions with Treasury or Dr Henry or others about these issues, or does it just remain a speech that he has made and an article in a magazine? Is that just the current status?

Mr Smith—There has been nothing more formal than that. Let me assure you, it has not been a matter of me sitting down with Dr Henry and him putting that view to me. I know that over a long period he has expounded the view that there will be increasing competition for government revenue with an ageing population, a changing revenue base and big demands in the medical area and so on, and that we will have to be more competitive and more rigorous in assessing Defence funding. That is not a particularly new proposition from Dr Henry. As I said, he has contended that for some time, and I do not see it as particularly relevant to the current discussion of the Defence budget.

Senator FAULKNER—I have read media commentary that Dr Henry's remarks in that speech have perturbed senior Defence members concerned about rising personnel and operating expenses, as well as the increased cost of defence equipment planned. Is that right?

Mr Smith—If this was the speech he delivered to us all, I did not notice any particular perturbation. There were some animated questions and he responded to them well. In fact, it was very stimulating for all concerned. I particularly had wanted him to make this presentation as it affected demographics. That is the discussion that mostly this was about. I think it was a healthy and pretty realistic discussion. I would not have used the word 'perturbed'.

Senator FAULKNER—That has been reported, as you probably know. When you say 'affecting demographics' what do you mean by that?

Mr Smith—The changing demographic structure of our society over the next 30 years will, firstly, put different pressures on the budget and, secondly, present some new challenges to our recruitment.

Senator HOGG—Could I go back to the \$35 million that you spent last year, Mr Moore, on the consultants and the professional service providers. How does Defence recruit those people? Is there a fee charged for the recruitment and, if so, who gets the fee?

Mr Moore—We have a number of standing panels in Defence that we can access. For example, the Chief Finance Officer Group that I head has a panel for financial services, so if we want accounting specialists anybody in Defence can use that panel arrangement to request quotes from the companies and shop around off the panel. Other parts of Defence have got similar panels for different types of contractors. For some of this work we are tied to one provider. For example, the secretary mentioned we have remediated the qualification on the valuation of our land and buildings. That was done through our Corporate Services and Infrastructure Group and they engaged the Australian Valuation Office to undertake a comprehensive revaluation of all our land and buildings. The cost of the AVO is part of the figures that I have quoted. We have to go to the sole supplier if that is the case for that sort of work.

Senator MARK BISHOP—You have outlined the break-up of the \$65 million. Can you also outline the break-up of the \$77 million in the forthcoming financial year?

Mr Moore—The break-up is quite similar. In fact, remarkably the same amount of money on consultants, PSPs and contractors is expected this year—about \$35 million. The real increase is the cost of our own people's involvement in this process: it rises to about \$42 million. I should also add that even though we have got a number of audit remediation plans

in place, which is driving this cost, because of the scale of the audit activity in Defence it will always cost us a fair amount of money to support an annual audit process.

Senator MARK BISHOP—Yes. You said the figure of 65 had increased to 77 and for the staff it had increased from 35 to 42. The outstanding figure of \$33 million: how much of that is going directly to consultants and how much is going to professional service providers?

Mr Moore—Just to clarify: the break-up of the \$77 million in 2005-06 is \$42 million and \$35 million.

Senator MARK BISHOP—And what is the break-up of the 35?

Mr Moore—Between PSPs and contractors and consultants? I do not have one.

Senator MARK BISHOP—You do not have the specific figures of the consultants, contractors or PSPs?

Mr Moore—The figures I read for 2004-05 we collected from all the Defence groups based on who they actually employed, but I have not collected from the groups an estimate by that break-up. We would normally wait until the end of the year. We do table these figures in our annual report and that is why I happen to have them for 2004-05.

Senator MARK BISHOP—All right. That figure going from 65 to 77 is an increase of about 12½ per cent from the 2005 to the 2006 financial year. Do you expect further similar increases in the three out years past 2006?

Mr Moore—The reason it is still going up is because the audit remediation plans that we have in place were only approved in February this year. They achieved what they could by the end of the financial year. We are still ramping up some activity under some of the audit remediation plans as we wind down activity on others. One of the major outstanding pieces of work to continue on with is what we call the supply customer accounts. We have over 20,000 of them. Each of these supply customer accounts have items of general stores inventory and repairable items in them. That is the area that is the focus of one audit remediation plan in particular. But the problems we have with general stores inventory—

Senator MARK BISHOP—I was not seeking an explanation; I was seeking an answer to the question of whether you anticipate further similar cost increases in the three out years subsequent to the 2005-06 financial year.

Mr Moore—I do not know whether \$77 million is the peak, and that is what I was trying to get to. It might drop away. My estimate is that we will have a spend of that order for the next three or four years.

Senator MARK BISHOP—That is an obvious thing to say. On the basis that nine of the 27 As have been approved, you still have 20-odd to do and you are discovering new fields of endeavour—of both a serious nature and a less serious nature—on a regular basis, there is going to be at least the same amount of funding required to finish off the entire remediation process.

Mr Moore—I agree.

Senator MARK BISHOP—So the trend line appears to be up and continuing up. On that exact point, have you done any scoping as yet to estimate the detail, scale and cost of that task past the 2005-06 financial year?

Mr Moore—Not at this stage, no.

Senator MARK BISHOP—But that is a work in progress?

Mr Moore—It will be.

Senator MARK BISHOP—It will be. Okay.

Mr Moore—For example, now that we have done the remediation for land and buildings, we can shut that part of the remediation plan down. There are two new audit qualifications coming out of 2004-05, so we will have to start appropriate plans to remediate those. This will be a work in progress for a number of years as we work our way methodically through these issues.

Senator MARK BISHOP—As an observation, it is clear that the ANAO view on so many issues has come from poor management, poor oversight and poor or non-existent controls over the years. In that context, is anything being done to tighten up on controls—expressly access to the system?

Mr Smith—There has been an enormous amount of work on controls. You are right. The two essential elements in my view are a controls framework and the training and discipline of people who use the systems. A huge amount of effort is going into both of those. If you wish to be taken through some examples, I will ask people to do so.

Senator MARK BISHOP—The ANAO repeatedly identify this huge range of access to the entire system as being a major problem area. They highlight it in their recommendations to be attended to. You might outline to us your observation on their findings and what you are doing, if anything, in that area.

Mr Smith—Brigadier McGahey will come to the table. He is running the SDSS work and can speak specifically on that area of interest after Mr Moore has spoken.

Mr Moore—We have three major corporate systems. The Standard Defence Supply System is our inventory system. Brigadier McGahey will outline the work on that. That is where the auditors have the most serious concerns about controls. Our other two corporate systems include our HR system, PMKeyS, and our financial system, ROMAN. They are less of a concern to the auditors than SDSS. The auditors come in regularly to test the control—

Senator MARK BISHOP—But PMKeyS is a problem, isn't it?

Mr Moore—Not in terms of controls for financial statement purposes, no.

Senator MARK BISHOP—So we are talking about controls.

Mr Moore—If you are talking about IT controls, the major concern in Audit report No. 56 relates to SDSS.

Senator MARK BISHOP—That is what we are talking about.

Brig. McGahey—In essence, in April-May this year ANAO conducted an audit of SDSS, with the object of identifying the degree of reliance that could be placed on system controls.

The audit was conducted by way of a visit to RAAF Williams, RAAF Amberley and DNSDC. Essentially, the findings covered three broad areas—systems access and security, business processes and practices surrounding the system, and the overall controls framework. As a result of that, we engaged an external firm, KPMG, which provided independent advice to the advice already offered to ANAO by PricewaterhouseCoopers in terms of establishing an auditable controls framework. Bear in mind that this is a global problem. Industry has a similar issue in terms of complying with the IT controls framework—that is the COBIT framework that was established under Sarbanes-Oxley. The framework was to be populated with the existing IT controls and to remediate the IT controls weaknesses. There was a change management plan to be developed in concert with KPMG.

Regarding access and security, basically a revised security matrix has been introduced. There were 76 categories of user profiles within the Standard Defence Supply System, 350 programs impacted upon the financial statement and 29 categories were found to have segregation of duty conflicts. These conflicts were resolved by 7 October this year by deleting inappropriate profiles and implementing compensating controls.

Senator MARK BISHOP—That is code for allowing fewer people to access the system and for getting rid of a lot of redundant programs, is it not?

Brig. McGahey—It is code for understanding how people were accessing the system. Bear in mind that, in an operational sense, one person may have a number of profiles because they do a number of jobs. Whilst in an audit sense that creates a conflict, in an operational sense we have to come up with a means by which we can deconflict these problems, because clearly if there is only one person in an operational setting then they need to access those different areas in terms of profiles, so we have to come up with compensating controls to cover that.

Senator MARK BISHOP—Was not the heart of the problem that ANAO identified in terms of control in SDSS excess access, widespread access and inappropriate access?

Brig. McGahey—I think it is too broad to say that. Sixty per cent of the controls were already in place, but I have to observe that Sarbanes-Oxley raised the bar in terms of what profiles we had in place and who, in a financial sense, was accessing particular areas. What we had to do was move to a standard that was internationally acceptable in terms of meeting the COBIT framework.

Senator MARK BISHOP—I will ask the question again. Are you limiting access, reducing access and getting rid of redundant programs?

Brig. McGahey—We are limiting access where appropriate.

Senator MARK BISHOP—Good. Full stop. You are limiting access.

Brig. McGahey—If we cannot limit access because of operational requirements then we are introducing a compensating control that allows us to review that level of access so that we have the necessary auditable framework to move forward.

Senator MARK BISHOP—What is the scale of the limitation of access?

Brig. McGahey—As I said, we found 76 categories of profiles in SDSS. Of the 76 categories, 29 were found to have segregation of duty conflicts, so we had to reconstruct those

profiles so that we did not have the duty. So if people were ordering and receipting at the same time that had to be deconflicted within the system, and that has been done.

There were two other areas of control. Clearly under the system control is business process compliance. You are aware of the program we launched under SDSS—the get well program, which had 132 recommendations. One hundred and eighteen of those were accepted for implementation. Twenty-six were identified as critical, 36 as high and 22 as medium. All of the critical items were resolved by 30 September this year. The high items are on program to be resolved by the end of this year.

Senator MARK BISHOP—I do not mean to be rude, but there is a lot of jargon exchange going on here. I do not understand really what you are saying. ANAO identified in the SDSS system a range of access and control problems. They said there was widespread and inappropriate access. From that derived a range of issues. What I am asking you—and I need an answer in English, not in jargon or the language that you are speaking—is what you have done that a layman might understand to implement the recommendations that ANAO made to you to limit and reduce access and control. I do not understand what you are saying.

Brig. McGahey—With respect, Senator, I thought I was explaining that. I will make it simpler. In terms of access, one can only access the system if you have an appropriate profile. We understood that there were some concerns about ANAO about the level of those profiles and conflicts between the levels of profiles. They have been broadly deconflicted. In terms of business process compliance—

Senator MARK BISHOP—Can you stop there. ANAO have signed off on that new deconflicted system?

Brig. McGahey—ANAO have signed off on the methodology that we have used, but they are yet to sign off fully on that because it is a three-part, category A observation.

Senator MARK BISHOP—Right.

Brig. McGahey—In terms of the second issue, which is the business process compliance—that is, how the user does their business on a daily basis; that comes back to the secretary's point about training and compliance—we have implemented a number of management action plans to address the key areas of problem that ANAO identified. The higher order of those business process compliance issues have been addressed, but it will be through until June next year before we can address all of the items. That was not found in the audit; that was found before that by the SDSS get well program. The final issue is that of ensuring that the set of business information and information framework controls are complied with and implemented. That is to be done between now and next February by three implementation teams that start work this week.

Senator MARK BISHOP—I understand that. What success has Defence had with ANAO on those matters concerning standards, particularly with respect to, firstly, the written-off value of old stock and, secondly, the practice of entering zero as a value for items which have not yet been written off?

Dr Gumley—Yes, we are working through the zero pricing problem. We are putting locks in the system so that people cannot enter zero prices. It does not help you, of course, if they

then enter 1c or 2c. So it becomes an issue of the practical limit on what you can put in. This gets back to what the secretary said earlier about how important it is that we get the discipline and training in place. You can put in any sort of computer system that you like, but if you do not have the discipline and training then people can make mistakes and go around it. So to get this financial remediation fix we have a lot of things we have to do. Brigadier McGahey has taken us through a lot of the process controls. I am confident that the plan he has in place is starting to work. It is starting to bite. There is another year's work, though, to get there. We also now have to work on the training aspects.

Senator MARK BISHOP—As a rule of thumb, has the old practice of entering zero as the value for items which have not yet been written off discontinued as a practice and the real value of purchased items entered into the system? Is that now the norm within the department? I presume Dr Gumley's comments were tongue in cheek when he talked about entering 1c and 2c in lieu of zero.

Brig. McGahey—Certainly the issue of tightening controls about entering zeros has occurred. However, the way the system is designed is that, for instance, if a workshop order—that is, a repair order—is entered before the quote comes back, clearly a zero has to be entered until they get the quote back. But, having said that, we are now running exception reports across the system to identify in a purchasing sense where people are entering zero. Wherever possible, we have tightened controls around that field to enter zero.

Senator MARK BISHOP—Let me ask the question in a different way. Is it the practice anywhere in the system currently for zero to be entered as the value for items which have not yet been written off?

Brig. McGahey—No, that is not the practice.

Senator MARK BISHOP—Is it the practice to enter a figure of 1c or 2c in lieu of zero as a similarly silly way of entering a figure for the purchase of items which have not yet been written off?

Brig. McGahey—It is certainly not the business practice.

Senator MARK BISHOP—Is it the practice in custom?

Brig. McGahey—No, we run exception reports to identify that. As Dr Gumley has said, it is a question of training—that people understand that the input of quality data into the system is paramount to getting the system to run properly.

Senator MARK BISHOP—I would have thought that it might be a question of training—you have to be trained to be able to do something. I would have thought that it would be a matter of line management instruction to employees that they enter the real value of the purchase price.

Dr Gumley—That is absolutely true.

Senator MARK BISHOP—That is what I am asking you because that was not the practice before. I am asking: is that the practice now.

Dr Gumley—No, there is no practice to deliberately put wrong data into the system. The practice is that you put the correct data into the system. But occasionally errors happen.

Occasionally people do not do the right thing, and I am sure that is the same in any organisation.

Senator MARK BISHOP—I am not talking about exceptions; I am talking about a practice that had been identified by ANAO as fairly widespread. I am asking you for confirmation that it has now ceased and the real value of purchased items is entered at the appropriate time.

Dr Gumley—If it is not entered at the appropriate time, the exception reports are run and you make the correction later. It can happen: sometimes you just do not know what the item is, and then you come back and print out a report which says, ‘This was entered as a zero,’ and you go in and correct it.

Senator MARK BISHOP—How many of those missed errors do you think would be occurring as a percentage of the overall?

Dr Gumley—I do not know. I could not comment.

Senator MARK BISHOP—But do you think the training regime that you have instituted is going to be sufficient to virtually eradicate that problem that ANAO have identified?

Dr Gumley—Yes. We have made it a very clear management direction that these sorts of practices are unacceptable. There has been a lot of tightening up done over the last year that points out how important it is to get these financial records correct. We run the exception reports on the zero pricing weekly, and most of the reporting system was in at the end of September and is being run now every week.

Senator MARK BISHOP—Turning to the issue concerning the Julian date of 2007, after which some suggest the whole SDSS could fail—and we have observed there was some discussion on this at the joint committee—what is the current estimated risk of failure, of total breakdown, given the complexity of the system?

Brig. McGahey—There is no risk of failure before 19 May 2007. In fact, the Julian date just represents how data is stored in the current system. We currently have a plan that has been reviewed for remediation of the Julian date issue in terms of remediating version 4 of the current software. The project plan has been drafted and it is funded. The aim is to have it implemented before the end of the first quarter next year.

Senator MARK BISHOP—ANAO also expressed concern that reconciliation of the explosive inventory continues to remain incomplete. What is the problem with the inventory? Is it quantities, whereabouts, pricing, obsolescence?

Brig. McGahey—Are you talking about explosive ordnance?

Senator MARK BISHOP—Yes.

Dr Gumley—With explosive ordnance, we have got a clean tick on the quantities now. We still have considerable difficulty with pricing, particularly of old explosive ordnance. We have concluded that \$146 million will never be truly rectified without a huge amount of work and records which we simply do not have anymore. We do not have the paper records from the eighties and early nineties to justify the pricing. Some of the other qualifications on the pricing of explosive ordnance come from accounting policy—weighted average cost or lowest

replacement price—and I think that is a matter for discussion with the Audit Office and reporting what the differences are. Defence has used weighted average cost now for many years and, under the new accounting standards we are moving to, that is going to change to the lowest replacement cost method.

Mr Smith—The figure for the uncertainty against that item in this year's financial statement is going to be \$675 million but, as Dr Gumley says, much of that relates to the technical questions about the way in which the material is journalised. With suitable clarifications on that over the next year, we hope we can get it down to something like the area of \$146 million, which we think is probably unresolvable.

Senator MARK BISHOP—So you have got it down from \$845 million to \$675 million, and you aim to get it down to \$146 million next year.

Mr Smith—And we think that that is probably going to be irreducible.

Senator MARK BISHOP—The quantities are okay and we are really now having a discussion of about \$500 million over pricing issues and accountancy policy related to pricing—

Mr Smith—Yes.

Senator MARK BISHOP—and you want to resolve that by negotiation in the next 12 months with ANAO?

Mr Smith—Yes. We just have to agree on the methodology. Some of our frustrations in this area—and ANAO's too, in fairness—relate to the different methodologies and accounting treatments. I hope we can clarify that very shortly and get some resolution of it.

Senator MARK BISHOP—I am told that the military long service leave is going to be okay. What is the likely time frame for other aspects of civilian and ADF leave to be fixed?

Mr Smith—My time frame was 2004-05, but unfortunately we did not make it. It is now 2005-06.

Senator MARK BISHOP—What is the likelihood then?

Mr Smith—I would like to say that it is very likely, but there is always a risk.

Senator MARK BISHOP—So that is a remediation plan in—

Mr Smith—I will again be very disappointed if it is not resolved—put it that way. If it comes down to some highly technical issue of a dispute about sampling methodology, fine, I can understand it, but if it turned out that we had not done the work then I would be pretty upset about it.

Senator MARK BISHOP—By May or June 2006 you think that the whole leave issue is going to be resolved?

Mr Smith—I certainly hope so. I am cautious about making promises. You do not know where these technical issues will come at you from, but it ought to be resolved.

Senator MARK BISHOP—What work has been done to scope the nature of the work needed for PMKeyS? What is the time frame and the cost?

Mr Smith—I will ask the head of our Defence personnel executive, Major General Evans, to address that question. If you wish, he could speak a little on the leave records matter as well. General Evans, did I overcommit us on the leave records resolution?

Major Gen. Evans—With regard to your last question about the leave, I have given an assurance to the secretary that I will do everything I can to ensure that leave is remediated correctly by the end of this fiscal year.

Senator MARK BISHOP—The next question is: what scoping work have you done for PMKeyS, and what is the time frame and the cost attached to that?

Major Gen. Evans—At the outset might I say that we have now got a very capable and reliable single system for HR. It supports our people—civilians, regulars and reserve members alike. Obviously, it has had a chequered history, but I do believe that we are on track with this system.

Senator MARK BISHOP—What does ‘on track with this system’ mean? It has a bad record, this one.

Major Gen. Evans—It did in the past have a chequered history. But I believe that we have a fairly robust system now that supports HR management. We are moving towards upgrading the system, and that upgrade will help us, particularly in the area of supporting pay. I think we are using the proper processes to get that established.

Senator MARK BISHOP—Last time you upgraded PMKeyS the cost blew out by about \$100 million.

Major Gen. Evans—We are now using the processes that have been established since 2002. At that time, our processes were a little different. I believe we have a robust process that conforms to the way Defence moves forward on various systems and capabilities.

Senator MARK BISHOP—How are you answering my question about the scoping work needed to get the new system in place? Where is it at—scoping work, time frame and costs?

Major Gen. Evans—We have gone through the first pass for the upgrade. I will ask Peter Lush to go into the cost aspects.

Mr Lush—As Major General Evans has mentioned, there is a project, JP 2080 phase 2B, which relates to the upgrade of PMKeyS as well as the upgrade of ROMAN. The first pass approval to PMKeyS was provided earlier this year. It is now in a process of proceeding from first to second pass, within the construct of the so-called Kinnaird reforms—the changes within the DMO project management. At this point in time, the project activity is about to proceed or progress from the DPE organisation, where it has resided, to the CIO group. I anticipate that happening some time this month—certainly before the end of the year. The activities that are being conducted at the current time to take forward the upgrade relate to design work, in terms of business definition, and technical architecture issues associated with installing the new facility, because this is a distinct step in technology from the current platform that hosts the system.

Senator MARK BISHOP—Is the design work being done in-house or out-house?

Mr Lush—Both, if you like. There is support coming through from contractors, but there is also the internal expertise, whether it be in the business end or in the CIO group, supporting the definition work that has been conducted to lead into, and which is fundamental to, the process of releasing a tender.

Senator MARK BISHOP—So you are up to pass two. What is the cost?

Mr Lush—The project is costed in the vicinity of \$45 million. The time frame projected currently would see expected implementation in the financial year 2007-08, at this stage.

Senator MARK BISHOP—Has the valuation of land and buildings been concluded, Mr Smith?

Mr Smith—Yes, that has been resolved.

Senator FAULKNER—Mr Lush, I think you managed to get more acronyms into those answers in about one minute than I have ever heard before, and I just wanted to congratulate you on that. It reminded me of when I became Defence personnel minister and some of the acronyms were new to me. I asked Defence to send over an easy guide, and I got 12 ring-folders sent across to my office. It was terrific; I loved it. I did not understand a word of what you said but it was fantastic!

Mr Smith—Senator, that is called the EGTA: the easy guide to acronyms!

Senator MARK BISHOP—We are coming to the end of this session. Back in May, you had in the PBS that schedule of remediations which we had asked you to put together. It was at page 198. Is there any way that could be made more relevant and include target dates for the removal of qualifications for each of the plans? What you keep saying to me, Mr Smith, are things like ‘working towards’, ‘certainly hope’, ‘greatly hope’, ‘want to hope’ and ‘hope to be able to promise to deliver, Senator’. Is it possible to amend that document—and it is a useful document—to have target dates for each of the remediation plans?

Mr Smith—There is an updated version of that in the annual report, which will be tabled very shortly. It does not have target dates in it, but we will have a look at that for you before the next estimates in February.

Senator MARK BISHOP—Senator Hogg reminds me that we asked for a sheet of target dates to be attached to that schedule when we had this initial discussion back in February.

Mr Smith—I am sorry if we have overlooked that. We will see what we can do about that.

Senator MARK BISHOP—If you could give consideration to having target dates for the conclusion of each of the remediation plans, that would be good. You were going to provide us with a copy of it prior to each estimates so that we did not have to ask you questions for three days.

Mr Smith—I have overlooked that. I am sorry. It is in the annual report, but we will take it on notice and fulfil that.

CHAIR—We are going to break, but before we go I want to make mention of the fact that Senator Allison is going to ask some questions when we come back on Afghanistan which are particularly pertinent to Red-back Kilo Three, which is something which I am sure we gave some notice of just recently this afternoon. We will go straight to that when we come back.

Proceedings suspended from 3.31 pm to 3.46 pm

CHAIR—I call the committee to order. It is not necessary that the secretary attend the table because we are going to just interpose that Afghanistan matter for a moment for Senator Allison.

Senator ALLISON—My questions surround the incident which was fairly widely reported in the press here in June this year, concerning the Special Air Service patrol Red-back Kilo Three. At that time I believe it was said that there would be an internal review conducted. Can you advise the committee of the status of that review?

Air Chief Marshal Houston—That review, by a senior army officer, is nearing completion. To date, we have not found anything that suggests that the patrol did anything other than act in a very professional way. We have not found anything to substantiate those allegations that were in *Time* magazine. Regrettably, because the report is not complete—I have not seen the report yet—I would prefer to table it at a later stage. But I can assure you that everything that we have looked at so far confirms that these fellows acted within the rules of engagement and acted professionally.

Senator ALLISON—Who is actually conducting the review?

Air Chief Marshal Houston—The review is being conducted by the Chief of Army, and he has appointed a senior army officer to conduct the review. Everybody involved has been re-interviewed. All the patrol diaries have been checked. All the previous investigation reports have been thoroughly reviewed. Essentially, everything has been looked at and, at this point, no new information has been revealed.

Senator ALLISON—Did you also have a chance to examine the remarks that were made by the United States officer who was in the area, who said that this incident was used as a case study for new commanders about how not to conduct operations? Were you able to identify that person and discover whether this was the case or not?

Air Chief Marshal Houston—I am not across that level of detail. All I know is that we have pursued every line of inquiry, and we have done it in a very rigorous and thorough way. Once we have completed that process, the report will eventually come to me and will then go on to the minister.

Senator ALLISON—So it will not necessarily be a public report; it will be up to the minister.

Air Chief Marshal Houston—One of the difficulties with this is the nature of the operations that are being looked at. As you know, we do not like to talk about our special force operations in detail because it does tend to compromise our tactics, techniques and procedures, and that can put the safety of our people at risk. That is something I am not going to be a party to.

Senator ALLISON—Would you acknowledge that details of the incident have been fairly well canvassed in some detail already?

Air Chief Marshal Houston—There was some reporting in the media, but I do not subscribe to the fact that that was an accurate account of what happened.

Senator ALLISON—Don't you think it is necessary to make an accurate account public in order to refute the allegations that were incorrect?

Air Chief Marshal Houston—I am not in a position at this stage to make those sorts of judgments. My intent is to await the report from the Chief of Army. When I receive the report from the Chief of Army, I will do a thorough review of that report. I will obviously do my own analysis and I will make my recommendations to Minister Hill. Obviously, one of the things I will include in my advice is whether or not we should release the report. It may be that we can put something on the public record that certainly addresses all the concerns that have been raised.

Senator ALLISON—Was it ever envisaged that this review would be somewhat more at arm's length from Defence than you have just outlined?

Air Chief Marshal Houston—This was a decision that was taken before my time as CDF. I was not involved in the discussions about who should do the inquiry and who should be involved and so on. But let me assure you that I am completely satisfied with the process that has taken place. It has been done by a very experienced and professional officer whose integrity is beyond reproach.

Senator ALLISON—Did the review include consultations or interviews with the villagers immediately affected?

Air Chief Marshal Houston—I would have to get back to you on that. I do not believe so. I think that might be quite problematic in the environment that exists in that part of Afghanistan at the moment.

Senator ALLISON—So did most of the information for the review come from diaries? That is what you said.

Air Chief Marshal Houston—All the information that we hold—the reports that the patrol put in, reports from the chain of command, the previous inquiry that was done, the patrol diaries—has been looked at and everybody who was involved that we could get hold of has been interviewed. It has been a very exhaustive process.

Senator ALLISON—The article in the *Adelaide Advertiser*—and I am not sure whether this was also in the *Time Magazine* piece—suggested that there were second-in-command officers who were disciplined, and I think there is a quote attributed to General Cosgrove along those lines. Was that the case?

Air Chief Marshal Houston—There was an instance of discipline being applied against one member of the patrol.

Senator ALLISON—But nonetheless you found no evidence?

Air Chief Marshal Houston—Those particular circumstances have been reconfirmed, but I am saying that there is nothing additional to what has already been revealed from the previous inquiry.

Senator ALLISON—Is it possible to tell the committee what that discipline involved and the purpose of it—what it responded to?

Air Chief Marshal Houston—I think that was all covered at the last hearing in quite some detail.

Senator ALLISON—The last estimates hearing?

Air Chief Marshal Houston—The last time we met, yes. All of that was covered in great detail.

CHAIR—This was the souvenir issue, wasn't it.

Senator ALLISON—Okay. Earlier today I saw a report of the questions asked about act of grace payments. Do any of those act of grace payments relate to this incident?

Air Chief Marshal Houston—I do not believe so. No, not at all.

Senator ALLISON—Will the review make recommendations with regard to compensation? There were 11 killed altogether, where there not?

Air Chief Marshal Houston—Again, I cannot answer that question. I need to read and analyse the report and then make a judgment on those matters as well.

Senator ALLISON—So you cannot tell the committee whether there will be recommendations with regard to compensation?

Air Chief Marshal Houston—No, I cannot, because I do not have the report yet. That puts me at something of a disadvantage.

Senator ALLISON—Were there any changes made to the vetting processes for patrol commanders as a result?

Air Chief Marshal Houston—No. I have the highest regard for our special forces. I think they have demonstrated time and time again that they perform in a very professional and courageous way. They are some of the finest soldiers that we have ever produced in this country.

Senator ALLISON—Yes, I do not doubt that, but I am just asking whether changes were made. Obviously there was disciplinary action taken in one instance, but were any other changes, either procedural or operational, made?

Air Chief Marshal Houston—Again, I need to wait for the report, but I would not expect so.

Senator ALLISON—So the report might be about what happens in the future rather than what has already been done thus far? We are talking here about something that happened three years ago.

Air Chief Marshal Houston—Sure. The report will be a very thorough and complete report on the circumstances that occurred three years ago.

Senator ALLISON—I understand that, and they may or may not recommend changes to procedure or process or vetting or the like. My question really, though, was whether there have been any changes in the meantime—since the incident or between incident and this point in time. If the answer is no, the answer is no.

Air Chief Marshal Houston—There have been no major changes at all.

Senator ALLISON—Were any other incidents uncovered as part of this review?

Air Chief Marshal Houston—I do not believe so. As I said, there is absolutely no new information out of this inquiry at this point.

Senator ALLISON—Minister, will the report be made public when it is delivered to you?

Senator Hill—I doubt it.

Senator ALLISON—Can you explain why this would be the case?

Senator Hill—I have not seen it, but, if it were a report that went into circumstances of special forces operations, it would not normally be made public.

Senator ALLISON—Minister, there has been a lot of public debate through the media about what is alleged to have happened. I would have thought that, if the report finds otherwise, it would be wise to make that report available so that the facts might be known.

Senator Hill—There was one article that I can remember.

Senator ALLISON—I am looking here at the article that was published in the *Adelaide Advertiser* on 2 June. I understand there was also a report in *Time* magazine. I do not know of any others.

Senator Hill—I thought we were talking about the *Time* magazine article. I will look at the report when it gets to me and see whether it is possible to release some abridged version. But, in principle, it does not seem to me to be the appropriate type of report to be released publicly.

Senator ALLISON—It is just that what was said earlier was that there were inaccuracies in the reporting that had taken place.

Senator Hill—In the article?

Senator ALLISON—In articles, yes.

Senator Hill—The articles stand for themselves. What the Defence chief undertook, as I recall it, was to have an investigation to satisfy him as to the conduct of Australian personnel. If that has taken place and the Chief of the Defence Force is satisfied that the conduct of Australian personnel was professional and appropriate in the circumstances, from my perspective that would be the end of the matter.

Senator ALLISON—Some might argue it is a cover-up if it is not released.

Senator Hill—They always do.

Senator FAULKNER—Just for clarity's sake for the record, Air Chief Marshal, my understanding was that the act of grace payments we were speaking about earlier—three sets, if you like: payments that had been made, a second set about to be paid and a third set under examination—all related to the war in Iraq. I think just for the record we should be clear on that.

Air Chief Marshal Houston—That is absolutely correct. There are two payments that have been made against one incident. And the way you described it is exactly how it is for the other two.

Senator FAULKNER—Again for clarity of the record, can you confirm that there have been no act of grace payments in relation to our involvement in Afghanistan?

Air Chief Marshal Houston—That is my understanding, but I will go back after this and do a check. To my knowledge that is the case, but I will do a check after this hearing to ensure that is indeed the case and I will come back to you to confirm that.

Senator FAULKNER—Thank you.

Senator Hill—Certainly I do not know of any that have been made through the minister for finance process. We use that definition of act of grace.

Senator FAULKNER—Is there another process?

Senator Hill—I do not know. It depends, again, on definitions.

Senator FAULKNER—That is hardly a satisfactory answer from the minister. I understand and I think you understand what the minister for finance process is, but I was not aware there was another process.

Senator Hill—If that is the definition of act of grace then my understanding is that the answer is no.

Senator FAULKNER—But my question is: is there another type of act of grace payment that is not paid by the minister for finance? I thought I had asked this question before and there were two categories of payment: one we broadly described as act of grace paid by the minister for finance and the second we broadly described as compensation. I did actually ask whether there was any other category of payment and I thought the answer was no. So I would like to be clear on that too.

Senator Hill—I think the other payments are better described as of compensation category.

Senator FAULKNER—All the payments related to aggrieved parties or injured parties or affected parties in Iraq: can they be categorised as either act of grace payments that have been or may be made or compensation that has been paid or may be paid?

Senator Hill—You can categorise them—

Senator FAULKNER—In other words, are there any other types that we have not canvassed in what has been a significant amount of questioning at this committee this morning. I am just trying to make sure that there is no other type of payment, which it appears there might be, judging by the response that you have given to the committee.

Senator Hill—It depends on what your definition is of compensation—that is my hesitation. Perhaps it is an unnecessary hesitation, but if the definition of compensation is for some legal liability then I suspect payments that have been made in these car accident cases and so forth go beyond that. So whether we have been a bit broad in our definition or categorisation of compensation I am not sure.

Senator FAULKNER—But you can say in relation to Iraq that no other payments have been made apart from the act of grace payments and the compensation payments that have been outlined to the committee this morning. We can be clear on that.

Senator Hill—I know of one incident that required approval by the minister for finance, and I know of a range of other smaller ones that were referred to today which we have been calling compensation, which are paid by the Department of Defence.

Senator FAULKNER—That is complete then. In relation to Afghanistan, we have heard evidence from the CDF that there are no act of grace payments, but I appreciate that he has qualified that by saying that he will double-check if that is the case. So the record is complete on this, perhaps the Air Chief Marshal can indicate to the committee whether he is aware of any ongoing investigation or inquiry in relation to events in Afghanistan that may lead to an act of grace payment.

Air Chief Marshal Houston—I am aware of no other circumstances of that type but, again, I will double-check that.

Senator FAULKNER—Finally on this, have there been—and I assume there may well have been—any compensation payments, which is how they have been described for want of a better description, in relation to our involvement in Afghanistan?

Air Chief Marshal Houston—I would like to take that on notice because, as I indicated to you in regard to Iraq, we can start at a very low level of compensation. I will come back to you on that in writing. Finally, regarding a question you asked earlier, and to clarify the record, we are broadly aware of what other close friends do in terms of the way they handle compensation issues in Baghdad, but I want to stress that everything we do is completely independent of them. We do not consult with them. We have a completely unique approach, as I described to you earlier today.

Senator FAULKNER—The reason I asked the question—I do not know if I mentioned this background at the time, but let me be clear about it—was that it has been reported publicly that the ADF has worked with US and British armed forces to establish compensation rates. That is why I asked the question. The answer I received was in the negative.

Air Chief Marshal Houston—Six to seven.

Senator FAULKNER—I now hear the minor qualification you provide to the committee in relation to this.

Air Chief Marshal Houston—I can say that we are broadly aware of the rate that they apply in similar circumstances. I also update the record regarding a question on training that was asked this morning. In regard to Australian training in Al Muthanna, we have trained 1,697 people in the 2nd Brigade—that is, 831 in the 1st Battalion, 580 in the 2nd Battalion and 276 in the brigade headquarters. The numbers that we will have trained by May 2006 will be 1,774.

You will note that there is a slight difference in the numbers and that accounts for people who failed the training, were discharged or soldiers who completed more than one course. I would add that the United Kingdom also does training there and they have trained another brigade, so the coalition has probably trained in excess of 3,000 people in Al Muthanna province.

Senator MARK BISHOP—So those two figures of 1,600 and 1,700 make a total of roughly 3,300 trained by ADF in Al Muthanna province by May 2006. Is that correct?

Air Chief Marshal Houston—The numbers that we will have trained by May 2006 are 1,774. You will note that there is only 1,697 in the 2nd Brigade. The difference is taken account of by failures, discharges—

Senator MARK BISHOP—Sorry, Chief, I do not understand you. I thought that in the first half of the training period you were going to be training 1,600 people in total and then an additional 1,700 in the second half of the training period.

Air Chief Marshal Houston—The numbers that we will have trained by May 2006 is 1,774.

Senator MARK BISHOP—Total?

Air Chief Marshal Houston—Total. The Brits are also training and they have responsibility for the other brigade, so it is in excess of 3,000.

Senator MARK BISHOP—How many in the first half?

Air Chief Marshal Houston—Training team four has trained 900 people in Al Muthanna. I mentioned to you that we trained an additional 650 at Talil. By the end of May we will have trained an additional 674 people—something like that. I will write to you and give you the numbers for the record.

Senator MARK BISHOP—This is not rocket science. I think General Gillespie knows the answer.

Lt Gen. Gillespie—The issue is that the brigade strength for which we are responsible is 1,697 people. We have trained approximately 900 of them to date and we will have trained the Delta, which will be a total of 1,774, by the end of May.

Air Chief Marshal Houston—Another 874.

Lt Gen. Gillespie—We have trained the people at Talil working in conjunction with the Brits. So that is a shared effort of putting people into different brigades.

Senator MARK BISHOP—I have it, General.

CHAIR—Can we return to the issue of the budget.

Senator MARK BISHOP—No, military justice.

CHAIR—We are going on to military justice.

Senator MARK BISHOP—This is probably a question for the minister. Legislation was introduced into the Senate about a fortnight ago which, in the press release, claimed to be the first instalment of the government's response to the Foreign Affairs, Defence and Trade References Committee report on military justice. Is that correct, or is this not the same legislation that had been introduced just prior to the committee report being tabled but it did not go ahead at that stage?

Senator Hill—Both propositions are correct. The report on military justice picked up the earlier issues because legislation flowing from the earlier reports had not been enacted and the committee inquiry into military justice readdressed some of those issues. The bills we were ready to introduce, we did not introduce. There were some modifications made as a result of

the response to the Senate committee report on military justice and, in a modified form, the bills have now been presented as the first legislative response to the military justice report.

Senator MARK BISHOP—Got you; I understood that. When do you plan to introduce the other elements requiring legislation, that have been foreshadowed by the government, into the parliament?

Senator Hill—My expectation would be next year. That will set up the structure of the Australian Military Court and all the other matters that flow from it, which are new matters, the detail of which will require more work. But the principles are settled by the government's response and it is simply a matter of now preparing the drafting instructions and getting the bills drafted. Our plan is to have the full implementation within a period of two years. I have it in the back of my mind that that means the legislation for the new court needs to be passed next year.

Senator MARK BISHOP—Have the drafting instructions for that next set of bills been concluded yet? Or are you still working out the detail of the drafting instructions?

Senator Hill—The Chief has set up a process mechanism for dealing with the whole range of undertakings that we have made, and he can respond in detail about that. One of those responses will be to develop drafting instructions for the legislative changes that are necessary.

Senator MARK BISHOP—Is additional funding going to be required to clean up the backlog of the review of grievances?

Senator Hill—I do not think so. We are expecting that to be completed by the end of the year, as I recall it. But there will be additional costs in the implementation of the government's response. A number of new positions need to be created, such as two new military—

Senator MARK BISHOP—I understand all that; I was talking about the review of grievances. How many cases are in the backlog of the review of grievances, Chief?

Air Chief Marshal Houston—I am not sure where we are right now, but I can tell you that the backlog is being cleared quickly and effectively. I can take on notice what the precise number is at the moment. We are progressing very well and I think we are on track to clear the backlog by the end of the year. We will take that on notice and get that for you.

Senator MARK BISHOP—When do you think the new triservice police force will be established and be up and operational?

Air Chief Marshal Houston—We are only one month into the implementation. Rest assured that I am seized with this task of implementation, as are the chiefs of service. We recognise that we have to get on with this, and get on with it as quickly as we can.

Senator MARK BISHOP—Do you have a time line for the establishment of it?

Air Chief Marshal Houston—No, we do not.

Senator Hill—We are committed to six-monthly reports to a committee. Basically, each commitment will be listed and progress will be reported. At the end of the first six-month

period you should not only get a time line but also information as to what has been achieved to that date.

Senator MARK BISHOP—That is a fair response.

Air Chief Marshal Houston—I have had a first look at the draft implementation plan and we will be taking that in the Chiefs of Staff Committee very shortly. There are an awful lot of things that we are going to take on board to implement the revamped system, including a lot of the items from previous reviews and reports.

Senator MARK BISHOP—In your introductory remarks you addressed issues of people and control and respect. When the Senate report came down you were fairly well immediately in the press indicating that you would be requiring a change of culture in the affected areas of the ADF and that you were going to take a continuing personal interest in this particular agenda. You have repeated that again this morning, so clearly we take those comments at face value. How confident are you of getting that change in culture that will result in a change in behaviour at the coalface?

Air Chief Marshal Houston—I and the chiefs are totally committed to ensuring that our people are treated with care, consideration and compassion. It is something that is happening all the time. Let me just give you one example that I have had a look at recently. The Army have really revamped the way they do rehabilitation. In years gone by, people were broken in the training system and perhaps we did not put the emphasis on rehabilitation that we should have done. But I recently visited the training command rehabilitation centre, which is co-located with the No.1 Health Support Battalion at Holsworthy. What I observed there was, I think, world's best practice rehabilitation in progress. Essentially, they are returning over 80 per cent of these young people who have been damaged in the training system back into the Army—in other words, they are back into the training system and they are progressing into a career in the Army. I spent an afternoon there and was very impressed with what I saw. That is the sort of thing we have got to do right across the ADF.

One of the early things we are going to do is a cultural audit of our training system—that is, the training system right across the ADF. I have invited Andrew Podger to head that up. This will be done in a very open and transparent way. The outcome of that cultural review will be one of the things we report back to this committee as part of our six-monthly reports. I think that will give us a very good snapshot of how we are going in cultural terms. I have been around having a look at the ADF training establishments over recent months. I have not been everywhere; in fact, I have not been to any of Navy's training establishments. But what I have seen is very professional people doing a very good job in a very caring way. I will be interested to see the results of this audit which I think will be very positive.

Senator MARK BISHOP—All right. That is a system you are going to establish to review culture across the board within the ADF and then report to this committee every six months on its progress. That is effectively a monitoring role, isn't it?

Air Chief Marshal Houston—What—in terms of the six months?

Senator MARK BISHOP—Yes.

Air Chief Marshal Houston—I think it is important that we come back to you and indicate to you the progress that we are making on implementing this revamped system.

Senator MARK BISHOP—Do you think that culture review by Mr Podger, the adoption of his recommendations and the six-monthly report to the committee as outlined by Senator Hill is going to instil a more acceptable set of values over time within the ADF in the context of this debate?

Air Chief Marshal Houston—There is a lot of talk about culture. There is a lot of talk about behaviour. The basis for behaviour is always a good set of values. If you want the right sort of behaviours in an organisation what is absolutely critical is the quality of the leadership, and leadership that is in accordance with those values—values based leadership. All of us—and I include my colleagues the service chiefs—are very focused on ensuring that we have that very important values based leadership right across the ADF at all levels. If we are able to do that I do not think we are going to have any problems with the culture of the ADF.

In terms of ADF culture, have a look at what we have achieved in operations over the last five or six years. I think that is indicative of a very professional culture, a culture that has been very successful in achieving the required results in very challenging circumstances. I would ask those of you who went over to Iraq last week: did you see anything while you were away that indicated we have any problems with culture over there? When I have gone, I have been very uplifted by what I have seen. I have seen a very professional approach to everything we do, and young people working wonderfully well together in teams that go not only across the Australian boundaries but also across the wider cultural boundaries with the Iraqis and other coalition members.

Senator MARK BISHOP—I did not go to Iraq, so I cannot make any comment. But, in that context, I have never and do not now offer any criticism of what goes on in the forces overseas. This whole discussion on military justice and about culture, behaviour and values has been in the context of situations that have arisen in the Commonwealth, not offshore. The cases that have been highlighted have usually been in the day-to-day operations of the military. That is where they have been and that is the context of the discussion.

Air Chief Marshal Houston—That is why this audit is focused on our training system. I got the suggestion, I suppose, from some members of the committee that they thought there were some issues in our training establishments. I think that having an open and transparent approach to this review will give a good indicator as to where we are at with our culture within the ADF.

Senator MARK BISHOP—Many of the representations that members of parliament, and some of those who have portfolio responsibilities, receive in their offices are from people with a range of serious grievances. Usually, but not exclusively, those grievances concern sexual harassment, sexual assault or sexual matters which they feel have not been investigated thoroughly and properly over the years. How is the new system going to change their attitude to what they believe is a cover-up, a group mentality that does not take their complaints seriously or a self-protection mechanism within the ADF that looks after the boys but not those who are allegedly offended against? How is the new system going to fix that? We may as well be up-front; I put that question to you in the context of people like Fahey, Higgins and

others who have gone to the press with fairly major accusations of serious assault in past years, and of protracted, ongoing and costly exercises in the courts.

Senator Hill—I think the question you are asking is impossible to answer, because you ask, ‘How is the new system going to satisfy particular individuals?’ and you cannot prove that that will be the case, because it relies upon the attitude of the individuals. What we can do is outline a system that we believe is fair and thorough, and we can outline the safeguards that have been put in place to give us that confidence, but there will always be individuals who will argue that they have been unjustly treated, whatever the system you have in place, whatever the outcomes. I think when you relate it back to particular individuals it becomes very difficult to answer.

Senator MARK BISHOP—I suppose that is right, but the complaint about the system derives from the ongoing sense of hurt that individuals feel that their grievances are never investigated properly. Take the case of Lieutenant Commander Fahey, where the government, in breach of its own legal service guidelines, paid Dr McKenzie almost half a million dollars in legal fees, and he was found by the medical board of inquiry to be repeatedly incompetent, corrupt, dishonest and deceitful, yet she is still in the negotiation phase to settle her complaint.

Senator Hill—Is that what the findings were?

Senator MARK BISHOP—You bet they were. I have read the entire report of the Medical Board of Western Australia, and those are their findings about him.

Senator Hill—That he was corrupt?

Senator MARK BISHOP—That he was incompetent, deceitful and deceptive.

Senator Hill—And corrupt?

Senator MARK BISHOP—I do not have it with me.

CHAIR—You did say ‘corrupt’. Is this the subject on ongoing litigation?

Air Chief Marshal Houston—Yes, it is.

Senator MARK BISHOP—McKenzie’s case is resolved.

Air Chief Marshal Houston—Yes, but we cannot talk about Fahey, because that is being considered by the Federal Court. We cannot talk about Williams, because that is under consideration by the Federal Court.

Senator Hill—This was the role of the committee. The committee looked at some specific instances and basically said to the ADF, ‘You did not serve that person well.’ We have sought to respond to that by putting in place better systems and structures, more safeguards, more checks and balances, and greater confidence that those who have ultimate responsibility will become aware of the issues at an earlier date. That new process is being implemented, and the test will really be in its application. I have no doubt at all that this committee, maybe with some different personnel, will be looking at this in a few years time and making a judgment on whether the practice has improved. It is our objective to improve it. We took the committee’s advice seriously. We believe that we have committed ourselves to reforms that will improve the system, and now we will implement those reforms.

Senator MARK BISHOP—I do not particularly quarrel with your approach. I understand the government's approach in this matter. I suppose the issue I am pursuing is: how many angels are on the pinhead? How do you guarantee—

Senator Hill—But there will still be people who are unhappy, and you will be able to judge in the future whether their unhappiness amounts to a fair criticism of the department. We hope that there will be fewer instances where you reach that conclusion.

Air Chief Marshal Houston—I think the new system will give more independence and impartiality. I think we will get fairer outcomes and more rigorous processes. I am confident that that is going to be the outcome of the implementation that we are embarked upon. We are addressing all of the other concerns that you mentioned. I think the leadership team we have at the moment is deeply committed to ensuring that we provide the necessary leadership to continuously improve wherever we can.

Senator Hill—One of the biggest factors is the need to keep to time lines. Too many of these problems have festered because of frustrating delays. The new system has lots of checks to seek to avoid that occurring. If there is a delay then it comes to the attention of a supervisory body that has not only the power but ultimately the responsibility to intervene and take action. As I said, the report was taken seriously. A lot of careful thought went into the response. It will not satisfy everybody but, if it is implemented well, I think there is every chance that it will work much more effectively than what we have had in the past.

Senator MARK BISHOP—I do understand that argument. I will have to pursue that at another time. Chief, what is the attitude of the ADF to the intervention of Comcare into the investigations of harassment and then death in the Northern Territory?

Air Chief Marshal Houston—We have been working with Comcare for a long time now. Comcare are represented on all our occupational health and safety committees. They are part and parcel of the way we do occupational health and safety, and they have a statutory responsibility and accountability to look after occupational health and safety across the board in Australia. So I accept the fact that they have an obligation to sometimes become involved in our affairs.

Senator MARK BISHOP—Yes, they do have a statutory obligation to involve themselves in your affairs. It is a fairly serious matter for them to become involved. Given that they have the ability to fine Defence for breaches of the Commonwealth act, are you engaged in any discussions with Comcare as to your occupational health and safety responsibilities?

Air Chief Marshal Houston—As I indicated, they are actively involved with us in a whole process of providing occupational health and safety governance. I also meet with the CEO of Comcare on a very regular basis every quarter, and we discuss matters of mutual concern and interest. I have absolutely no difficulty at all with their involvement in our safety committees. They do a good job. They have been working with us for a long time. I might add that there are many other large companies, large businesses, in Australia that have also been fined for shortcomings in occupational safety.

Senator MARK BISHOP—In that context, let us turn the discussion to the recent death arising out of heatstroke and the more recent coroner's report in the Northern Territory. The coroner's report is quite detailed. He made the point in his findings, particularly on page 44,

that there had been a poor record as far as heat exhaustion was concerned over the last four years and that nothing had been done. The Northern Territory coroner recommended:

... that the Chief of Army review (once again) the position of some of those responsible for allowing the exercise to occur ... I accept the evidence ... that ... specifically warned higher command that exercises at the place, and at the time of year ... would lead to death.

As I understand it, his finding was that there were a series of internal reports from senior warrant officers up the chain of command and nothing was done. What did the coroner mean by 'once again', General Leahy?

Lt Gen. Leahy—The coroner was referring to an internal Army investigation that was conducted into this particular death. He has invited me, quite properly, to review the situation, and I will do that. I first saw the report yesterday. It came down on 31 October and we had a senior Army officer in Darwin receive the report. We have been closely engaged with both the coroner and Comcare. I might add to what the CDF was saying: in the case of Army, and I think the other services, we have a strategic partnership with Comcare, and we value the relationship and the assistance they can provide to us with their wide range of expertise and skills. In regard to this particular case, the coroner has pointed out in his evidence something that we were not fully aware of—and that is what you have referred to—and that is that a warrant officer has given in evidence that he reported to his chain of command the difficulties with conducting training of that nature at that time of year. The investigation that I have seen did not include that, and I will, as the coroner proposes, go back and have a good look at it.

Senator MARK BISHOP—You were not aware of the training occurring to that degree at that time of year?

Lt Gen. Leahy—I did not say that. I said that I was not aware that a warrant officer had made a report through his chain of command. I was well aware of the training that was going on. I was aware that there were some issues, and they are part of the investigation, but what I am saying here is that I want to go back and have another look at it.

Senator MARK BISHOP—Why had the warrant officer's written reports—as I understand it—warning of the likelihood of death from that type of exercise not been treated sufficiently seriously within the organisation?

Lt Gen. Leahy—That is something that I will have a look at. I would not like to speculate right now.

CHAIR—Firstly, you do not know that—you do not know that it has not been treated seriously, I take it.

Lt Gen. Leahy—Actions were certainly taken to ameliorate the likelihood of heat stress. There were considerable actions taken by those who were in command. For example, people were given access to showers on a fairly regular basis—that is not daily, but on a fairly regular basis. There was medical support—that may not have been appropriate. We were very much aware that during the hottest part of the day—from about 10:00 hours to 16:00 hours—they should be able to rest. Some of the more physical training had been reduced. To say that no action was taken is incorrect. Action was taken, but clearly it was not enough. As the coroner has pointed out to us, this death was preventable and, as we have acknowledged in our public statements, this is a tragic event. Our sympathy is with the family, and we are

going to work very hard to make sure that this does not happen again. The coroner has brought to my attention some matters that I was not fully aware of and I am going to have a very close look at them again.

Senator MARK BISHOP—Have you had the opportunity to read the coroner's report as yet?

Lt Gen. Leahy—I have glanced through it once. As I say, I saw it yesterday. It is on my desk now and I am going to read it again in great detail tomorrow.

Senator MARK BISHOP—All right. Perhaps this discussion is a bit preliminary.

Lt Gen. Leahy—I might add that there is another matter in regard to this in that Comcare have also conducted an investigation which was delivered to the coroner, and I have been in conversation with officers of Comcare, including the CEO, and we await their further consideration as well.

CHAIR—Have you seen that report?

Lt Gen. Leahy—No, I have not seen the report.

CHAIR—Have you asked for it?

Lt Gen. Leahy—No, I have not.

CHAIR—Are you going to?

Lt Gen. Leahy—There is further consideration within Comcare and I would rather wait until they have finished all of their considerations before I do that. But I would say that I think we are all working towards the same purpose; that is, to ensure that our training is as safe and as effective as we can make it.

Senator MARK BISHOP—The coroner's report, at paragraph 11 on page 4 and subsequent paragraphs, says:

A Post Exercise Report for the "Subject One Course" conducted from 5 October to 28 November 2003 reported 29 incidents of heat related illness during the field phase. The report for the course conducted 15 February to 9 April 2004 reported 36 heat related injuries during the field phase.

These concerns were noted by a warrant officer 1—and I will not mention his name. The report says that these concerns were passed up the chain of command and resulted in the brigadier, who was at the time the Commander of Regional Training Centres Army, requesting the warrant officer to prepare an options paper.

Repeated incidents of field exhaustion were identified by senior NCOs. That was reported to a more senior warrant officer who prepared a written report that worked its way up the system to the officer brigadier level in charge of Regional Training Centres Army. He commissioned further internal option papers to be prepared but, according to the coroner's later finding, nothing was done. That is why he finds it to have been an avoidable death and he acknowledges that Army has issued the appropriate regrets and apologies. My question is this: Army internally had detailed, informed and written knowledge of the whole process of events but did not apparently regard it as sufficient to remedy the situation.

Lt Gen. Leahy—That is incorrect. I have already outlined that for this course and other courses of the same nature at about the same time we had already taken steps to make sure

that we reduced the threat of heat injury. I went through, I thought, instances such as the availability of showers, instances where during the hottest part of the day soldiers were not required to conduct their training, instances where soldiers were given reduced requirements for the course; that is, the patrol length was reduced from a matter of kilometres to less than one kilometre. They were steps taken as a result of these other reports. Clearly and sadly, they were not enough. That is what I want to have a look at now.

Senator MARK BISHOP—But the man concerned died on 10 November 2004.

Lt Gen. Leahy—In 2003.

Senator MARK BISHOP—The incidents I reported occurred in 2003 and 2004 and reports went up the chain of command well before he engaged in the excessive level of exercise causing his death in November 2004.

Lt Gen. Leahy—At the risk of repeating myself, I would say that after 2003 and for this course in 2004, changes were made. Clearly, they were not enough; we have had a death. I want to investigate whether that judgment in making those changes was adequate.

Senator MARK BISHOP—Okay.

Lt Gen. Leahy—I might add that we have made further changes, including a direction that courses of that nature will not be conducted in the north of the Australia at that time of the year again.

Senator MARK BISHOP—In the summer months?

Lt Gen. Leahy—Yes.

Senator Hill—Of course the other side of the coin is that the training officers know that they are responsible for best equipping these individuals to be able to carry out operational duty in extreme temperatures. Some individuals are going to go to Iraq and work in 50-degree heat and the training officers have a responsibility to see that these people can effectively meet those circumstances. I would be misunderstood if I were interpreted as coming down on one side or another. I do see a dilemma for training officers. On the one hand they need to train and test these individuals in a very stressful environment but on the other hand they have the responsibility to train and test them within the limits of their physical capability. I would think that in practice that is quite a difficult challenge for them.

Senator MARK BISHOP—When I gave consideration to that I thought that as well so I made some inquiries of military people as to the nature of training. They advised me that the training courses required for operational matters or for like operational matters—that is, getting used to those sorts of conditions—are not the types of training courses undertaken in this course. This particular set of courses was for qualification, promotional and training exercises, not for the instance you referred to.

Senator Hill—I understand that.

Senator MARK BISHOP—I understand your argument but this type of training in the middle of the summer heat in Darwin was not for operational purposes, as I understand it. Hence it was avoidable.

Senator Hill—I understand that argument but does that mean that, when they are training for operations, greater stress and pressure are justified?

Senator MARK BISHOP—Yes, I think they are.

Senator Hill—I think the trainers still have a responsibility of care.

Senator MARK BISHOP—That is the argument you put in the interrogation debate some months ago—that if our people are going to be captured in operations offshore they have to have exposure to some of the types of treatment they would receive if they were caught and interrogated. I do not quarrel with this argument about difficult training for operations. I am talking about training for internal qualifications or promotional opportunities. That is the distinction I am making. General Leahy says the report is on his desk. Understandably, it is yet to be digested. He will consider it and we will discuss at an appropriate venue some time in the future. That is fine with me.

With the chair's indulgence, we will now go to the DMO and some of the procurement issues related to the FFGs, helicopters, the MI13 project, the Orions and the Bushrangers.

CHAIR—Does that mean that you do not want to come back to budget?

Senator MARK BISHOP—I want to do those things and then go to project reporting and accounting. That has some budget overlays. After dinner, I will try to deal with the five projects I have identified, project reporting and accounting, headquarters joint operation out at Bungendore, some work on the Legal Services Division and DEO. That will probably exhaust the next two hours.

CHAIR—That means that the portfolio overview can go. We welcome Dr Gumley back to the table.

Proceedings suspended from 4.55 pm to 5.01 pm

CHAIR—I call the committee to order. Thank you, gentlemen, for the indulgence.

Senator MARK BISHOP—In introducing this item, Dr Gumley, there are two themes that I want to develop or pursue. First, there is the simple issue of project management—control costs, timeliness and subsequent effect on capability as each project demonstrates. Secondly, there is the issue of transparency of information across the entire capital works program. As a parliamentarian, I am concerned with the appropriation of \$17 billion per annum. I am not sure that that expenditure is being spent all that well. ANAO, in a series of reports of late, has repeatedly told us that it is not being spent well. In that context, tracking the entire capital works program across the years and taking into account the white paper, the two DCPs, annual reports and the PBSs is almost impossible.

That is the context of this discussion. The first project I want to turn to is the FFG progressive upgrade. At the outset, I will ask you to confirm a number of matters of fact. Each of the points that I am going to ask you to confirm is derived from either the relevant PBS or the relevant documentation part of the relevant ANAO report. Firstly, in respect of the FFG upgrade project, can you confirm that the project was first announced in 1998 at a cost of \$897 million?

Dr Gumley—That was the contract cost rather than the project cost. In each of the projects that we have we have a contract cost to the main contractor; in addition, there are project costs which we have to add to that, including project management fees and government furnished equipment, materials and information. So there are additional costs.

Senator MARK BISHOP—But the figure of \$897 million was the project cost at the time it was announced by Minister Moore in November 1998?

Dr Gumley—In 1998 dollars. The government's approved project budget, in December 1997 prices, was \$1,266 million. The prime contract with ADI was signed in June 1999 at \$899.57 million. The current estimated price, in today's dollar prices, is \$1,212 million.

Senator MARK BISHOP—That is right. You have confirmed that. The contract was let to an ADI tanks consortium in June 1999.

Dr Gumley—It was let to ADI.

Senator MARK BISHOP—Yes. Thereafter, the contract was reduced from six ships to four.

Dr Gumley—No. The contract has not been reduced yet. The commercial negotiation on six back to four is starting about now. A number of issues came together, including ADI's delay on the current contract. For commercial reasons, we have bundled together each of our issues with ADI into the negotiation, which is starting early next week.

Senator MARK BISHOP—So the original contract for six, which was signed back in June 1999, is extant.

Dr Gumley—It is extant, and will be negotiated back to four in the coming weeks.

Senator MARK BISHOP—The first ship was listed for in-service delivery in 2002.

Dr Gumley—Yes.

Senator MARK BISHOP—The current budget is \$1.464 billion, which is an increase of \$567 million on the original estimate.

Rear Adm. Ruting—No. I can clarify these aspects. It is very easy to get confused between the project approval by government which, as Dr Gumley read out, was \$1,266 million in December 1997 prices, and the current project cost or approved level, which is \$1,463.77 million. It does not represent a rise of \$500 million.

Senator MARK BISHOP—It does not?

Rear Adm. Ruting—No.

Senator MARK BISHOP—That is the figure on page 255 of the 2005-06 PBS?

CHAIR—Is the \$1.4 billion that you just mentioned in 2005 or 2004 dollars?

Rear Adm. Ruting—That is December 2005 dollars.

Senator MARK BISHOP—The original PBS figures identify the contract as being for \$897 million. The 2005-06 PBS has it at \$1.464 billion.

Rear Adm. Ruting—If I may clarify this, you are confusing the project approval value by the Commonwealth government and the contract figure to the prime contractor. As Dr

Gumley explained, the contract figure does not take up all of the project approval; it is only the figure to the prime contractor. Other equipment, training, spares and other matters are contracted, perhaps, separately from the prime contract. We need to be clear about the project approval, which is one set of figures—originally, \$1,266 million in December 1997. There has been a price variation, which is inflation, of \$158.541 million. There has been an exchange variation of \$192.668 million. There has been a real cost decrease, because money was transferred for evolved Seasparrow missiles to a different project that we acquire the evolved Seasparrow missiles from. That results in a current project approval figure of \$1,463.770 million.

Senator MARK BISHOP—Which is the figure in the 2005-06 PBS.

Rear Adm. Ruting—Yes.

Dr Gumley—This is going to apply to all the projects that we explore tonight. There are two different issues. One is the project cost versus the price to the prime contractor. The second is the effects of routine inflation and foreign exchange. When you work out the difference between the two you end up with the real cost increase or decrease.

CHAIR—Even though the numbers will, by and large, show an increase?

Dr Gumley—The numbers will show an increase in nominal terms, but in real terms many probably show a decrease. That is why I am able to make the statement publicly that we do not really have a cost problem in our projects; primarily, we have a schedule problem. We have a few cost increases. There is always a bit of capability change and so on. But mostly it is a schedule problem that we have.

Senator MARK BISHOP—Of that figure of \$1,464 million for the approved project expenditure for the FFGs, how much has been expended to date? Is the figure \$1,098 million?

Rear Adm. Ruting—Expenditure to date is \$970 million—that was at the end of September.

Senator MARK BISHOP—So, of the \$1,464 million, \$970 million has been expended.

Rear Adm. Ruting—Correct.

Senator MARK BISHOP—That is a difference of \$490-odd million. Is that amount, the amount left to be expended, going to be satisfactory for the remaining three ships to be handed over?

Rear Adm. Ruting—The prime contract with ADI, which covers most of the expenditure, is a fixed price contract and therefore the delivery of those ships under that fixed price contract is still planned and achievable.

Senator MARK BISHOP—I do not know. That is the point I am making.

CHAIR—He just said that.

Senator MARK BISHOP—He did just say that, Chair. But he also acknowledged that almost 80 per cent of expenditure to date has occurred without any ships being delivered. The first ship has almost completed its refit. There are another three ships to be refitted from beginning to end and there is only 20 per cent of the initial project management contract fee

left to be expended. If it costs \$1 billion to fix one ship, how do you fix another three ships for around \$450 million?

Dr Gumley—It is a question of fixed and variable costs. The vast majority of the value-add in this project is in developing the system. The relatively easy bit, once the system has been developed and demonstrated on the first ship, is to roll it out into the other three ships. ADI have already purchased the vast majority of the hardware and we have paid for it—it is sitting in a shed—so we have paid big chunk of value added already. Once the first ship is done, the project will then be significantly technically de-risked from where it is now and it will be a relatively easy issue to roll out the other three ships. If we look at the audit report on the P3C Orions, we find that exactly the same thing happened there. The vast majority of the cost happened, and the scheduled delay happened, to get the first one through, but once the first one went through the other aeroplanes came off very quickly and very efficiently.

Senator MARK BISHOP—So you are confident that the total of the four ships, when they are delivered, is going to come in—

Dr Gumley—I am confident on cost. I still think we are at risk on schedule.

CHAIR—So the main cost is the front-end development of the system.

Dr Gumley—Yes, and the software testing, documentation and controls and the purchase of six sets of hardware.

Senator MARK BISHOP—Given those comments, when do you anticipate that the first ship is going to be handed over, Dr Gumley?

Dr Gumley—The latest evidence we have is that the first ship will be at the end of April 2006. We have the block 1 software. It will be the end of 2006 for the block 2.

Senator MARK BISHOP—Is it currently being trialled?

Rear Adm. Ruting—Yes. We did some short trials on HMAS *Sydney*, the first ship, earlier this year. Since the docking period to remedy the hull doubler plate problem—which was a totally separate problem from the FFG upgrade; it was just a routine maintenance repair activity—HMAS *Sydney* has been going to sea for a number of periods of time from late September and has conducted some quite successful trials on electromagnetic compatibility and interference activities. It has tested all three of the new sonars that are fitted, particularly gathering data on those sonars to assist the subcontractor in what is referred to as the setting to work and grooming of those new sonars. On an opportunity basis, the combat management system, ADACS, has also continued to be tested during that period of time at sea. It is progressing quite well.

Senator MARK BISHOP—In light of the ANAO's extensive criticisms of the management of this project, what is your own assessment, Dr Gumley? Do you share those criticisms?

Dr Gumley—I think the ANAO identified a number of areas where we could have improved. It is also important to note that by the time we got the ANAO report most of those improvements had been enacted anyway and we were getting on with it. The project management of that project has improved significantly since about mid-2003. I was down there a couple of weeks ago and found that the morale of the project office is high, where it

was not a while ago. I also noticed that the morale of the crew was fairly high too, which is good, given how long that ship has been delayed.

Senator MARK BISHOP—When do you anticipate that the other three are going to be delivered? Are they contingent on approval of the first?

Rear Adm. Ruting—Part of the reason why we have not released the second ship to start was to wait until we had more confidence in the trials of the first ship. It is now planned that HMAS *Melbourne*, the second ship, will commence early next year. The program for the other two after that is part of the extensive negotiations that Dr Gumley mentioned before that we are undertaking. We need to strike a careful balance between the number of ships in upgrade at any one time and the number of surface combatants that Chief of Navy has available for operational use. Along with that is ADI's capacity to conduct the work with the labour force that it has available. So we are striking a careful balance in those with looking at only about a six-month overlap in the next three ships. That will overlap at about the time of the trials period for each of them.

Senator MARK BISHOP—Is there any suggestion that the last two will be mothballed?

Dr Gumley—The government has already made an announcement that ships five and six will be mothballed.

Senator MARK BISHOP—I meant three and four.

Rear Adm. Ruting—I do not believe there is any consideration of that going on at the present moment. Of the first two ships—the two oldest ships; HMAS *Adelaide* and HMAS *Canberra*—that are going to be decommissioned, the first is *Canberra* on 12 November this year, and she will be used to provide a wide range of spares to keep the other four ships operating, the last of which is currently planned to operate until 2020-21.

Senator MARK BISHOP—The first ship was listed for in-service delivery in 2002, and I think all of the ships were going to be delivered by 2008. Is that correct? Was that the original specification?

Rear Adm. Ruting—From 2003 to 2008 was the specification.

Senator MARK BISHOP—On that basis, we are likely to have possibly only one or two—I suppose that is an assertion. You think it will be three and—

Dr Gumley—We have had the same problem on this project as on others that get delayed. Once you get a delay, it is very hard to catch up. It is very clear that between 1998 and 2001 some unrecoverable delays were built into the project, and we are wearing that now.

Senator MARK BISHOP—What are the strategic implications for Navy of these ships not being available according to original contract plan times and likely to blow out by some years hence, as I understand it—four or five years?

Dr Gumley—I think that question is better answered by the Chief of Navy.

Vice Adm. Shalders—What I need to fulfil what the government requires of the fleet is seven frigate hulls throughout the period. With careful management of the FFG and ANZAC upgrades, which are happening at the same time, we can achieve that. So seven hulls is the

minimum to achieve what I believe we need to be able to do to fulfil the requirements given to us by government.

Senator MARK BISHOP—So, with the combination of the satisfactory nature of the ANZAC upgrades and the delays in the FFGs, as long as you get seven hulls you will be able to carry out the requirements that government has imposed upon you in terms of strategic obligations. Is that correct?

Vice Adm. Shalders—That is what our analysis leads us to at this stage. That is correct.

Senator MARK BISHOP—Are you satisfied that over the next five years—2005 to 2010—you are going to have seven functioning, operational frigates?

Vice Adm. Shalders—Yes, I am.

Senator MARK BISHOP—There is no doubt about that?

Vice Adm. Shalders—I cannot give an ironclad guarantee, but the analysis that we have done, the scheduling that we and DMO have done in terms of both the ANZAC upgrade and the FFG upgrade, indicates to us that we will have the seven hulls that I believe we need.

Senator MARK BISHOP—What happens if, with the trials that are going on here that Dr Gumley referred to with the *Sydney*, the first ship develops problems that just could not have been anticipated, and it takes another 12 or 18 months to fix those problems? Does that affect your ability to have seven hulls?

Vice Adm. Shalders—It could do. An example of that is the hull double-plate repairs that were required to the first ship, the *Sydney*. That did impact on the schedule and those sorts of things could occur in the future. If they do, we will need to take measures to maintain the seven hulls that I am talking about.

CHAIR—Before we leave this subject, I would like to ask one question. The prime contract was signed in 1998. There were delays to 2001-02. What was the reason underlying those delays?

Rear Adm. Rutting—The prime contract was signed in June 1999. At that stage some of the very detailed technical specifications had not been completely agreed between ADI and the Defence Acquisition Organisation as it was at that time. Those detailed specifications were not completed until about November 1999. We need to realise that the FFG upgrade is a very complex and technical upgrade of existing ships with some items of it being based on the same baseline as the United States Navy have upgraded to. In a number of areas, because they had completed some of their upgrades previously, we were moving steps ahead of them. For example, in the main parts of two of the sensors, USN went up to modification state 6 on the mark 92 fire control whereas we are going up to modification state 12. The US subcontractor was working with ADI on design of a number of these changes and they and we underestimated the complexity of some of the changes. There were some contractual difficulties between ADI and one of its principal subcontractors. ADI alleged that there was an amount of detailed information the Commonwealth had not provided in those early days—in the 1999-2000 time frame.

CHAIR—Would you anticipate that the two-pass system in place for capability acquisition would solve that problem or go a long way towards it?

Rear Adm. Ruting—I think it would go a long way towards reducing the risks if we have, like with air warfare destroyer, a reasonable period of time between first and second pass to conduct a range of detailed design evaluations and get much more detailed specifications determined during that period of time.

Dr Gumley—One of the common themes across the five projects we have been studying is that they were all done pre Kinnaird process and most of them we got into contract too early. If you form a contract when you do not know everything about what you are trying to contract for you set yourself up for delays and costs.

CHAIR—Off the top of your head can you tell me how many lines of code are in the systems?

Dr Gumley—We do not know, I am sorry.

Senator MARK BISHOP—Turning to the Sea 1428—the Seasparrow missiles—according to the 04-14 DCP they are going to be used on both the Anzac class and the frigates. What part of each of the Seasparrow projects is attributable to the FFGs?

Rear Adm. Ruting—Phase 2B/3, as it is referred to, provides missiles for both Anzac frigates and FFGs. Phase 2/A covered the modification of four Anzacs and the purchase of some missiles. The remainder of the missiles are being procured under phase 2B/3, which we joined together. It was originally phase 2B and phase 3 but we joined all that together to procure the FFG missiles in the same production orders as missiles for the Anzac frigates.

Dr Gumley—That project is showing green on all of the cost, scheduling and capability.

Senator MARK BISHOP—What does that mean?

Dr Gumley—It is okay—good. Green is good.

Senator MARK BISHOP—You are saying that it is coming in on budget. Is that right?

Dr Gumley—Yes.

Senator MARK BISHOP—Can you do a cost allocation for the two frigate projects—the Seasparrows?

Rear Adm. Ruting—Yes: \$152 million was transferred from FFG project Sea 1390, phase 2—the FFG upgrade—to the Sea 1428, phase 2B/3 joint activity. That was the amount that was contributed by FFG to purchase missiles for FFG.

Senator MARK BISHOP—What part of the radar project, Sea 1390, is attributable to the FFGs?

Rear Adm. Ruting—Sea 1390, phase 2, is the FFG upgrade. Phase 3 was the study and phase 4 has two parts—phase 4A and phase 4B which related to the introduction of a replacement to the current SM1 surface to air missile.

CHAIR—Which is going to be an SM2 now?

Dr Gumley—Yes.

Senator MARK BISHOP—What part of the communications project Sea 1442 is attributable to the FFGs?

Rear Adm. Ruting—None.

Senator MARK BISHOP—What is going to be the in-service life of the frigates once the upgrades have been completed?

Rear Adm. Ruting—The four remaining FFGs will have lives spanning from 2015 to 2021. The first of them I think goes in 2015 and the last, HMAS *Newcastle*—being the youngest—is currently planned to go to 2021.

Senator MARK BISHOP—So *Sydney* will go out first. If it comes in in, say, 2007 it will have a life until 2015, eight years. Is that correct?

Rear Adm. Ruting—Yes, that is our current planning.

Senator MARK BISHOP—Do you have the figures on the projected operating costs profile for each of the frigates in forthcoming years?

Rear Adm. Ruting—Our materiel cost for running the six FFGs has been in the order of about \$150 million per annum to date—

Senator MARK BISHOP—In aggregate?

Rear Adm. Ruting—That is for six, yes. As we progressively come down to four—there will be four upgraded FFGs by that time—we will be working through what the new figures are. They are in the defence 10-year management and finance plan, the MFP, but I do not have those numbers off my head as yet.

Senator MARK BISHOP—What other minor projects are scheduled for delivery in the next five years for the FFGs?

Dr Gumley—Senator, you asked a question about Sea 1442. The answer is that there is a couple of million dollars or perhaps \$3 million per ship of radios for the FFGs out of that project.

Senator MARK BISHOP—Two million or \$3 million per ship?

Dr Gumley—Yes.

Senator MARK BISHOP—And what other minor projects are scheduled for delivery for the next five years of the FFGs, and the estimated costs of each of those projects? Do you have these figures?

Rear Adm. Ruting—I am not aware of any major capital acquisition projects that will also impact on the FFGs, apart from the Sea 1390 series of projects that I mentioned before, which goes out to phases 4A and 4B. There was proposed a phase 5, but that was to pick up some training and infrastructure activities there and that may be run now under phase 2. However, Navy has an annual program of minor capital projects which may be much smaller ones generally. By definition they are under \$20 million total cost and they quite often can be more in the \$5 million to \$10 million range. Those projects may well deliver to the FFGs, such as the one that was recently conducted to give improved force protection to the FFGs and Anzacs deploying to the gulf regions. There will be an ongoing series of small projects of that nature that will cover perhaps both classes of surface combatants—the FFGs and the Anzac class FFH. But they may actually cover a wider range of ships and include particularly some of the communications and computing capability—small progressive upgrades which may

well be undertaken to link in with various systems we need to interoperate with—the Americans or similar—and they will be run generally by the Navy’s minor capital program. The Deputy Chief of Navy approves items for those sorts of programs each year in conjunction with the relevant financial delegate, which is often the minister.

Vice Adm. Shalders—The most important additional FFG project, of course, is the SM2 upgrade, which will bring the FFGs to a level of capability that we are lacking at the moment. That is a 1390 series project, but it is the most important next step.

Senator MARK BISHOP—When you add up the original project cost, the likely reduction of six ships to four, the additional cost for the Seasparrows and the radar, what is the total upgrade cost going to be? It is going to be a damn sight more than the original \$897 million or the \$1.4 billion in last year’s PBS, isn’t it? It is going to be approaching \$2 billion. Is that fair to say?

Dr Gumley—We will have to add up all the costs, yes.

Rear Adm. Ruting—If you take the total of phase 2, add in what was taken out of that via the \$152 million for evolved Seasparrow missiles and add in phase 4B, in particular, which is the SM2, which the Chief of Navy mentioned, that will take it to the order of \$2 billion.

Senator MARK BISHOP—So a project that was originally \$1.2 billion—I said \$897 million but you have corrected me on that—for six ships is going to cost \$2 billion for four ships, when you take into account the radar, the communications, the missiles and the add-ons through the life of the refit process?

Dr Gumley—It is still not equivalent, because you have to add the SM2 missiles back in to the original 1997 base.

Senator MARK BISHOP—Yes, if you are going to compare like with like. But what was an original upgrade of \$1.2 billion is now a total upgrade of \$2 billion. What was six ships is now four ships. What was limited work is now major work. The point of that discussion is this: where has the total cost of the project as a unit ever been considered or placed in a public document for review by people like me or by other committees?

CHAIR—Can we agree on the numbers before we get on to whether they are right or wrong or whether they were in a public document? The allegation is that a \$1.2 billion project is now \$2 billion. Is that correct, Rear Admiral Ruting?

Rear Adm. Ruting—Mr Chair, you are comparing apples and oranges in comparing those two items. As we mentioned, phase 4A and 4B were approved by cabinet, knowing what they had already invested in phase 2—the first part of the upgrades. You cannot have the phase 4 SM2 missiles upgrade without doing the phase 2 upgrade. They are related activities. It was a subsequent and independent decision. Cabinet certainly, when it looked at phase 4B, the SM2—

Senator MARK BISHOP—I understand where you are going. I do not quarrel that additions and changes in contract and more expensive missiles cost additional funds. I do not quarrel with that proposition.

Dr Gumley—And we are talking about different years of dollars too, don’t forget.

Senator MARK BISHOP—What I am leading to is that, when you examine all the public documentation, you do not find any whole-of-life adjusted real cost for the project as it is amended or upgraded through its life. Senator Hogg says to me that it is a patchwork quilt of accumulating additional and slight accretions of cost, which ends up with \$2 billion being spent on the upgrades for four ships when we were originally going to spend \$1.2 billion for six.

Senator Hill—That is not a valid way of looking at it.

Dr Gumley—And the SM2 missiles will be taken off FFGs and used on the air warfare destroyers in the future. To attribute their cost to the FFGs is incorrect as well.

Senator MARK BISHOP—Can you show me a whole-of-life adjusted real cost for this frigate upgrade project in any public document?

Dr Gumley—I cannot show you that in a public document. I have not seen it myself in a public document.

Senator MARK BISHOP—Does DMO have it? You do have it, don't you?

Dr Gumley—We have our project by project costings. We have a list of all of our projects and we know what each one is costing and where it is with its schedule.

Senator Hill—I do not understand what you mean by the whole-of-life cost of the upgrade.

Senator MARK BISHOP—I am saying that you had the original plan to upgrade the FFGs.

Senator Hill—Yes, and that has been changed and modified over the years.

Senator MARK BISHOP—It has been changed and amended. DMO, or someone in Defence, knows the actual, real cost of the project as amended. We can only surmise it from putting together different figures from different sets of publicly available figures, either from the PBS, the annual report or the DCP.

Senator Hill—Because we have it under a series of projects. Is that the problem?

Senator MARK BISHOP—Yes. That is the point.

Senator HOGG—There is no consolidated cost.

Senator Hill—Part of the reason for this committee is so that you can get to the bottom of these mysteries. You are making good progress.

Senator MARK BISHOP—I have gone from layer three to layer four of a 74-layer problem. That is what I have done.

Senator Hill—I now finally see the value of this process.

Senator MARK BISHOP—Where is a publicly available figure that shows us the total cost?

CHAIR—He is going to give it to you now.

Senator MARK BISHOP—He has got it.

Dr Gumley—No, because the PBS reports it project by project. It does not report it platform by platform. We would have to re-present the information if you wanted it platform

by platform and we would have to do approvals and work with government quite differently from the way we do now.

Rear Adm. Ruting—For example, another project that has been brought to my attention is Joint Project 5408, which is buying GPS for a whole range of platforms in Navy, Air Force and Army. You would have to disaggregate every one of those sorts of projects as well, a lot of the joint projects, to work out which element would fit into each of the different platforms to be able to give a total platform cost. That is not the way that projects are approved.

Senator Hill—The popular view is that we should look at capability, not platforms. You are trying to pull us back to the old way of doing this.

Senator MARK BISHOP—I do not know if I am trying to pull you anywhere. I am trying to identify in a public document something which the Parliamentary Library, the Kokoda Foundation and all the reports that are delivered to the JCPA and us are unable to identify—that is, the actual cost, as amended, of the upgrades of the FFGs. In due course the problem is going to be the same, except on a significant scale, with the AWDs or the JSFs or any other huge platform that involves \$6 billion, \$8 billion, \$12 billion or \$16 billion. No-one can identify the total cost of the platform. I do not believe for one minute that, when we go through this exercise with \$6 billion as the start cost of the AWDs, and the life of the build, there are not going to be a whole series of changes required to that project in the out years by either you or us. Where is the costing going to be found in a public document?

Senator Hill—With every platform we purchase there will be upgrades during its life. Not every upgrade can be planned in advance, because you are trying to keep the cutting edge on capability. I am struggling to work out exactly what you are looking for. If you want an answer on what we are planning to spend on the FFG platforms, for the foreseeable future anyway, we can put that together. That may be of use to you or not. I do not know.

Senator MARK BISHOP—Not only am I asking you to consider that; I am also asking you to consider that in terms of every major capital equipment project. In the last three or four months we have had reports delivered to us—all prior to your time; I acknowledge that—on the Orions, the Bushrangers and the M113s. They all identify problems in contract design, contract change, cost blow-out and further costs.

Dr Gumley—And, as I mentioned, there is a common theme between those Legacy projects, and that is what Kinnaird and the processes that have been put in place in the last couple of years were designed to correct, and they may or may not.

Senator Hill—But a lot of these projects require the development of new software. That is a complex and difficult job, and, while best projections of the time and complexity can be made, there will never be a system that will be foolproof in that regard. You just have to look at defence forces across the world. Challenges for the continual upgrade of the Orions will continue. We are now upgrading them to provide electronic warfare protection. That was not planned a few years ago because it was not considered necessary. We are introducing new technologies to do that. Those new technologies then have to be integrated with the existing systems on the aircraft, and that in itself is a highly complex task. A lot of the systems that we are integrating are those that have been modified to suit the ADF's requirements over the

years, so they differ from the systems of other nations, so we do not always get the advantage of the upgrade that they might have done.

There is no doubt that—and this is what Dr Gumley is saying—some of these projects can be better planned, and post Kinnaird we think there is better planning. There is a lot more effort put into the capability development side before we get to the acquisition side. But there will still be levels of uncertainty in regard to projects as complex as these—the timelines that are involved and our desire to get something at the end of the day that is the best possible capability that we can buy. In some ways I sort of understand where you are coming from, but I think you are setting the department an impossible task.

Senator MARK BISHOP—Is that because they do not currently retain the figures, as I am suggesting?

Senator Hill—No. We can put the figures together on a platform basis, but you went on to criticise the fact that you cannot predict all of these costs in advance through the whole lifecycle of a platform.

Senator MARK BISHOP—I am not so sure that I was criticising that you cannot anticipate the future cost increases that occur during the life of the upgrade of particularly complex projects. I accept that that is going to occur. My criticism remains, as it was, that you are unable in public documentation to find an ongoing real figure for the total upgrade of the particular platform or project. You have to go to a whole series of often unrelated and unconnected reports to try to establish a ballpark figure of the costs of the platform or the project. I am really asking Dr Gumley's organisation to give consideration to whether a better form of public identification of the amended costs of the project or the platform could be provided to this committee or to another committee.

Dr Gumley—So you are seeking platform based costing rather than project based costing?

Senator MARK BISHOP—Yes.

Dr Gumley—You must recognise that it would only ever be approximate because, for example, if we are putting radios onto three types of army vehicles—ASLAVs, Bushrangers and tanks—you have to work out what percentage of fixed costs and development costs you are going to apply to each of those three platforms. So it would only ever be approximate.

Senator Hill—Whereas the current trend—what is regarded as best practice—is to have a project to improve the capability of the armoured vehicles by providing them with a new form of GPS, for example. So there is not a lot of value for us in looking at it on a platform by platform basis. What we want is that improved capability across the fleet.

Senator MARK BISHOP—Okay. You have explained the reasoning and I will give that some consideration. Can we now switch quickly to the sea 1411—the RAN Anzac ship helicopters; the 11 Seasprites. I am advised that the project approval was prior to 1996. The delivery date was initially three helicopters by 2001 and the estimated cost was \$787 million and the current cost is \$1,001 million. Is that correct?

Dr Gumley—The gap, of course, relates to inflation and foreign exchange again. There has not been a real cost increase in that project.

Air Vice Marshal Rossiter—There has been no real cost increase. The difference between the original project approval price and the \$1 billion figure that you quoted is totally attributable to the effects of inflation and price exchange variation.

Senator MARK BISHOP—When was the original estimated cost of \$787 million?

Air Vice Marshal Rossiter—It was 1995.

Senator MARK BISHOP—So that is a blow-out of about 25 per cent?

Dr Gumley—No, I do not think it is a blow-out. I think we have to be very careful to use language correctly. It is not a blow-out when it is inflation and foreign exchange. It is just the real cost of money—today's dollar is worth less than a dollar was worth in 1995.

Senator MARK BISHOP—Yes, I was just trying to work out the aggregate inflation since 1995, because the cost increase is in the order of 25 per cent.

Dr Gumley—If we have had inflation of two and three per cent per year for 10 years that is 25 per cent or 30 per cent.

Senator MARK BISHOP—That is the sum I was doing. The cost of the Penguin missile project in 2001-02 was \$194 million. What is the current cost? It does not appear in the PBS.

Dr Gumley—I do not have the answer in my head.

Senator MARK BISHOP—Why did it drop out of the PBS?

Dr Gumley—It sounds like it got trumped by bigger projects.

Senator MARK BISHOP—It went from above the threshold to below the threshold?

Dr Gumley—Yes.

Senator MARK BISHOP—That is another problem to identify, Dr Gumley, that you have, depending on the costing of the project, irregular reporting of hundreds of millions of dollars of Commonwealth expenditure. In 2001-02 we were going to spend \$194 million on the Penguin missiles. It has been, I am advised, not reported since because you advised me that it has fallen below the threshold. So how does a committee like this that is required to oversight government outlays attend to project expenditures of \$200 million when they are not reported or only reported, at best, irregularly in PBSs and ARs?

Dr Gumley—I think this is going to be a matter of how the Senate committee wants us to report in the future. There are about 220 or 230 project phases going on at any one time. For convenience, and to concentrate on the big ones, we are reporting the top 30. They were somewhere in the top 30 three years ago but they are not in the top 30 now so you cannot in any way trace their attention to cost at the same time.

Senator MARK BISHOP—I understand what you are saying, but we need to get to how much information do we want to give in the PBS? Do you have that information inside the organisation?

Dr Gumley—We have the information on all our projects inside the organisation, absolutely. You could not run a business without it.

Senator MARK BISHOP—That is right. So you have it, but no-one in this parliament who takes an interest in these matters—except perhaps the minister—and no-one on this committee has any access to that information, because you choose not to provide it.

CHAIR—Perhaps that is a matter for the minister.

Senator MARK BISHOP—Is it a matter for the minister?

Senator Hill—I am sorry, I was distracted from what you were saying.

Senator MARK BISHOP—We were having a discussion that only certain aspects of capital acquisition get reported on an ongoing basis in either the PBS or the AR. Sometimes there will be an initial commencement cost of \$100 million or \$250 million for a project, but then there is no reporting of cost in the out years because it falls under the threshold. Hence there is no opportunity for anyone, apart from the people at your table, to keep an eye on cost. There is no transparency or accountability, in public sense, for the spending of hundreds or perhaps billions of dollars of public money on a range of projects. That is the discussion we were having. The chairman said that possibly the only person who can attend to that is the minister.

Senator Hill—Do you want us to lower the threshold?

Senator MARK BISHOP—Yes. We want full reporting of all the projects.

Senator Hill—Crikey! Purchase of the cups and saucers?

Senator MARK BISHOP—I want you to lower the threshold to a more realistic limit.

Senator Hill—What is the threshold set at now?

Dr Gumley—The threshold is set as the top 30 projects. It is not a dollar amount. If it is in the top 30, it is reported in the PBS. If it is not in the top 30, it is not. So the question becomes a matter of a trade-off between information and effort and convenience. We could end up with a PBS which is 1,000 pages thick if we go too far. It is a question of what the appropriate trade-off is.

CHAIR—Two years ago it was the top 20 projects.

Dr Gumley—It used to be the top 20 projects and then we took it to top 30 about two years ago.

Senator MARK BISHOP—How is it that it is top 20 or top 30 and not top 50 or top 100?

Senator Hill—You can ask about any project, but it is to give information about major projects from which you can deduce trends.

Senator MARK BISHOP—I bet there would be a whole stack of people that would be interested in the expenditure and trend figures for more than the top 30 capital projects that Defence is engaged in.

Dr Gumley—The top 30 represents about 85 per cent by value in any one year. We are working to an 80-20 type of rule, which gets most of the information through by reporting the top 30.

Senator Hill—I would be reluctant to extend it further without a very strong argument for it. A mass of financial information is already provided. We have to find the right balance

between effort on process and effort on outcomes. I sometimes think that we have not got that balance right now; I think the pendulum might be a bit the other way. If we are reporting on nearly 80 per cent by value I would have thought that that was more than adequate for the purposes of this committee.

Senator MARK BISHOP—The fact that you are reporting by 80 per cent of value means that you are reporting on a different set of items every year. As projects come into the top 30 by value and other projects come out of the top 30 by value—and witness the discussion we had about the front-loading of costs about half an hour ago—the figure that is being presented is accurate at that instant in time, but it bears no relevance in terms of accounting, trend lines, variations and responsibilities over time. They were the problems that led to the Kinnaird report and the set of recommendations that derived from that. Dr Gumley is saying that he tracks everything in his office. I am sure that he does. He probably reports it to the secretary and the CDF within your organisation. But, apart from the people at your table, no-one else is able to be satisfied as to the veracity of what is going on. That is the discussion I am having. I have made the point, and you understand the nature of my issue. Can we move to the M113.

Senator FAULKNER—Could we just have a very brief status report on this particular project, please?

Dr Gumley—Are you talking about Sea Sprite or M113?

Senator FAULKNER—M113. A very brief status report, if we could, Mr Sharp or Dr Gumley. Thanks.

Mr Sharp—This was a project of \$587 million at current prices for 350 vehicles of seven variants. It currently has an in-service date of 2006, and full delivery will be in 2010. The contractor is Tenix Defence Systems. When they successfully get into production, they will be producing about 80 per year.

The current status of this is that there have been some technical problems with the development of the vehicle—in particular, the engine was overheating. At the testing stage, which was conducted by the contractor in preparation for some qualification testing that we were doing—I will just emphasise that it came about in late last year through their testing—there seemed to be some excessive vibration and there were some problems with the braking systems. So this produced some concern within the project team, and we went into strong negotiations with the contractor. Some more resources were put onto the project. There were some management changes. We pressed very strongly for regular updates. Under current tests, also being conducted by the contractor, it looks like all of those technical problems have been solved. The impact to the schedule is that the ISD will still be met in 2006. However, there is a higher risk component.

Senator FAULKNER—So this project has been around for yonks, hasn't it?

Mr Sharp—It has been around in various forms since 1992.

Senator FAULKNER—Okay. Are the same number of vehicles involved now as were in 1992?

Mr Sharp—In 1992, in phase 1A of the project there were about 364 vehicles that were going to go through minor upgrades. Phase 2 looked at the rest of the fleet, up until—

Senator FAULKNER—Give us that figure again.

Mr Sharp—It was 364. I will have to check that, but it was around 364 of the 776 in the fleet. Phase 2 was to take those upgrades—

Senator FAULKNER—Wasn't the original contract for 537 vehicles?

Mr Sharp—I am sorry. Yes, you are absolutely right. It is in the audit report.

Senator FAULKNER—355?

Mr Sharp—The figure of 355 APCs is one of the variants. That is a revised contract.

Senator FAULKNER—Let us just get the figures. What was it in 1992?

Mr Sharp—The initial phase 1 was 537 M113A1 vehicles, including 355 armoured personnel carriers.

Senator FAULKNER—So there were 357 M113s?

Mr Sharp—There were 537 M113A1s.

Senator FAULKNER—The initial contract was 537 vehicles?

Mr Sharp—Yes, of which 355 were APCs. That is the particular variant.

Senator FAULKNER—Yes, but there were 537 of what I call M113s.

Mr Sharp—Yes, that is right.

Senator FAULKNER—That year was 1992?

Mr Sharp—That is right.

Senator FAULKNER—What was the original cost then?

Mr Sharp—The phase 1A contract was about \$40 million.

Senator FAULKNER—When were they supposed to be delivered by?

Mr Sharp—I will just check that. It says 1996 to 1998 in the audit report.

Senator FAULKNER—The contract was obviously revised for all this, wasn't it?

Mr Sharp—Yes, it was.

Senator FAULKNER—How many vehicles were to be refitted in the revised contract?

Mr Sharp—The current contract, to answer your question before I go onto the qualification, is for 350 vehicles of all variants.

Senator FAULKNER—So we have lost 187 M113s along the way because we have dropped from 537 to 350. Is that right?

Mr Sharp—Yes, the numbers are right.

Senator FAULKNER—The original contract was for \$40 million. What is the contract cost now?

Mr Sharp—At the adjusted price it is \$587 million.

Senator FAULKNER—So we have dropped 187 vehicles and we have gone up to \$547 million. Is that right?

Mr Sharp—Yes, it is, and no, it is not. The figures are exactly right, but you need to fill in the rest. The original phase 1 was for minor upgrades, and it has changed considerably to a major upgrade, and there have been several changes of scope over the years. It has been renegotiated a couple of times. It is really different. The numbers are correct but the description is wrong.

Senator FAULKNER—How much has been paid of the \$587 million so far?

Mr Sharp—Let me check my figures so that I do not mislead you. The project expenditure is \$187 million to date.

Senator FAULKNER—So \$187 million has been paid to the contractor so far?

Mr Sharp—Yes.

Senator FAULKNER—How many M113s have been refitted so far?

Mr Sharp—We have not accepted delivery of one of them. In fact, the ISD is still 2006.

Senator FAULKNER—That would be a big fat blobbo—none. Is that right?

Mr Sharp—No. They have not delivered any vehicles, but of course we have been paying the contractor for work along the way.

Senator FAULKNER—I just want to get the picture, and it looks like a pretty unhappy one, so far anyway. We have forked out \$187 million, and we are not expecting any vehicle refit to be completed until some time in 2006?

Mr Sharp—They will start delivery in 2006.

Senator FAULKNER—When in 2006? Do we know?

Mr Sharp—They will deliver around December 2006.

Senator FAULKNER—How much money will we have forked out by then?

Mr Sharp—I have not got the full payment schedule in front of me.

Dr Gumley—This is no different from designing an aeroplane or anything else. You spend 60 or 70 per cent of the money before the first one comes out of the sausage machine.

Senator FAULKNER—I do not know whether or not it is different to designing an aeroplane. It sounds to me that it is a refit of an armoured personnel carrier, and you say that it is no different to designing an aeroplane. All I can say, Dr Gumley, is that I am delighted that I do not fly in any aeroplanes that you design, if that is the case, because to me it seems quite different to designing an aeroplane. But that is just my view.

Mr Sharp—Perhaps I could tell you where the money has been spent and it might help.

Senator FAULKNER—I am just responding to Dr Gumley, who says that refitting an M113 is no different from designing an aeroplane. You are entitled to your view, and I accept that, but I am just saying that my view is quite different. I think that it is very different from designing an aeroplane and that is a difference we are just going to have to have. After the break I would like to go to the Joint Strike Fighter project—I assume we are in the right area for this.

Proceedings suspended from 6.06 pm to 7.00 pm

CHAIR—Senator Judith Adams is going to ask questions, and I think notice has been given, with respect to the RAN drug and alcohol policy.

Senator ADAMS—As a recent participant in the Australian Defence Force parliamentarians program, I was fortunate enough to go on a five-day attachment to the shore bases and also on HMAS *Stuart*. While I was doing that—I have a background in HR—I looked at a lot of the medical facilities. I was also very interested in the drug and alcohol policy of the Navy. That is the reason for my coming to ask you questions today. First of all, is there an overall policy for all establishments?

Vice Adm. Shalders—Yes, there is. It is promulgated in one of our defence instructions for both alcohol and for drugs.

Senator ADAMS—Does that policy pertain only to Navy personnel?

Vice Adm. Shalders—No. The drug policy particularly is a joint policy. It applies to all three services. Our alcohol testing policy is a Navy specific policy, but it is very similar across the three services.

Senator ADAMS—Are contractors and civilian employees subject to the Navy's drug and alcohol policy?

Vice Adm. Shalders—No.

Senator ADAMS—On establishments where you have contractors and civilians employed is it only the Navy personnel that are subject to the policy?

Vice Adm. Shalders—Navy has no jurisdiction in that sense. Those who employ those contractors—in many cases it is the Corporate Services and Infrastructure Group—would be able to answer this question. Or they may be employed by DMO. It would depend on the terms of their contract. But Navy have no jurisdiction to apply our drug and alcohol policies to those contractors.

CHAIR—When you let a contract, do its terms not include the control of personnel in terms of substance and drug issues?

Vice Adm. Shalders—They may. I think it is probably best to ask that question of the people who contract those people. Largely that is CSIG or DMO.

Senator ADAMS—I come from Western Australia and have travelled around a large number of the mining camps. Probably one of the reasons why I am asking these questions is that anyone who goes on those premises, of course, has to be subject, whether they are a visitor or whatever, to a drug and alcohol policy. So I found it very strange when I went to one of your establishments that the policy applied to only Navy personnel. Your civilian employees and contractors were doing such work that I would have considered they should have been covered as well.

Vice Adm. Shalders—There may well be a policy. My answer was that the Royal Australian Navy have no jurisdiction to enforce our policies on civilian visitors to our bases. Other parts of Defence may well have that jurisdiction. As I said, the Corporate Services and Infrastructure Group, for example, will be able to apply some of those rules in contracts as they let those contracts.

Senator ADAMS—As far as your Navy personnel go, what process is used to carry out the policy?

Vice Adm. Shalders—In relation to alcohol or drugs?

Senator ADAMS—To both.

Vice Adm. Shalders—In relation to alcohol, we commenced random alcohol testing in January 2004. That is a breath test. In terms of the drug testing policy it is a urinalysis test and that is common across the three services. That recommenced in June last year.

Senator ADAMS—What is the penalty for a positive test?

Vice Adm. Shalders—For alcohol or for drugs?

Senator ADAMS—For both.

Vice Adm. Shalders—It is perhaps not appropriate to talk about a penalty for drugs. The prohibited substance testing program—which is our drug-testing program—attempts to ensure that our policy of zero tolerance is enforced correctly. Depending on the circumstances, disciplinary action may be taken against somebody who has tested positive for drugs. But it is more likely that there will be an administrative regime established in order to try to rectify it or to get the person who has tested positive into a support mechanism. That may end in termination, depending on the circumstances of the case.

Senator ADAMS—Do you do the same for alcohol?

Vice Adm. Shalders—No. Alcohol is a little different in that we do not have a zero tolerance policy for alcohol. What occurs if a person is tested above the limit for alcohol is that, initially, there will be another test conducted about 10 minutes after the first test. Depending on the circumstances, that person who is tested above the limit will be removed to a safe place. Again, depending on the circumstances, they will be referred for treatment. Subsequently, administrative action might be taken.

Senator ADAMS—I will go to employment. What is the process for screening future employees? We will start with Navy personnel first, then we will go on to your contractors, as the people going onto your establishments.

Vice Adm. Shalders—Are you talking about screening for recruiting?

Senator ADAMS—As in recruiting and what you do as far as police checks and whatever else are concerned to ensure that you have the right person.

Vice Adm. Shalders—It might be better if the central agency answers that question. I am happy to talk to it from a Navy perspective, but it is the same for all three services. Would you prefer to have a joint answer to that question?

Senator ADAMS—No. I think you can do it and then I will ask you about the civilians and your contractors.

Vice Adm. Shalders—There is a police check conducted on potential applicants. That initial police check is not a detailed check. But, subsequently, once a person enters one of the three services, the security check that might be conducted for subsequent security clearances

will require a deeper police check. Obviously, if there is a serious police record then the candidate is not processed further.

Senator ADAMS—Does the Navy employ civilians and contractors? Your contractors are obviously contracted to do certain jobs. But are you able to check the credentials of people coming onto the base and check that they have a police clearance and everything else?

Vice Adm. Shalders—Again, the Navy does not do that. The Corporate Services and Infrastructure Group does that. I see that there are representatives at the table who might be able to take that question.

Mr Henderson—The situation varies according to the staff concerned. For example, for perimeter security guards at the gate there are police checks done. In respect of access for contractors going onto bases, the situation varies across the bases, according to the sensitivity of the activities on those bases. So there is no one size fits all. Some defence bases are open. The situation varies.

Senator ADAMS—My last question is on Navy examination panels. Do you have a gender balance?

Vice Adm. Shalders—Where possible, yes. Which particular panel?

Senator ADAMS—I sat in on one that had five males, and female Navy personnel were being examined. Having done quite a lot of interviewing, I wonder whether or not the Navy has a policy in that respect.

Vice Adm. Shalders—We do, and where possible we will have gender balance. But there will be some boards where there might not be the requisite experience or expertise. I am not sure which panel you sat in on but, for example, if it was the fleet board, which examines junior officers at the end of one part of their training, the requirement is that the standing president is the CO of the establishment, and so far we do not have a qualified female officer. We have a major fleet unit commanding officer, but at this stage we do not yet have a female in that position. We have had some minor war vessel commanding officers, but there are not many of them. We have very few female senior navigation specialists. So perhaps the board that you were at is probably not representative of where we would like to get to ultimately.

Senator ADAMS—I realise that females are going to take a little while to get to that level. It was just an observation that I made. Thank you very much.

CHAIR—I thank you admiral, brigadier and gentlemen. I think we are now going on to the M113.

[7.10 pm]

Senator FAULKNER—We are continuing with that.

CHAIR—So I ask DMO and Dr Gumley to come back to the table.

Senator FAULKNER—Mr Sharp, before the dinner break we had established that there were no upgraded M113 APCs.

Mr Sharp—If you want to be absolutely correct, you would want to start comparing phase 1 with phase 1, and not phase 1 with phase 3, which is considerably different in scope. So technically you could say that there have been some upgraded M113s under the phase 1

project, but since we are actually looking at a considerably different project from the minimum upgrade project that started out as phase 1, we are probably not being fair to the description of the project performance.

Senator FAULKNER—You said before the dinner break that there were no upgraded M113 APCs in accordance with the current upgrade project. If there are any, could you just tell me how many?

Mr Sharp—Yes and no. The numbers that you quoted were correct, but the description of the project performance was not correct. You did not give me an opportunity to talk about the project in its current form.

Senator FAULKNER—We have very little time. I understand the point you are making.

Senator Hill—He wants to explain what the money has been spent on and you do not seem to want him to do that because it might spoil your story.

Senator FAULKNER—It is not a question of that, Senator Hill, to be fair. If we were able to extend the hearing and we had time, I would be really happy to hear that. I think the best way to do that is for Mr Sharp—

Senator Hill—You use the time according to your priorities.

Senator FAULKNER—I think it is fair to say that I would like Mr Sharp to answer my questions, and I appreciate that there may be other things that he would like to say or that you would like to say, and maybe they can be dealt with on notice or by some other mechanism. We are running very short of time. My main issue is not the numbers. I was trying to take the questioning from where we were before the dinner break. You had indicated that there were no upgraded M113 APCs—none.

Mr Sharp—The current contract, which was signed in 2002 for a major upgrade at \$587 million, is running on schedule to deliver in 2006. Against that project there have been no deliveries, as expected.

Senator FAULKNER—Thank you, Mr Sharp. I appreciate your brief answer. We do of course have modified ASLAVs and Bushmasters and I think that the modifications, as I understand it, go to the Kevlar spall lining and remote weapon stations. I know that they are very important modifications and they have been very effective in terms of troop protection. But is it true that all the modified ASLAVs and Bushmasters are in Iraq?

Senator Hill—The Bushmasters are new and, basically, as they are coming off the assembly line they have been going into operation.

Senator FAULKNER—But are the modified ASLAVs and the Bushmasters in Iraq?

Senator Hill—As we have been modifying ASLAVs we have been sending them to Iraq. Some have been modified over there and some have been modified here.

Lt Gen. Leahy—The Bushmasters are both in Australia and in Iraq. The modified ones that you speak of—modified from the original specification—are in service in Iraq. The ASLAVs that have been modified are in Iraq. There may be some close to Iraq in another country, but they have been modified for service in Iraq.

Senator FAULKNER—My understanding is that the upgrades to the ASLAVs have been extremely effective.

Lt Gen. Leahy—I would agree with you entirely. The upgrading is predominantly to their protection levels. We have seen the contact spall linings fitted, the bar armour systems—which is the external armour system. There have been the remote weapon stations that you mentioned—

Senator FAULKNER—I had seen some extremely worrying figures about the US military casualties in Iraq about the fact that a quite high percentage of the US military fatalities had resulted from soldiers killed when they were exposed to fire in unprotected turrets, I assume in their Humvees.

Lt Gen. Leahy—The early figures for the use of the Humvee showed that soldiers in unprotected vehicles are in extreme danger.

Senator FAULKNER—I think it is worth saying that these modified vehicles have been very successful, which is a good thing to be able to say.

Lt Gen. Leahy—I would add, Senator, that it is not only the vehicle as the hardware piece, it is the way it is used—the tactics, the techniques, the procedures, the intelligence that is available to it, the training of the crew and the way they work together. It is the whole package and we should not just concentrate on the vehicle.

Senator FAULKNER—I accept that point, General, but you would acknowledge the modifications themselves are very important in terms of the utility and safety—

Lt Gen. Leahy—Absolutely.

Senator FAULKNER—How many safe working APCs do we have here in Australia?

Lt Gen. Leahy—I would not be able to give you the exact figure. There would be some hundreds. I will take it on notice to get back to you.

Senator FAULKNER—Do you define the M113s as safe when you compare them to the sorts of modifications that the modified ASLAVs and Bushmasters have?

Lt Gen. Leahy—That is the point that I was making. It is about the whole package—the tactics, the techniques and procedures and the type of environment where you put the vehicles. It might be that any sort of vehicle is safe if it is in a relatively benign environment. One of the force designs that we do is to make sure that the type of equipment we deploy suits the type of operation.

Senator FAULKNER—I am interested in what the strategic implications are of the fact that the M113s have not been modified—in other words, if we have a situation where some unforeseen emergency happens here, heaven forbid, or say we need the provisional reconstruction team that Air Chief Marshal Houston spoke about earlier today, are there concerning strategic implications because of the delay in this upgrade program for the M113 APCs? None have been upgraded. My understanding is—and you can comment on this—that because they have not been upgraded, there are massive safety concerns about those vehicles.

Lt Gen. Leahy—I would not say ‘massive’. These vehicles have been employed previously. They are in service in many countries around the world, and the M113s were

actually in service in Vietnam, where they served us well and protected our soldiers well. You would note that there have been changes in the threat, but we carefully design the force for the threat. I do not think that there are strategic consequences for the M113. It is actually quite a different vehicle, in that it has tracks, whereas the ASLAV has wheels. They are in use in different terrain and in different climates, and I am confident that the mix of vehicles we have and that we are going to have—with the M113, the ASLAV, the Bushmaster and our new tank—will give us the capability to compose a force and use it properly and well in most strategic environments.

Senator FAULKNER—You are right, of course, to point out about the Vietnam experience. Some of these M113s are 40 years old, aren't they?

Lt Gen. Leahy—Yes, they are 40 years old, but you are talking about a big slab of aluminium armour. As we are seeing in this project, the protection will be improved with applique armour. We are looking at new firepower for them and we are looking at mobility—that is, a new engine, a new transmission and new running gear. They will be a bit like Paddy's axe.

Senator FAULKNER—Do you mean after modification?

Lt Gen. Leahy—That is correct.

Senator FAULKNER—But they are not being modified. None have been modified yet.

Lt Gen. Leahy—They will be modified.

Senator FAULKNER—Yes, I am sure. But none have been. I know they will be; this is the whole point. I accept that, absolutely, and I appreciate that. But the point is that you will not have one modified M113 armoured personnel carrier until December 2006, and even then I think you will only have 15 out of over 500. These are vehicles designed to deal with the weaponry of the 1960s. We are now dealing with the sophisticated weaponry of the 21st century. So the issue seems to me to be, with effectively no modified vehicles here in Australia, whether this is just plain dangerous.

Lt Gen. Leahy—Because we have other vehicles available, I do not believe that it is dangerous. We are using those other vehicles for the operations at hand and they are proving to be exceptionally valuable.

Senator FAULKNER—I hear that point. You say there are other vehicles, but I am talking about the unmodified 1960s technology M113 APCs. I am asking whether they are just plain dangerous and whether we find ourselves seriously exposed and constrained in our ability to deploy mechanised infantry as a result.

Lt Gen. Leahy—No, I do not believe that we are. We are not constrained. We have a force in the field right now. We are just replacing it with another force that is composed of the Australian light armoured vehicle. There are armoured personnel carrier types and gun types. We are looking at different force compositions for the type of warfare that is emerging, and that is one of the points about force design for the future. It is about combined arms teams rather than, say, just a mechanised infantry battalion. These vehicles—of all types: the ASLAV, the Bushmaster and the M113—can be used safely in different environments and in different mixes. Indeed, we used the M133 extensively in East Timor, where its track

capability meant that in the type of terrain and the weather there, it proved superior to the ASLAVs.

Senator FAULKNER—What have we got that we can use to move infantry troops around in? What have we got that is safe to use and that is not in Iraq?

Lt Gen. Leahy—In the right type of environment we could use the current M113, as we have just recently used them in East Timor.

Senator FAULKNER—General, the problem is that we do not know what environment we might be faced with—

Senator Hill—You are not getting the answer you want, so you are dismissing it and in effect telling the general that he does not know what he is talking about.

Senator FAULKNER—I am not saying that.

Senator Hill—It is pretty typical, actually.

Senator FAULKNER—I am asking what vehicles we could use here in Australia—

Senator Hill—You have been given that answer several times. You ought to listen to it.

Senator FAULKNER—I do listen to it.

Senator Hill—No, you don't.

Senator FAULKNER—I do listen to it.

Senator Hill—The answer does not serve your purpose, so you do not listen to it.

Senator FAULKNER—What vehicles do we have in Australia that do not have 1960s technology and that we can say are safe to move infantry troops around in?

Lt Gen. Leahy—The ASLAV and the Bushmaster, as they are coming off the production line.

Senator FAULKNER—How many of those are there, General?

Lt Gen. Leahy—I do not have the exact figures, but it would be 50 to 70 at the moment.

Senator Hill—We have just finished a buy of new ASLAVs. We have finished the upgrade of a whole lot of other ASLAVs. There are Bushmasters coming off the production line as we sit here.

Senator FAULKNER—And the vast majority are in Iraq.

Lt Gen. Leahy—There are 52 ASLAVs with enhanced protection in Iraq. As for the remaining stock—I will have to get back to you, and I will be able to do it shortly—there are probably about 90 to 100 ASLAVs available for use in Australia.

Senator FAULKNER—What do you say to those who say that moving infantry around in APCs, the M113s that are to 40 years old, that are unsafe—

Senator Hill—They are not unsafe. You have been told many times that they are not, but you go on saying that they are.

Senator FAULKNER—That is why they need the upgrade.

Senator Hill—No. They need the upgrade because they are being made larger. They are getting new engines so that they are more powerful, and a new transmission. They are, in effect, being reconstructed into new vehicles. It is a major project and, as you have heard, it has required some years of research and development to get to this point.

Senator FAULKNER—How many Bushmasters are in Australia?

Lt Gen. Leahy—As I have said, I cannot be exact on it. The DMO might be able to help me there. I would have thought that at the moment—and they have yet to be fully accepted into service—there would be 50 to 70. Is that right, Colin?

Mr Sharp—The figures that I have available are that 16 are used for training at the moment in Australia. There are 14 deployed overseas in Afghanistan and Iraq. There are 50 off the production line at ADI in Bendigo.

Senator FAULKNER—What do you mean by ‘off the production line’?

Mr Sharp—I mean that ADI has built 50.

Senator FAULKNER—So they are out of the factory and into the field. Is that what you mean?

Mr Sharp—That is how many are in Australia at the moment.

Senator FAULKNER—Are ASLAVs used for troop carrying?

Lt Gen. Leahy—Yes. There are numerous types, but the two primary types are what we call the gun type, which has the cannon on it, and the personnel carrier or PC type, which carries infantry in the back.

Senator FAULKNER—What are the numbers, if you disaggregate those figures have you given me, relating to the troop-carrying ASLAVs?

Lt Gen. Leahy—Is probably one-third to two-thirds.

Senator FAULKNER—One-third are troop-carrying?

Lt Gen. Leahy—No. One-third are gun type and two-thirds are troop-carrying. I am just seeing if there is someone nodding behind me. I will stick with that for a while. I might have to get back to you. When you need a non-corps officer they are never in sight.

CHAIR—There is no-one shaking their head!

Senator FAULKNER—I will not hold you to that. I appreciate that you do not have that information at your fingertips. Are those figures consistent with a similar proportion in Iraq or are they mainly the gun-carrying type?

Lt Gen. Leahy—It is probably about half and half in Iraq.

Senator FAULKNER—In relation to another matter, which I accept is not your area of responsibility, General, can we very quickly have a figure on the estimated spend on the JSF project? I just want to know what the budget figure is.

Lt Gen. Hurley—In the system development and demonstration phase, which we are in now, as at last July we had paid a total of \$A119 million. The next payment is due in January 2006.

Senator FAULKNER—But what is the total?

Lt Gen. Hurley—That is the total money we have spent so far.

Senator FAULKNER—What is the projected budget cost for the project?

Lt Gen. Hurley—In the SDD phase or overall?

Senator FAULKNER—Overall.

Senator Hill—We have not decided to buy the Joint Strike Fighter.

Senator FAULKNER—What is the next phase? We have paid \$119 million and you have not decided to buy them. How do you describe the current phase?

Lt Gen. Hurley—Within the system design and development phase, which continues up until about 2011—that is the payment period we are in—we are currently in negotiations. The next memorandum of understanding in that phase, which will come into play about October next year if we decide to go ahead, is that there is about another \$120 million to be paid.

Senator FAULKNER—At that point are you able to say what number of fighters you are likely to purchase? I had thought—I might be wrong—it had been reduced. That might not be correct, so I want you to let me know.

Senator Hill—It has not been reduced. We have a project to acquire a new aircraft to replace the F111s and the FA18s. We have had estimates of the number of platforms that will be necessary to do that task. We have a projected budget but, of course, it is well outside of the appropriations of the forward estimates period. But we can tell you the projected cost. The Chief of Air Force, the Chief of the Defence Force or General Hurley can talk about our best advice on the number of platforms that we need, presuming that we decide to purchase the Joint Strike Fighter. That decision is scheduled to be made in 2006-07.

Lt Gen. Hurley—First pass in 2006; second pass in 2008.

Senator Hill—But we can give you estimates of the number of aircraft and the estimates—

Senator FAULKNER—I just want to know what the current estimate is for the number of aircraft, if that is possible. Can somebody give me that figure?

Air Marshal Shepherd—There is a lot of analysis that needs to go on in the next 12 months to determine that. There are various phases in the project. The first phase will deliver a replacement for the FA18 and F111 capability—phases 2B and 2C. We need to look at a whole range of key issues such as the balance between airborne early warning aircraft and tanker aircraft; the contribution from other force capabilities, such as the air warfare destroyer; the number of areas that we need to protect and operate in simultaneously; the potential for concurrent air superiority; strike, maritime and land, and ground support operations—of course it is a multi-role aircraft in that regard; how often we rotate our forces in the field; and the aircraft required in a training and maintenance pool. So there is a lot of analysis that needs to go on in that regard. But, if you make some broad assumptions on numbers of squadrons and the F111 and FA18 capability we need to replace, a figure of up to 100 is not that far off the mark.

Senator FAULKNER—Is that a reduced figure? Has it changed?

Senator Hill—No. That is the figure we have used from day one.

Senator FAULKNER—The dollar figure has changed though, hasn't it?

Senator Hill—No, our estimated cost has not changed.

Air Chief Marshal Houston—At the current price, we can still buy up to 100 aircraft, and the project has sufficient funding within it to do that.

Senator FAULKNER—Let me put the question to you this way, because we are very short of time. I ask you directly: what is the estimated cost per aircraft now?

Air Chief Marshal Houston—It is \$US45 million.

Dr Gumley—Provided they are not the very first aircraft coming out. The very first ones coming out of the production factory are dearer than that. Once the production line settles down at Lockheed Martin, it comes down to \$US41 million.

Air Chief Marshal Houston—Perhaps I can answer that question. The most recent estimate of the average unit recurring flyaway cost of the JSF conventional takeoff and landing aircraft is approximately \$US45 million.

Senator FAULKNER—But not for the first aircraft coming out.

Senator Hill—He has just given you a definition.

Senator FAULKNER—Yes, I heard that.

Senator Hill—That is the average cost.

Senator FAULKNER—I heard that and I appreciate that, but now I am going to Dr Gumley's point. He kindly—

Senator Hill—If you want to ask a question about what the price is of the first tranche—

Senator FAULKNER—Yes, I do.

Senator Hill—Then ask that question.

Senator FAULKNER—I was, but you interrupted me. Can you tell me that, Dr Gumley, now that Senator Hill is being a little quieter?

Dr Gumley—We do not have the exact numbers from the Americans as yet. There is a conference where we will be meeting with the Americans next month in the US, and we should get guidance then on what the different prices may be.

Senator FAULKNER—You know that it is higher, but you cannot quantify how much higher. You told us it was dearer.

Dr Gumley—They have not given us a firm quote for the planes. They have just given us a broad statement that, as is typical in fighter programs, the first ones coming out are dearer than when they settle into the long-term production of them.

Senator FAULKNER—So all you can say is that it is higher; you cannot quantify it.

Dr Gumley—Correct.

Senator FAULKNER—If I can go back to you Air Chief Marshal, having established that, what was the original average when the project started? Let's compare apples with apples here. It is \$US45 million now. Could you say what it was originally, please?

Air Chief Marshal Houston—I have not got that to hand at the moment. I would like to take it on notice.

Senator FAULKNER—But it was significantly lower, wasn't it?

Air Chief Marshal Houston—If we go back three years, I think we were speaking in the order of about \$US40 million, but I would like to take it on notice.

Senator Hill—We will check it and come back to you.

Lt Gen. Hurley—In 1995-96, the original quoted price was approximately \$US33 million.

Senator FAULKNER—I thought it was around that figure. So it was \$US33 million, and it is now \$US45 million.

Lt Gen. Hurley—That was in 1995-96, though.

Senator Hill—When we went into the design and development phase, we went in and said publicly an estimated cost. My recollection of that was about \$US40 million, but that needs to be checked.

Senator FAULKNER—It was \$US33 million, and it is now \$US45 million. That is \$US12 million extra per aircraft, with up to 100 aircraft. Would I be correct to say that that is a \$US1.2 billion blow-out?

Air Chief Marshal Houston—No, that is completely wrong, because you have not taken any account of foreign exchange.

Lt Gen. Hurley—In 2001, when we joined the SDD, the price was \$US40.1 million.

Senator Hill—There you go!

Senator FAULKNER—Has any consideration been given to not proceeding with this project? Is analysis still going on about not proceeding with the project and possibly investing in upgrades of the F111s?

Air Marshal Shepherd—If you are referring to the upgrade of the F111, DMO and DSTO, supported by industry, have conducted extensive analysis of the F111—the operational capability, the cost of upgrading and the technical risks associated with upgrading that aircraft. We believe that that is unrealistic and not capable in a realistic cost way. Also, in truth, the F111 does not meet the modern battle space. It does not have the operational capability to do that. It does not have stealth. It does not have situational awareness or electronic warfare. In fact, the high cost of keeping the F111 currently is distorting our Air Force's capability to transition to a networked systems based force.

Senator FAULKNER—I read an article in a newspaper saying that the Dutch were considering halving their order for the JSF. I imagine Defence have seen that. Is anyone able to say whether that is true?

Senator Hill—I have not seen it.

Senator FAULKNER—Because of problems with the project. I thought we would be onto this given that we are investing—

Air Chief Marshal Houston—We are onto it—

Senator FAULKNER—I would hope so.

Air Chief Marshal Houston—You are correct. I believe that for funding reasons they have split their project and they are looking at buying fewer JSFs.

Senator FAULKNER—I do not think it is only for funding reasons though. In all the publicity surrounding it there is a whole range of other problems including systems problems and technological problems. It is far too complex for me to go into and I do not have enough time. I am only making the point that I do not think that it is only funding issues.

Air Chief Marshal Houston—If you are suggesting that there is a current problem with the aircraft, there is not. In fact the project is going very well at the moment.

Senator Hill—It might be that they are trying to get a larger industry slice.

Senator FAULKNER—The F111s are supposed to be airborne until 2012?

Air Marshal Shepherd—Our current plan for the withdrawal of the F111 is 2010.

Senator FAULKNER—There have been no changes to the plan for 2010?

Air Marshal Shepherd—We have kept an option to maintain the aeroplane out to 2012 should a number of prerequisite projects associated with the Hornet upgrade be delayed and we are reviewing the situation constantly.

Senator FAULKNER—Is the F111 fleet still 27 strong?

Air Marshal Shepherd—I have a statement here that will give that to you. The current fleet consists of 17 F111C strike aircraft, although one of those is currently not flying because it needs a major repair to the fuel tank implosion. That will return to flying status in March 2007. There are four RF111C reconnaissance aircraft and five F111G training aircraft. Of the 15 F111G aircraft acquired in 1992-94, seven aircraft never entered service, as was intended, but were used for spares. One aircraft was lost in Malaysia in 1999 and of the remaining seven, two have been withdrawn from operational service as the aircraft became due for deeper maintenance and the remaining five will likewise be withdrawn as their deeper maintenance servicing falls due. All remaining F111Gs will be withdrawn from operational service by early 2007. The two F111G aircraft withdrawn from operational service recently are not required to maintain F111 training capability and are considered unserviceable because they require deeper level maintenance. Until disposal, these two aircraft could be returned to serviceability by induction into a deeper maintenance program at a cost of around \$3 million each.

Senator FAULKNER—The ones that are mothballed—for want of a better word—are at Amberley, aren't they?

Air Marshal Shepherd—That is affirmative, Senator.

Senator FAULKNER—How many of them are mothballed at Amberley?

Air Marshal Shepherd—Other than the 17 F111C strike flying, the four RF111s and the five F111Gs, that makes nine in storage.

Senator FAULKNER—These are just sitting out on the tarmac in all sorts of weather, aren't they, at Amberley?

Air Marshal Shepherd—Yes. Some of them are in protective storage—tarpaulins and covers—and some are in open storage.

Senator FAULKNER—Does that matter?

Air Marshal Shepherd—Not for the parts that we need to get off them, no. They are constantly kept under review as to what parts we need off them and, as for the ones that are parked in the open, spare parts we may need off them are large parts and they do not deteriorate in that climate.

Senator FAULKNER—What are they doing? RAAF sources say they are just rusting away. That may not matter and may not be true—

Air Marshal Shepherd—The actual steel in the aircraft does not rust because they are made out of aluminium honeycomb and a special steel, so they actually stay in the open. These aeroplanes are built to stay in the open for their whole service life anyway. So, even if they were in service, they would still be parked out on the flight line.

Senator FAULKNER—When you say that the F111s will be in service until 2010, the reality is that very few of them will be in service until 2010. In fact, none will be in service in 2010, and a proportion of the F111 fleet will be in service until 2006. Is that a more accurate picture?

Senator Hill—No, that is not right.

Air Marshal Shepherd—No. We will maintain the current F111 capability up until 2010 and be able to meet the government's preparedness requirements.

Senator FAULKNER—How many are you expecting to be in service in 2010?

Air Marshal Shepherd—At this stage we are expecting the 17 F111Cs and the four RF111Cs aircraft to be capable out to 2010. They are the main operational aeroplanes. The five F111Gs are training aircraft. We do not consider them to be combat aircraft, and they will be withdrawn as their deeper maintenance servicing becomes due over the next couple of years.

Senator FAULKNER—Is it still the intention to keep the F111 fleet in the air effectively until a replacement aircraft is found? I think the Air Chief Marshal made that point, and it is a fair enough point.

Senator Hill—No. He said up 2010 and, if necessary, up to 2012.

Air Marshal Shepherd—Our current planning has the JSF starting to enter servicing in 2012. We will transition the strike capability from the F111, as it ceases service at currently 2010, to an upgraded Hornet and then transition from the upgraded Hornet to JSF, milling the two together over time. That is our current planning. As I said, we are looking to extend the F111 to 2012, should some of those prerequisite upgrades on the Hornet be delayed.

Air Chief Marshal Houston—If I could just explain the difference between an F111C and an F111G. The F111Cs are digital aircraft. They are capable of precision strike. They have all the weapon systems enhancements to make them more lethal and survivable. The F111Gs have none of that. They are essentially what we call a ‘dumb bomber’ and do not have any precision capability at all at this stage because, when they were bought in the early nineties, they were not upgraded to the same standard as the F111Cs.

Senator FAULKNER—People who have an interest in the RAAF, including RAAF sources, are expressing really serious concerns that we have these aircraft on the tarmac up at Amberley, exposed to the elements in Queensland. That is why I wanted to raise it with you.

Air Marshal Shepherd—I can assure you that our engineers are monitoring that situation. I stress again that, were those aeroplanes in flying condition, they would still be parked out on the tarmac.

Senator Hill—I thought, Senator Faulkner, that you were opposed to upgrading aged platforms?

Senator FAULKNER—I have never made a comment about such matters.

Senator Hill—Yes, you have. You were attacking us on upgrading the M113s. You were saying that they were 40 years old and it was a ridiculous decision. Now what are you arguing? That we should be upgrading a 40-year-old aircraft?

Senator FAULKNER—I actually thought this was a forum for asking questions. If you are going to use old technology, let us make sure that it is in the best possible condition. You might upgrade the M113s and you might ensure that the F111s are not stuck out in the middle of the weather in Queensland.

Senator Hill—So you are an expert on this is well, are you?

Senator FAULKNER—It seems to me to be entirely consistent—

Senator Hill—Did you listen to the Air Marshal? You didn’t listen again, did you?

Senator FAULKNER—although it may not be consistent to you, Senator Hill. The more you say these things, the more I become convinced that Senator Minchin’s campaign to get rid of you is on the money.

Senator Hill—You never listen. Is that the best you can do? Is that all you have?

Senator FAULKNER—That is all I have. I will finish with that comment. Senator Minchin, come on down!

Senator Hill—What a feeble and disappointing effort.

Senator FAULKNER—Clearly, it is time for you to go.

CHAIR—Order! Senator Hogg, do you have any questions in the dying moments of Defence estimates?

Senator HOGG—In the dying minutes—

Senator Hill—And Hoggy is going to fight for 10 minutes.

Senator HOGG—No, I am not going to fight for 10 minutes. I just want to get a bit of information about—

Senator Hill—That would be a change.

Senator HOGG—the joint headquarters at Bungendore. There was a major announcement about the establishment of the joint headquarters, and recently there has been an announcement that reduces the size. What has brought about the reduction in the size of the headquarters?

Senator Hill—Do you want to talk about the command structure?

Air Chief Marshal Houston—What we are conducting at the moment is a command and control review. Out of that command and control review has come a need for a more streamlined headquarters, which essentially will be structured on integrated lines. This means that we require a headquarters that can accommodate about 750 people, as opposed to the component sized headquarters, which would have required a headquarters of 1,185.

Senator HOGG—That is a massive reduction in the number of people who were foreshadowed to work there. Does this mean a substantial reduction in the size of the project itself, in terms of the accommodation?

Air Chief Marshal Houston—What we are doing is essentially separating the raise, train and sustain responsibilities of the component commanders, who currently live up in the Sydney area, from the command and control responsibilities that they also hold. What we will have is a headquarters that is wholly and solely focused on command and control of operations.

Senator HOGG—Can I assume that the other 435 who were designated are people who are currently situated in Sydney and will remain in Sydney?

Air Chief Marshal Houston—They are people who are currently located in Sydney, yes. We are still working through the review to see what we will do with them.

Senator HOGG—They are the people who, as I understand it, you described as raise, train and sustain. Is that correct?

Air Chief Marshal Houston—That is correct, yes.

Senator HOGG—So you have now separated the function. What brought about this change, apart from the review? I understand that you had already sought tenders on the project and a number of major companies had expressed an interest in the process to date.

Air Chief Marshal Houston—We have had three reviews: the Clarke review, the Molan review and one done very recently by Noetic.

Senator HOGG—Who did the last one?

Air Chief Marshal Houston—Noetic. It is a small company that provides expertise in this area.

Senator HOGG—When was that done?

Air Chief Marshal Houston—That was done very recently. It was commissioned by General Cosgrove about six or seven months ago. The idea was to have a look at the adjusted

command and control arrangements that have been put in place as a consequence of the initiatives that were taken in 2003-04.

Senator HOGG—If that was initiated in April, when did you get the results?

Air Chief Marshal Houston—The results of that came through around the June-July time frame. I can come back to you and let you know precisely, but—

Senator HOGG—I just wanted to know roughly. It does raise another issue, and that is—

Air Chief Marshal Houston—If I could just finish what I was going to tell you. We have had three reviews that all recommended that we separate the raise, train and sustain functions from the command and control of operations functions.

Senator HOGG—So, if you have had three reviews that have said that, why has it taken so long to come to the conclusion that that is what needed to be done?

Air Chief Marshal Houston—We have had a look at it. We had the initial review. There was a response to that.

Senator HOGG—When was the initial review?

Air Chief Marshal Houston—The Clarke and Molan reviews were conducted in 2003, and they reported, as I recall it, towards the end of 2003. The more recent review reported in the middle of this year. The whole idea of this last review was to review the arrangements that we have in place for their functionality and their appropriateness, given the current strategic circumstances and the way we command and control operations.

Senator HOGG—When did the tender process commence?

Air Chief Marshal Houston—I will ask Air Commodore Plenty to address those issues.

Air Cdre Plenty—We went out to tender on 1 September last year. Tenders closed on 22 February this year. We have evaluated those tenders and we came to a decision around early July. We put that on hold because of the command and control review.

Senator HOGG—I hear that. There was a press release from the Parliamentary Secretary to the Minister for Defence dated 8 August announcing the establishment of new Defence homes in the suburb of Bruce. Specifically it says:

“DHA plans to build over 500 homes in the Canberra region over the next three years to meet the demand of housing Defence members and their families posted to the Head Quarters Joint Operations Command at Bungendore,” ...

Does that still hold, given the downsizing? Why was that announcement made if there was a hold already on the project back in July?

Mr Henderson—The first point to make is that we cannot speak on behalf of DHA. Let me just offer two comments—

Senator HOGG—But there would have to be some cooperation between you in terms of what your need will be and what they will announce in terms of the—

Mr Henderson—That was going to be the first point I made, Senator. I did inform the managing director of DHA of these prospective developments. They were given a heads up. The second point to make—

Senator HOGG—When was that?

Mr Henderson—I cannot recall precisely.

Senator HOGG—Roughly?

Mr Henderson—No, I would not want to chance my hand.

Senator HOGG—Take it on notice.

Mr Henderson—Okay, I will take it on notice. The second point is that the Bungendore headquarters is not the only factor relevant to DHA's land acquisition proposals for Canberra. There are other reasons why they needed to purchase that land.

Senator HOGG—I do not doubt what you say. It is not my press release that I quoted from; it is the Parliamentary Secretary's press release. I did not quote out of context anything of what was said, so I am not going to get into an argument about that this evening. Where is the tender process at now, given that the project has been downsized? How many tenderers are there in the process at this stage?

Air Cdre Plenty—We still have three tenderers. They have until close of business this Friday to complete a deed of acceptance of re-entering the tender process. The tender process then kicks off from 4 November through to the tender close and evaluation.

Senator HOGG—Do we know how much each of the tenderers have spent in putting their tenders together?

Air Cdre Plenty—No, they have not expressed any pure dollar sense to me.

Senator HOGG—Are they being supplemented in any way by Defence in the retendering process?

Air Cdre Plenty—They have sought advice on that, and we are developing a submission at the moment. It is within the department.

Senator HOGG—If tenders close this Friday—

Air Cdre Plenty—No, it does not end this Friday; the process opens this Friday.

Senator HOGG—When does it close?

Air Cdre Plenty—The RFT closes on 1 December.

Senator HOGG—Will there be any compensation for a tenderer should they decide not to proceed with the changed version of the headquarters at Bungendore?

Air Cdre Plenty—In that case, no. We are putting together a submission for the unsuccessful tenderers in the next process that is about to start, but that has yet to go to the minister for consideration.

Senator HOGG—I have seen a press article, as no doubt you would have, in the *Australian Financial Review*, which says that each of these tenderers has spent in the vicinity of \$3 million in putting in their tender bid. You are telling me that if they do not proceed with the changed conditions they have done \$3 million cold. Is that the way you are looking at it?

Air Cdre Plenty—They signed up to that—as part of the RFT process, they would bear all the costs of their bids.

Senator HOGG—Did they know that there was a likelihood that the goalposts would be shifted, so to speak?

Air Cdre Plenty—No. But that is entering the new process, which starts close of business this Friday.

Senator HOGG—What are the changed conditions in the new request for tender process? What differs this time around from the previous RFT?

Air Cdre Plenty—In the RFT processes themselves nothing changes. The scope of the project has changed, so they will be bidding on a different scope. But the actual RFT process has not changed.

Senator HOGG—Have the projected costs changed substantially?

Air Cdre Plenty—The funding remains as approved by government. We will not know how the tenderers will treat that until the tenders come back in.

Senator Hill—But it is less construction.

Senator HOGG—There will be less construction—I accept that. Another thing, which was raised in an article in the *Queanbeyan Age* of 21 October, was the—

Senator Hill—You are reading widely, Senator.

Senator HOGG—Senator Hill, I am glad you are impressed.

Senator Hill—I am.

Senator HOGG—And so am I. It is nearly as good as the *Kimberley Times*. We had that here one estimates, I think you would recall. But there was local concern expressed about the difficulties that will be placed on the local highway—the Kings Highway—and Max Reef Road. Is there any obligation on the part of Defence, if the project proceeds, to contribute in any way to the upgrade of those road systems to accommodate the increased traffic that will be generated as a result?

Senator Hill—No. There is obligation on the Commonwealth. That is principally a state and local government responsibility. But, as is obvious, if the project is smaller and there is less usage of the road, there will be less wear and tear.

Senator HOGG—Are there any planning requirements from local government as part of the development of the program?

Senator Hill—Local government would like the Commonwealth to upgrade all their roads.

Senator HOGG—I am not speaking of all the roads. Attention has been drawn to two particular roads in the area and the projected increased in their use that will take place. I am just wondering what local government might seek as a result of this project proceeding.

Senator Hill—Local government would like the Commonwealth to upgrade its roads.

Senator HOGG—I am aware of that.

Senator Hill—They all do.

Senator HOGG—There are many local governments in that position.

Senator Hill—That is right.

Senator HOGG—I am talking specifically though about this project.

Senator Hill—If there is a Defence project nearby they always argue that we should upgrade their roads.

Senator HOGG—You got to the stage where there were three tenderers. Has that changed in any way? Have any of them indicated that they are not going to proceed to the next stage?

Air Cdre Plenty—We will not know until close of business this Friday, when they have to provide their deeds of acceptance of the new process.

Senator HOGG—Granted, there is a close-off on Friday. Despite that, have any of them indicated that they are not prepared to proceed?

Air Cdre Plenty—Two have said that they are prepared to proceed with the process. I am meeting with the third one tomorrow.

[8.04 pm]

Department of Veterans' Affairs

CHAIR—I will draw the matter to a close there. Thank you to service and departmental personnel. We move to consideration of particulars of proposed budget expenditure for the Department of Veteran's Affairs. I welcome the secretary, Mr Mark Sullivan, and officers of the Department of Veteran's Affairs. The committee will now consider the topics nominated by senators for the Department of Veterans' Affairs, beginning with the portfolio overview. We will then move on to the outcomes.

When officers are first called upon the answer a question, they should state clearly their names and positions. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the question and the questions will be forwarded to the department for answer. The committee has resolved that Thursday 15 December 2005 is the return date of answers to questions taken on notice at these hearings.

Please note that Senate standing order 26(1) requires that all evidence taken during estimates hearings must be public evidence. That includes answers to questions on notice. There is no capacity to receive evidence, including answers to questions on notice, in camera or on a confidential basis. Answers provided by your department will be automatically published on receipt by the committee. It is the department's responsibility to ensure that answers are accurate and that there are no impediments to them appearing on the public record. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees, unless the parliament has expressly provided otherwise. An officer of the department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked of an

officer to a superior officer or to a minister. Finally, I remind everyone that mobile phones are to be switched off in the hearing room. Mr Sullivan, do you have an opening statement?

Mr Sullivan—No, thank you.

CHAIR—We are going to go to Senator Hurley who wants to go to outcome 1, Portfolio overview, Corporate and general matters, Outcome 1.

Senator HURLEY—I wanted to start with the Office of Australian War Graves.

Mr Sullivan—It is outcome 3.

CHAIR—Can we go to outcome 3?

Mr Sullivan—Yes, we can finish then!

CHAIR—Do we have all the people here for that and are all set to go for outcome 3?

Mr Sullivan—We are here.

Senator HURLEY—I asked for Air Vice Marshal Gary Beck to be present tonight to discuss the matter of the Office of Australian War Graves and the history relating to Anzac Cove and the Hellfire Pass. Why is Air Vice Marshal Gary Beck not present tonight, given the specific request to allow his presence? Is he ill, or is there some other reason for his absence?

Mr Sullivan—You asked the minister that question and the minister responded. I have nothing to do with that. You are asking me why, in response to your correspondence through the chair of the committee to the minister and the minister's response back to the committee—that is between senators and the minister. Air Vice Marshal Beck, Rtd, is on leave at the moment.

Senator HURLEY—Let us take a different tack then: why is Air Vice Marshal Beck on leave?

Mr Sullivan—Because the minister granted him leave.

Senator HURLEY—I see. How long is he expected to be on leave? He is on leave with pay, I understand.

Mr Sullivan—He is on leave with pay. He is expected to be on leave until 18 January next year.

Senator HURLEY—How much will this cost the taxpayer up until 18 January?

Mr Sullivan—It would have been effectively about four months that he has been on miscellaneous leave.

Senator HURLEY—Four months. What kind of cost is involved in that?

Mr Sullivan—I would have to get you the exact details but the cost involved in that would be approximately \$50,000.

Senator HURLEY—Why is he on leave with pay? Is it a medical reason? A disciplinary reason? Why is he being paid and not working?

Mr Sullivan—The War Graves Act allows for the minister to grant leave to the Director of War Graves, and the minister granted miscellaneous leave to Gary Beck on my recommendation.

Senator HURLEY—It was a request from Air Vice Marshal Beck?

Mr Sullivan—No, it was a recommendation by me to the minister.

Senator HURLEY—On what grounds? Was it disciplinary grounds? Health?

Mr Sullivan—No, not disciplinary grounds. It was as a result of my discussions with Air Vice Marshal Beck as to whether he felt he could continue to operate in his position. It was my discussion with the minister. My view, and the recommendation I made to the minister, was that it was in the interests of the proper workings of the department that Air Vice Marshal Beck be on leave.

Senator HURLEY—So there was a breakdown in relations between the minister and Air Vice Marshal Beck. They could not work together—is that what you are saying?

Senator Hill—You cannot jump to that conclusion from what has just been said.

Senator HURLEY—I have just been told that it was a request on either side, that they did not think that they could work together in fact.

Mr Sullivan—No, what I said was I had spoken to both parties and made a recommendation to the minister which she accepted and agreed to.

Senator HURLEY—The recommendation was because Air Vice Marshal Beck felt that he could not do his job properly.

Mr Sullivan—No, I did not go into the details of my discussion with Air Vice Marshal Beck. I said I had a discussion about his views on him doing his duties and I had a discussion with the minister. I am not going to go into what the details of either of those discussions are.

Senator HURLEY—It is a fairly serious step, isn't it, to stand down a senior public servant like that on pay?

Senator Hill—Is that what you said, that he was stood down?

Senator HURLEY—Isn't that the effect?

Mr Sullivan—No, he was granted leave. The War Graves Act has provision for such leave, and the minister accepted my recommendation that he be granted such leave.

Senator HURLEY—It just seems to me that, if you are basically giving the director a four-month holiday, you should be able to give a reason why that has occurred.

Mr Sullivan—I have to give a reason to the person who has to make the decision on the leave being granted and that is the minister. It is not up to me to grant the leave; it is advice from me as the secretary of the department to the minister as to what her options are. I gave her that advice. I have expanded my information to you to say that I made a recommendation to her and she then took a decision, which is a minister's decision allowable under the act.

Senator HURLEY—Let us go on then to the relationship with the minister. Gary Beck was quoted in the *Herald Sun* on 3 August stating:

I would go to talk to Danna Vale and to Bruce Scott when they were ministers—I briefed them weekly. I've never briefed this minister.

That is the current minister. Under Ministers Danna Vale and Bruce Scott, what arrangements were in place for the director of the Office of Australian War Graves to brief those ministers? Did they meet in person or with staff?

Mr Sullivan—I understand from Air Vice Marshal Beck that he had reasonably regular personal meetings with former ministers.

Senator HURLEY—Reasonably personal?

Mr Sullivan—Regular personal meetings.

Senator HURLEY—Under the current minister, what arrangements were in place for Gary Beck to brief the minister?

Mr Sullivan—For Air Vice Marshal Beck, in respect to the current minister, he basically followed the pattern of most officers in the department in that briefs were written. The minister did not engage with him personally as much, but he was briefing the minister quite regularly in writing. That is quite common in the department. Officers of the equivalent level of the Director of War Graves rarely have personal meetings with the minister. When the minister wants them there, they go.

Senator HURLEY—Why were the briefings between the two previous ministers and the current minister—

Mr Sullivan—I have got no idea.

Senator Hill—Ministers have different styles.

Senator HURLEY—Ministers have different styles, so what arrangements are in place for the current acting director to brief the minister?

Mr Sullivan—The current acting director briefs the minister in writing. I think Geoff Stonehouse—the current acting director can correct me—has briefed the minister's office in person on one occasion, but he regularly briefs the minister in writing.

Senator HURLEY—There have been no personal meetings under the new acting director.

Mr Sullivan—There have not been; that does not mean there will not be. That is for the minister to ask.

Senator HURLEY—What is the role of the director of the Office of Australian War Graves in relation to his responsibilities to brief the minister? Is it a regular written briefing, is it at the request of the minister or is it the initiative of the acting director?

Mr Sullivan—It could come from a number of people. The Director of War Graves may brief the minister. The minister may request a briefing. Or, as the War Graves Act points out, the Director of War Graves works to me and I may request a briefing or initiate a briefing request.

Senator HURLEY—What is the usual practice? What was the practice under Gary Beck? Did he have formal briefings or were they informal with the previous ministers?

Mr Sullivan—I am only aware from him that they were a mixture. There were certainly formal briefings. My preference is that briefings to ministers at least have in part a formal written brief, so that ministers are aware and there is a record and something to go forward

with. Ministers on occasions, sometimes quite often, will request an officer to give them an oral briefing. It is generally a practice that goes as a supplement to the written briefing. That is what I understand was the case. This minister has largely relied on me to provide her with oral briefings as to the major issues around the Office of War Graves.

Senator HURLEY—So you get a written briefing from the acting director and you provide a personal briefing to the minister.

Mr Sullivan—Not always. I am saying that the minister has, on occasions, when she has required a personal briefing on issues concerning the Office of War Graves, requested me. The department's involvement in issues around memorials, graves, the Gallipoli ceremony and other things is not confined to the Office of the Director of War Graves. So, particularly when issues around Gallipoli and Gallipoli roads were running, the then deputy president of the commission, Ian Campbell, and me were heavily and personally involved in both the discussions around it and, in particular, in terms of keeping the minister and the government briefed as to what was happening.

Senator HURLEY—So the current minister has never requested a personal or a direct briefing from the director or acting director of the office?

Mr Sullivan—She has had personal briefings in written form from the current Director of War Graves.

Senator HURLEY—But no meetings.

Mr Sullivan—I think you are asking whether there have been personal chats about things with the director. No, that has not been what she has done with respect to war graves and it is consistent with, basically, the way she accepts briefings from officers of similar status in the organisation.

Senator HURLEY—What is the pattern of those briefings? Are they regular written briefings or are they just in response to either requests from the minister or initiatives of the—

Mr Sullivan—They would generally be issues briefings—briefings generated as an issue develops. They could be a progress report in respect of the preparation for an Anzac Day ceremony in Gallipoli or a major opening. They would generally take the form of progress briefings leading up to a final brief, which would be the brief as to the event.

Senator HURLEY—Can you confirm that the pattern was different when Gary Beck was the director under former ministers. He says that there were regular weekly meetings.

Mr Sullivan—I am only taking that from what Gary Beck has said. I was not the secretary then; the ministers were not the ministers. To a degree it is something that is not that relevant to me. My job is to serve this minister and this is how this minister operates across the board.

Senator HURLEY—Can you take on notice and provide me with advice as to how—

Mr Sullivan—I am not sure the department would hold the records of when previous ministers were briefed in a time which is way outside this estimates period.

Senator Hill—I don't know that it is relevant.

Senator HURLEY—I am sorry, I am new to this process; but surely the department keeps a record of briefings.

Mr Sullivan—We have very good records of written briefings. We have document management systems, and that is why I prefer written briefings. What you are asking is: do we hold a record of occasions when the Director of War Graves dropped into a minister's office and had a chat? No, I do not. I do not believe the department holds such a record, and I do not believe those ministers would hold a record of those briefings.

Senator HURLEY—So you are saying to me that Gary Beck's briefings with the former minister were purely of an informal chat type nature? They were not formal?

Mr Sullivan—I did not say that, Senator. You asked me if I have a record of it.

Senator HURLEY—Would you have a record of those formal briefings, rather than an informal chat?

Mr Sullivan—There may be record of a formal request for an officer, including a statutory officer like the Director of War Graves, to come and brief the minister.

Senator HURLEY—Can I, then, get what you have in terms of those formal briefings? Can you advise me as to—

Mr Sullivan—I will have to look at what we have. We are not talking about the current minister and the current government. You are talking about the previous government and previous two ministers of veterans affairs.

Senator HURLEY—Whatever records there are, I would be grateful to get.

Senator HILL—I am not clear what you want.

Senator HURLEY—I want records of how often formal briefings were held by Gary Beck under the two previous ministers and records of the briefings provided to the current minister.

Mr Sullivan—I think that is a different question to what you asked, because that presumes I have full knowledge. What I took you to ask was: 'What record have you of formal briefing requests from previous ministers to retired Air Vice Marshal Gary Beck?' In asking that question, you have again assumed that I have knowledge of all the times there was a request for an oral or personal briefing. There is not such a thing.

Senator FAULKNER—What did you say about previous governments and the two previous ministers?

Mr Sullivan—I am just saying that you are asking me about—

Senator FAULKNER—I am sorry, I was not concentrating but, when you said that, I started to concentrate.

Mr Sullivan—Senator, all I was saying was that you are asking me about the records in terms of a previous government and previous ministers at a time when I was not there.

CHAIR—Same government, different parliament.

Mr Sullivan—Same government, different parliament. Sorry, I appreciate—

Senator FAULKNER—The two previous ministers in the previous government. The reason I am interested is that I was one of them—so I think we had better get the terminology right.

Senator Hill—We are certainly not interested in whether you—

Senator FAULKNER—I was a good one, I might say, but nevertheless I do not know what you are doing delving into my—

Mr Sullivan—That was the department's view. Sorry, I stand corrected.

CHAIR—We are trying to clear that up. It was not the previous government.

Senator FAULKNER—It has been cleared up, and I am very thankful for that.

CHAIR—It is not the previous government; it is the previous parliament.

Senator FAULKNER—You had me worried there, for a while.

Mr Sullivan—Sorry, Senator, I stand corrected.

Senator HURLEY—You can certainly provide me with details of how many written briefings have been provided to the current minister from the Acting Director of the Office of Australian War Graves?

Mr Sullivan—I have no problem with doing that.

Senator HURLEY—And any records that you might have of previous briefings to the previous two ministers? I appreciate if you cannot give a full record, but I would like whatever you have got.

Mr Sullivan—Yes.

Senator HURLEY—Thank you. If we could turn to the matter of the Senate inquiry—

CHAIR—Do you want to leave that area?

Senator HURLEY—I am still on Gallipoli, but on matters arising from a Senate inquiry.

CHAIR—Senator Joyce has some questions on that particular area, if you do not mind.

Senator JOYCE—Thank you. Is there any reason the minister should regularly brief someone in person?

Senator Hill—I am not sure that—

Senator JOYCE—Is there any reason?

Senator Hill—I am not sure that is a question for an official, and I am really not sure it is a question for a minister, either, because every minister will have a different style and require officials to report in different ways.

Senator JOYCE—But there is no strict protocol of having to brief a minister regularly in person?

Senator Hill—There are no protocols, and not even any standard practice.

Senator JOYCE—If the minister were to ask for a formal or informal briefing, the department would obviously follow that through. That would be the case?

Senator Hill—That would be expected, yes.

Senator JOYCE—Would you say that a meeting by way of dropping in to the office or to talk with a person would be—to term it loosely—an informal briefing, if it were just to discuss an issue?

Senator Hill—That sounds like a reasonable description. That is at the most, I guess; it could be less.

Senator JOYCE—Informal briefings could be going on every day in every corner of this building and we would not know about them.

Senator Hill—In those terms, yes.

Senator JOYCE—Informal briefings could be happening at the pub, really. There is no real protocol.

Senator Hill—Maybe for some ministers and officials.

Senator JOYCE—It would be highly unlikely that you would be fully aware of every informal briefing that is going on in this house right as we speak.

Senator Hill—Absolutely.

Senator JOYCE—I know this has surrounded the issue of the Gallipoli peninsula. My grandfather was at Gallipoli. Just for the record, we lost, didn't we? So it has remained part of Turkey.

Senator FAULKNER—I suspect, Senator Joyce, that if we had won it would not have been part of Australia.

Senator Hill—We say that, as a nation, we gained from the experience. It is an important part of our heritage.

Senator JOYCE—Absolutely, it is my own family's experience as well.

Senator FAULKNER—Believe it or not, Senator Joyce, we may have lost the battle but we won the war.

Senator JOYCE—Ataturk certainly won that campaign and it remains part of Turkey so really our influence in Turkey is no more than persuasion. We have no other influence in Turkey. It is its own sovereign nation, isn't it?

Senator Hill—Yes, it is. Our relations with them are as with any other state, but we also do have certain agreements in relation to the Gallipoli peninsula. I do not know the full details of those but the department might.

Mr Sullivan—There is a treaty, called the Treaty of Lausanne, which was signed after the Great War. It is a very important treaty to Turkey because it also established modern Turkey. As Senator Faulkner said, while the British Empire forces withdrew unsuccessful from the Dardanelles campaign, the war was, in the end, a loss for Turkey and, after another war of independence, Turkey saw its nation established through the Treaty of Lausanne. The Treaty of Lausanne established an obligation by Turkey in respect to cemeteries in the area of the Dardanelles and the ANZAC battlegrounds and while Turkey have always very much honoured those treaties, in the end, it is important to say that the treaty itself states that this area remains a sovereign territory of Turkey.

Senator JOYCE—Apart from our powers of persuasion, roadworks carried out at Gallipoli remain firmly under the control that the government of Turkey, I presume.

Mr Sullivan—Roadworks are the responsibility of the government of Turkey.

Senator JOYCE—What powers does the Australia government have on that at all, if any?

Mr Sullivan—There is mention in the Treaty of Lausanne of roads and the Turkish obligations in respect to roads to permit access. There is an access requirement in the Treaty of Lausanne for people to be able to access the cemeteries. Australia and Turkey have—some would say from some time during the Gallipoli campaign; others would say from after the Gallipoli campaign—had a bond in respect to the common sacrifice that was made on that territory. Turkey has facilitated the Australian, New Zealand and Turkey joint commemoration service called the dawn service, has facilitated Australia conducting its own service at Lone Pine, and has facilitated the New Zealand government conducting its own service at Chunuk Bair as well as the British and French governments conducting services the day before.

Senator JOYCE—So it is a form of custom and practice rather than any law that is codified though.

Mr Sullivan—There is no codification in respect to the honouring of Anzac Day.

Senator JOYCE—That being the case, the Turkish government really determines the form and direction of what it wishes to do on that piece of land.

Mr Sullivan—It could.

Senator JOYCE—Obviously, I am separating the responsibility of the Australian government from what happens in another country with regard to their roadworks. We have an absolute interest, and I acknowledge that fully, but apart from a position of interest and apart from the power of persuasion and apart from custom and practice, we have no other leverage.

Senator Hill—Can you tell us, Mr Sullivan, whether this obligation to provide access has been interpreted to provide reasonable conditions of access which, presumably, means a reasonable road?

Mr Sullivan—It certainly does. Turkey has developed a master plan in respect of the whole area and that is codified into Turkish law.

Senator JOYCE—I respect the right of Turkey to do that. The Turkish government is the government responsible for this. Under the Treaty of Lausanne Australia certainly get access but, if Turkey really wanted to, they could turn it into a residential area, couldn't they? I know that they would not but for the purpose—

Senator Hill—They cannot because of the treaty obligation.

Mr Sullivan—They cannot do that. I accept your basic premise that we are dealing with a sovereign nation, Turkey, on their land and it is very much by the bond and the relationship between Turkey and Australia that we are facilitated as far as we are.

Senator JOYCE—It would appear to be the case that there is an overemphasis especially throughout the media on where Australia's powers cease. The powers of Turkey are the

governing instrument. I am dispelling the belief that is peddled out there; that Australia has some rights that we really do not have in the affairs of another nation.

Senator Hill—Some might think we have rights that we do not have.

Senator JOYCE—What powers do we have?

Mr Sullivan—The honouring of the treaty has been upheld through the maintenance of the cemeteries throughout the Dardanelles area. Those cemeteries which are old British Empire cemeteries are under the governance of the Commonwealth War Graves Commission. The Commonwealth War Graves Commission is a body made up of the countries of the Commonwealth, governed by the countries of the Commonwealth who pay a percentage fee to its running costs. Australia is a member and it pays. France also has cemeteries. Those cemeteries are protected places under the treaty and in the 90 years or so since Gallipoli those cemeteries have been protected by Turkey. You could say this is under the treaty obligation, but in terms of ensuring implementation of a treaty you would find it a difficult process if Turkey were not willing. So it is mostly Turkish willingness. That is the formal power which includes the whole of what is regarded as the Anzac battleground. The difference here was that, whereas the French and the British tended to consolidate their cemeteries into very large cemeteries, the Australian view was—and Charles Bean in particular put this view forward—that Australians for generations to come should be able to understand this area best if the cemeteries were where the battles were. If you go to Gallipoli and see the Nek cemetery, his view was you would then naturally ask, ‘What happened here?’ That is very much the case at Gallipoli. He requested in the treaty negotiation that rather than specifying the Australian cemeteries, the whole of the Anzac battleground, which is not the whole of Gallipoli Peace Park—or certainly not the whole of the Dardanelles area—be designated as if it were a cemetery. That was acceded to and that is in the treaty. That means that, as the Turks respect and regard the cemeteries, they regard the whole Anzac battleground in the same way, which precludes therefore development, farming et cetera. But there is an obligation in the treaty in respect of Turkey providing roads.

Senator FAULKNER—Hasn’t the government sought recent legal advice on the effect of the treaty in relation to some of the issues? Perhaps it was not in the way that Senator Joyce puts it, but, in the broad, hasn’t the government sought legal advice on some of the issues that Senator Joyce raises? Hasn’t recent legal advice been sought and provided on this?

Mr Sullivan—I am not sure if it has been provided. I think in the Senate Finance and Public Administration References Committee inquiry into Gallipoli roads there was a fair amount of discussion about the treaty. I believe the Department of the Prime Minister and Cabinet were asked about it. I believe you are right in that there was some seeking of legal clarification with respect to what some of the terminology in the treaty meant. But I have not seen that advice.

Senator FAULKNER—So you cannot say because it was advice sought by another agency, and you do not know whether that advice has been provided or you have not sighted a copy of such advice?

Mr Sullivan—I have not seen that advice, no.

Senator FAULKNER—To your knowledge, has the Office of Australian War Graves or any component of DVA at any stage sought similar or related advice?

Mr Sullivan—No. We were engaged in some conversations at the time at the Senate references committee, and it was agreed that the Prime Minister and Cabinet were the appropriate agency to seek such advice. We have not sought such advice. I think it is important but, basically, we have never tended to rely on the treaty. We have never attempted to say, ‘Turkey, you must do this because this is what this treaty means.’ If we went to an international court with Turkey in respect of what that treaty meant, our relationship with Turkey would plummet.

Senator FAULKNER—Sure. But do you think this advice was sought because of the Senate inquiry?

Mr Sullivan—Yes. There were questions at the Senate inquiry that certainly went to issues of the treaty. Views were put by other persons giving evidence as to what the treaty could and should mean. No-one, however, suggested that it raised questions about sovereignty. In what are some complicated clauses in the treaty one of the most simple is that, whatever this treaty contains, this remains the sovereign territory of Turkey.

Senator JOYCE—I have been to the Gallipoli Peninsula and, as I said, my grandfather fought there. I have a very strong interest in the whole area. I acknowledge fully that the Turkish government see it also as the inception of the Turkish nation and being formative in the development of Ataturk. I do not want to cast any aspersions at all that they would basically denigrate or profane what is intrinsically important to them. But I am going back to that issue that, even if you do get legal advice, the bottom line is that it remains the sovereignty of Turkey.

Senator Hill—Also, whatever the law might be, in the sense that there is some debate on the law, Turkey has not only protected that site because it is important to the Turks but protected it because it is important to others who lost their people.

Senator JOYCE—As the memorial says.

Senator Hill—They have been very helpful and constructive over the years in supporting our needs and requirements in relation to our war graves and our wish to visit the sites and to express that part of the Australian heritage.

Senator JOYCE—I agree, and it is also written on the memorial there. It has the quote from Ataturk right at the front, and it gives the guarantee that graves would remain undisturbed, saying, ‘Your sons lie here with us’ et cetera. Finally, if a brief had been given in writing, is that the most relevant and usual form of communication that would be acted on? A brief in writing is really the paramount document in your department, isn’t it?

CHAIR—In terms of consultation?

Senator JOYCE—In terms of consultation.

Senator Hill—Between a minister and officials?

Senator JOYCE—Yes.

Senator Hill—I see advantages in written briefs, but some ministers prefer to be briefed in other ways. It really varies according to the individuals.

Senator JOYCE—Thank you very much.

CHAIR—Senator Hurley, do you want to go on with another issue?

Senator HURLEY—No, I want to continue on the Gallipoli issue. In particular I am seeking some information about discussions about new construction works in Gallipoli. In an interview on 3AW on 4 August this year, I believe you, Mr Sullivan, stated that you were unaware of the plans for new construction at Gallipoli. Why were the DVA and the minister's office unaware of the plans for the new construction on 4 August?

Mr Sullivan—I think what you are talking about is reference on a radio program on 3AW to a plan by the Ministry of Tourism and Culture to develop viewing platforms on the Gallipoli peninsula. In respect of suggested spots where such viewing platforms may be, The Nek was mentioned. I was asked to comment on whether or not that would be the case. My response was that I was not aware of such proposals and that I had recently been in Turkey and had been assured by the Ministry of Environment and Forestry, which has responsibility for the Gallipoli Peninsula, that no works of any kind were being conducted on the peninsula, and I was aware that they were the responsible agency. I was also aware that the Prime Minister of Turkey had assured the Prime Minister of Australia that work was suspended. I have since been to Turkey and been assured again that there is no proposal to build viewing platforms on the Anzac battlefield. There is a proposal for a design concept of what viewing platforms may look like in Turkish national parks. I do not think it is a question of why I was not aware. I was asked to comment on a report from an Australian in Turkey that such things were occurring. I gave my response on the basis of my knowledge of Turkey, and I confirmed it when I went to Turkey.

Senator HURLEY—You stated on 3AW that there were no plans for new construction.

Mr Sullivan—I would have to look at the transcript in respect of those words. What I was talking about was the construction of viewing platforms.

Senator HURLEY—So you were aware of the design—

Mr Sullivan—I was not aware of the design tender for viewing platforms.

Senator HURLEY—Isn't that a clear indication that there are communication and consultation problems between the two governments?

Mr Sullivan—I do not think so. Turkey does not come to Australia and say, 'Hey, we've got a design concept tender going out.' What Turkey has assured us at the highest levels of government down through to officials contact is that, in respect of construction on the Gallipoli Peninsula—particularly in the area which we are concerned with, which is the Anzac battlefield—there will be no construction without consultation with Australia and New Zealand. They have reassured me again that is the case. That is where our interest lies.

Senator HURLEY—You made reference to an Australian journalist who raised this issue about the proposed design. Did anyone in the department or the minister's office contact this journalist, Bill Sellers, to seek further information about what he knew?

Mr Sullivan—No.

Senator HURLEY—Did you not have an interest in—

Mr Sullivan—The Australian government deals with the Turkish government. The Australian government, as a result of that report, sought the embassy in Ankara to contact the Ministry of Foreign Affairs and ask them to contact relevant Turkish authorities and seek confirmation of our understanding and details of what was proposed. On a recent visit to Turkey, I was able to make contact with the Ministry of Foreign Affairs and the Ministry of Environment and Forestry to confirm our understanding. I do not see any need to talk to a freelance Australian journalist who makes these stories.

Senator HURLEY—He appeared to have more information than you did at that time.

Mr Sullivan—I think if someone scours the Turkish press and finds a tender for a design concept and then makes the assertion that that links to actual construction, yes, he probably had more information in respect of a design concept. If you take a look at his transcript, I do not think it was clear, in anything he said to that radio broadcaster, that he was only talking about a design. He talked about construction. Again, Mr Sellers has been found to be possibly be exaggerating in his views of what was going on.

Senator HURLEY—Given the difficulties that clearly seem to have existed if the Turkish government did not contact the Australian government about the design proposal and did not notify them that it was going to happen, perhaps you need to develop other channels of communication.

Mr Sullivan—We listen to any channel of communication that is open.

Senator HURLEY—But not Mr Sellers.

Mr Sullivan—We did not ignore Mr Sellers. Mr Sellers' radio interview prompted the clarification of our understanding with the Turkish government and that clarification satisfied us. We did not ignore Mr Sellers. What you asked was, 'Did I go and talk to Mr Sellers about what he knew?' No. He had said what he knew and we have clarified that with the Turkish government and correct agencies.

Senator HURLEY—You have gone over this but in contacting the Turkish government, that was not from the minister's office it was at department level?

Mr Sullivan—There was a discussion between the minister and me where I offered to say that we will be pursuing it through our own Department of Foreign Affairs and Trade through the embassy in Turkey to the Turkish government to clarify what was occurring.

Senator HURLEY—So it has been department to department communications not minister to minister?

Mr Sullivan—No, ministers do not communicate on those issues very regularly. The minister was basically understanding and wanting us to clarify.

Senator HURLEY—Are you now aware of when the Turkish government will finalise its consideration on the new constructions?

Mr Sullivan—They are not considering new constructions. Again, they are considering designs. The tender is out. It is with the ministry which has no authority to construct anything

in the Gallipoli Peninsula. They are looking at design. At one level, Australian and Turkey share a common goal in the proper conservation and preservation of the park. The current way is to let people go anywhere. As visitor numbers in that park go up and up, environmental strategy will have to look at the feasibility of other ways. Areas of the park are under risk from human contamination basically and we would say that in the long run they will need to look at options. In looking at things like design concepts for viewing platforms in national parks, Australia is one of the leaders. In fact, when the Turkish environment minister visited Australia we were very keen to show him how in Australia there has been a lot of success in balancing the heritage conservation and environmental aspects of national parks with the desire by people to visit those national parks.

Senator JOYCE—How many people go there?

Mr Sullivan—There are estimates that up to two million people visit the Gallipoli Peninsula per annum. That is an estimate. It comes from Turkish authorities. During the summer and autumn months I know that you cannot move in the park. There are hundreds of hundreds of buses every weekend. Every national serviceperson in Turkey visits the Gallipoli Park. Schools are encouraged to visit the Gallipoli Park.

Senator JOYCE—Of that two million, what portion would be Australian?

Mr Sullivan—In the two million, the proportion of Australians would be one or two per cent. Around 15,000 Australians come to Anzac Day services and probably double that number again would visit Gallipoli at some time during a year.

Senator HURLEY—So, despite the fact that you are saying that it is only a design concept, there is fairly active consideration of some constructions in the future, and I would—

Mr Sullivan—Why would you say that?

Senator HURLEY—There was a DVA response to the Senate inquiry on 9 September, saying that the Turkish government were considering viewing platforms.

Mr Sullivan—You do not do a design concept unless you are thinking of viewing platforms—

Senator HURLEY—Exactly.

Mr Sullivan—in their national parks, but there is no active consideration of construction.

Senator HURLEY—I think that is quibbling, but—

Mr Sullivan—I do not think so. You have to remember that the last master plan on the Gallipoli National Park has been in existence for several years. Most of it is not implemented. If you had said, ‘In making up that master plan, does that mean that there is active consideration of doing it?’—things can take a long time. The process we are engaged in is to make sure that Turkey understands our interests in the peninsula—and they do—and that they consult with us about what they are planning on doing, and they do.

Senator HURLEY—So you are confident that Turkey are going to put the Australian government in the loop from now on?

Mr Sullivan—What do you mean by ‘from now on’? For the last several months they have certainly kept us in the loop.

Senator HURLEY—They did not see fit to advise the Australian government that they were doing the design concept—

Mr Sullivan—But they were not designing—

Senator HURLEY—so, from now on, post the design concept, you are confident that they are going to include you in any plans?

Mr Sullivan—What we are asking them to do is to involve us in things that affect the Gallipoli National Park and particularly the ANZAC battleground area.

Senator HURLEY—Yes. Your response to the Senate review was about the Anzac Cove area and talking about viewing platforms. So I am just asking whether you are confident now, post the design—

Mr Sullivan—You are putting words in my mouth, Senator. I have been confident for a long time, and nothing in terms of the viewing platform has upset me in respect of the failure of Turkish-Australian cooperation. The context was basically that the allegation made was proven to be wrong. The clarification was that, yes, some design work on a model viewing platform, to be used anywhere in Turkey, was out there. What I was asking and making sure of was the commitment of the Turkish government that, if they had decided that such a viewing platform could be suitable inside the Gallipoli Park—particularly the Anzac battleground area, would they be consulting with Australia? And the answer was an emphatic ‘Yes.’ But those arrangements had been put in place at the highest levels of the Australian and Turkish governments, the prime ministers, and would be honoured. So I do not think it is now. I do not want you to be putting me on record as saying, ‘Now I am confident’; I have been confident since the prime ministers of the countries agreed that that is what would happen.

Senator HURLEY—Let us talk about the prime ministers’ agreement then. You travelled to Gallipoli in June this year. Among the purposes of that trip was to ascertain ‘what the two prime ministers meant when they agreed to this joint second study’, which relates to the joint archaeological study. Whom did you meet with on that occasion?

Mr Sullivan—I met with the Ministry of Foreign Affairs; the Prime Minister’s department; the Australian Embassy, of course; the Ministry of Environment and Forestry; and the Governor of Canakkale.

Senator HURLEY—Who was present from the Australian government at those meetings?

Mr Sullivan—Always me, the Australian Ambassador to Turkey, Ms Jean Dunn and there were a number of people on that delegation, some of whom were at various meetings. They included representatives of the Department of Foreign Affairs and Trade and at that time included a representative of the Department of the Environment and Heritage and a member of the Department of the Prime Minister and Cabinet. Those were the people from Australia. There were several officials from Turkey.

Senator HURLEY—What has been the result of this meeting? Has the planning phase of the joint archaeological study been completed? Is there agreement about—

Mr Sullivan—No. Where we have advanced that to now is that Australia has been requested by Turkey to provide the names of those who would be the Australian representatives as historians and archaeologists on that review.

Senator HURLEY—Is there a formal agreement or some sort of position paper on what the two countries see as the scope and nature of the joint study?

Mr Sullivan—No.

Senator HURLEY—So it is an informal, verbal agreement?

Mr Sullivan—At the moment, it remains a record of agreement between the two prime ministers, with the two governments working on such a scoping document and who would participate. The Turks have said that they would like to see the participants engage in the scoping document. They see a priority in getting Australian participants nominated—and they have also extended the invitation to New Zealand—and nominating their Turkish participants, so that those doing the study can participate in fully and finally scoping it.

Senator HURLEY—And a formal scoping study will come out of that?

Mr Sullivan—It is up to what the Turkish government does in the end. But I expect that we would see some terms of reference and a scoping study for the review.

Senator HURLEY—Has a decision been reached at this stage as to whether the study will be on just the Anzac area or on the whole of the Gallipoli Peninsula?

Mr Sullivan—Our interest is in those parts of the Gallipoli Peninsula where Australians fought. We will add our expertise, if it assists the Turks, in terms of the broader Gallipoli Peace Park. But we are saying that our particular interest is in where Australians fought.

Senator HURLEY—What are the arrangements, then, with the Turkish government in relation to appointing the specialist to conduct the reviews? Are they paying for their own part of the work and taking responsibility for that?

Mr Sullivan—I would assume so.

Senator HURLEY—You assume so. So that is not part of the prime ministers' agreement?

Mr Sullivan—No. The Turks have now asked us to formalise the names. We will be using internal historian resources and we will go into a public process to secure archaeological advice.

Senator HURLEY—And those arrangements will be part of a scoping study?

Mr Sullivan—Our first commitment to the Turks is to submit the names. We are busy going through a process to be able to find and submit those names.

Senator HURLEY—Okay. The Prime Minister said in his press conference on 26 April this year in response to a question about the time frame for these studies that they are going to be done quickly. Have you spoken to the Department of the Prime Minister and Cabinet about what kind of time frame that means?

Mr Sullivan—‘Quickly’ for us means that we are not to delay anything, and we are certainly not delaying anything. We have to go through processes with the Turkish government and they have to go through their own internal processes to determine what they are doing from their side.

Senator HURLEY—Realistically, when would you expect to have the survey mapping of the archaeologically and historically important areas completed?

Mr Sullivan—That is again jumping to saying they are going to do survey mapping. I assume they will do survey mapping. I am hoping that we will have the names and be in a position to commence this work before the end of this year. With the weather conditions, that probably will mean that it will be the northern spring before the real work can start—on the ground, that is. The preparatory work could be done.

Proceedings suspended from 9.05 pm to 9.15 pm

CHAIR—I call the committee to order. We are continuing with outcome 3.

Senator HURLEY—We were talking about timetables and the northern spring. The Senate report on this issue recommended that urgent remedial action be taken prior to the Northern Hemisphere winter to stabilise and restore vegetation at Anzac Cove to ameliorate the scarring by earthworks and prevent further erosion. Is this work being done and, if so, is it separate to the kind of work that you were talking about?

Mr Sullivan—The Senate majority report made that recommendation and the government is yet to respond to the Senate report. From my viewpoint, and having visited the place, how you would vegetate those cuttings on Anzac Cove I would like to see. If you are talking about vegetating the area between the road and Anzac Cove, we have been actively talking with the Turks about action in that area. But the cuttings are typical highway cuttings. It would be like saying, 'Put vegetation on that stone wall,' on some of the freeways to Sydney.

Senator HURLEY—You do not agree—

Mr Sullivan—I am not saying I do not agree. I am just telling you my personal perspective, having been there many times. It is up to the government to agree or disagree as to whether or not we would approach the Turks. It is a recommendation that seems to say that Australia should vegetate that piece of rock. I presume it means that we should approach the Turks about whether they would be willing to revegetate. This is very interesting in a heritage and environment sense, of course, because we are talking about an area where, if we actually wanted to conserve a battlefield, we would take the vegetation away. Gallipoli in 1915 looked nothing like it does today. It was a very barren, eroding place. One of the suggestions that we are talking to the Turks about is to have a good look at the vegetation plan because there are a number of introduced species at Gallipoli. So it is an interesting issue in respect of conservation.

Senator HURLEY—But the barrenness and scarring that we were talking about was caused by earthworks. It is not a natural feature of the environment.

Mr Sullivan—No. I am just talking generally about the forestation of the Gallipoli park and the Gallipoli battleground.

Senator HURLEY—In light of previous confusion over roles and responsibility, are you the person who is directly responsible for liaising with the Turkish government and briefing the minister?

Mr Sullivan—I have always been responsible. The role of the secretary has never changed in having absolute responsibility for these issues. Even the Director of War Graves works to the secretary. I have in the last six to eight months taken a personal responsibility in respect of leading the discussion with the Turks, pursuing that through the Office of War Graves and

particularly through the head of our corporate and commemorations division, our officer who is now in Turkey, and for the formation of a new Gallipoli project group inside the organisation. I am responsible for ensuring that the department is in a position to be able to do this work.

Senator HURLEY—We were talking about design work. The department would be aware of recent articles by Ross McMullin in which he outlines the design proposals by Norwegian architects Lasse Broegger and Anne-Stine Reine which won the 1997-98 Gallipoli Peninsula Peace Park International Ideas and Designs Competition. Has the department had a chance to examine these proposals? If so, what conclusions were reached?

Mr Sullivan—At that time we were very interested in the Turkish government's international competition for design advice. Certainly the winning entries provided some innovative ideas and probably, for their time, looked forward fairly well into what may have been the issues of Gallipoli. They were not all adopted by the Turkish government, who ran that competition and who, as I said, have published their master plan. We thought it was a good initiative of its day. Some elements of it were incorporated into the master plan for the Gallipoli Peace Park. Unless they are incorporated into the master plan for the Gallipoli Peace Park, which is then codified in Turkish law, they are not going anywhere.

But, yes, we have records. We thought it was a very good design. It would have required a lot of work still. I think the designers said that there would need to be a lot of work done on the environmental impact of their ideas. It included viewing platforms and other things. But it was again the Turkish government which, in terms of the revision of its own master plan—which is what determines what can occur there—did not pick up a lot of those design ideas. We certainly use it as reference material for our own work. It is good reference material. It is not a case of saying, as has been suggested: 'It was always there. Why didn't someone look at it?' Australian and New Zealand architects and engineers were involved. There was the winning entry but there were also several other entries. We have been interested in the ideas of all the entries that were put forward.

Senator HURLEY—So you have discussed with the Turkish government these ideas and the Australian government's response, and that has been part of your ongoing discussions?

Mr Sullivan—No. That was a long time ago. That was when the competition was run, determined and the Turks made decisions about what they would and would not incorporate.

Senator HURLEY—Would the committee be able to get a copy of that design?

Mr Sullivan—You would have to ask the Turkish government, or we could ask them for you. I do not know. I think the intellectual property lies with the Turkish government. It is not ours.

Senator HURLEY—So you will get back to us on whether you are able to get it?

Mr Sullivan—We can ask the Turkish government whether they are happy to do that. There are several thousand pages, so we might have to talk to you about it. I am not going to use the resources of the department unless you promise me, Senator, that you are going to read every page!

Senator HURLEY—I promise faithfully.

Mr Sullivan—Good on you.

Senator HURLEY—If I can read through the IR legislation I can read through the design proposals.

Mr Sullivan—They are in Turkish, just to make it more interesting for you.

Senator HURLEY—That might prove a little complicated. I want to turn to the Anzac Cove works. Has the engineering report been completed for the building of a sea wall under the Anzac Cove road?

Mr Sullivan—We developed proposals for a sea wall which were presented to the Turkish government.

Senator HURLEY—And you have no idea when it might be started or finished?

Mr Sullivan—It is still subject to negotiation with the Turkish government and at the moment, as I say, no works are going on on the peninsula while the Turkish government is doing a further review. It is an on-the-table proposal. My view is the Turkish government believe it to be a good proposal but we have not finalised the negotiation.

Senator HURLEY—Has the Australian government had any negotiations or discussions about or is it currently considering any claims for compensation by any companies involved in the constructions at Gallipoli?

Mr Sullivan—I do not see any basis for any claim against Australia for compensation. But we are certainly in some discussions with the Turks about where we are suggesting a difference or an improvement as to whether or not they would be willing to accept any Australian contribution, if that was to be made. That is as far as that has got. The Turkish government has not indicated to us that they would and so they have not progressed beyond that. Turkey—and it probably gets back to an issue of sovereignty—will in principle tend to prefer to pay for things they do in Turkey.

Senator HURLEY—Thank you.

[9.26 pm]

CHAIR—We will now move to output group 6, Provision of services to the parliament, ministerial services and the development of policy and internal operating regulations.

Senator HURLEY—I want to go back to the time when the Clarke review was commissioned to address a range of complaints about access to veterans entitlements, and a leak and some public reporting which ensued as a result of that review. There was a person from the department charged with leaking that material to journalists. Those journalists were Mr Harvey and Mr McManus. How sensitive was the material leaked to those journalists from the department last year?

Senator Hill—I understand these matters are before the courts at the moment and I am not too sure we would want to go down this path in those circumstances.

Senator HURLEY—My understanding is that unless it materially affects the case—

Senator Hill—I would not know whether it does or it does not—that is the problem. I certainly would not want to inadvertently be complicit in any action that prejudices their interests.

CHAIR—Either side.

Senator Hill—Or the other side, yes.

Senator HURLEY—We are here talking about actions within the department, not necessarily how that affects Mr Kelly's court case.

Senator Hill—That is the point—it may or it may not. I am not of a mind to take a risk on that matter.

CHAIR—Mr Kelly is one of the people who have been charged—is that the situation?

Mr Sullivan—Mr Kelly is the departmental officer who has been charged under the Crimes Act.

CHAIR—Senator, I really think we should not go near this at all, out of deference to the presumption of innocence and out of deference to the prosecution's orderly conduct of the case.

Senator Hill—When the matter is finalised there would always be the opportunity to revisit the issues.

CHAIR—I think that should stand in this instance.

Senator HURLEY—Can we deal with historical treatment of leaks from other departments and how they have been dealt with in relation to the manner in which they have been pursued by the department?

CHAIR—So long as we do not get into the details, by comparison, of the current case.

Senator HURLEY—I will ask a simple question, then. What difference is there between a DVA employee leaking information and a leak arising from, for example, a government caucus member. My understanding is that there were quite extensive leaks from within the government caucus about this issue?

CHAIR—The government does not have caucus meetings.

Senator HURLEY—Sorry, party room.

Senator Hill—I do not know that that is really a question for this committee.

CHAIR—It is a hypothetical question.

Senator Hill—I think matters that have directly or indirectly led to current court action are not appropriately canvassed whilst those court actions are still current.

Senator HURLEY—Let us go to previous leaks, then, and how they have been handled. Has the DVA ever experienced any previous releases of unauthorised information in the past?

Mr Sullivan—I think they have, and they have been handled in exactly the same way.

Senator HURLEY—They have been reported to the police?

Mr Sullivan—The predecessor secretary—

Senator Hill—No, that is not the way to answer that. If you want to answer how they have been handled in the past, you can answer that, but you should not be comparing it with a current action.

Senator HURLEY—Have previous leaks been reported to the police?

Mr Sullivan—Secretaries to departments where a leak of information has been revealed have conducted inquiries into that, and where those inquiries lead them to call in the police they call in the police.

Senator HURLEY—What are the criteria for calling in the police?

Mr Sullivan—If it is a Crimes Act matter—

Senator Hill—Do you know of any instance where this has occurred in the past? What happened in DVA a long time ago in one instance is hardly relevant to these appropriations.

CHAIR—I think that is right.

Senator HURLEY—I am sorry, I believe it is relevant, because we are talking here about how the department manages its organisation, what policies it has in practice and how it disciplines its employees. This is a general query about how the Department of Veterans' Affairs conducts itself in these circumstances. Surely it is relevant.

Senator Hill—How it did that a long time ago is not relevant.

Senator HURLEY—Are you saying the policies have changed since then?

Senator Hill—You did not let me finish. How it did that a long time ago is not relevant, and if you are wanting to refer to this particular current matter that is before the court I think it is inappropriate because it might prejudice the hearing.

Senator HURLEY—No, I am not referring to the current matter before the court; I am referring to previous leaks from the department and how they were handled.

Mr Sullivan—I think it is best to say that wherever a department investigation of anything reveals a possible breach of the law, the police or relevant authorities are called in. It is then the police or the relevant authorities who decide whether or not a brief of evidence will go to a prosecutor, and a prosecutor then makes a decision as to whether a prosecution is made. That is nothing to do with this case. I am just saying that is what occurs, whether it is about stealing money, fraud, or whether it is about any breach of the law. An inquiry is conducted inside the department and if there is any evidence of a breach of law the reference is then made to the police.

Senator HURLEY—So leaking information out of a department to a journalist is a breach of law.

Mr Sullivan—You use the term 'leaking'. It is an offence under the Crimes Act to disclose information with certain classifications on it. It is an unlawful disclosure of information.

Senator HURLEY—Okay. And any of those breaches have been reported to the police for assessment?

Mr Sullivan—I said when we make an inquiry and we can find evidence that the law has been breached we report it to the police. This is with any suggestion of criminal activity inside the department.

Senator HURLEY—Have previous breaches been reported to the police?

Mr Sullivan—I would have to take that on notice. Do you mean on any matter of law?

Senator HURLEY—No, on issues where information at a certain level has been given to journalists.

Senator Hill—The official has said the way he interprets current practice. Again, I think what may have happened in the distant past is really not relevant to these appropriations.

Senator HURLEY—Again, I say—

Senator Hill—There are other ways to pursue this.

Senator HURLEY—Unless there has been a change of policy, surely it is relevant.

Senator Hill—I do not think so—I do not think so at all.

CHAIR—You need to ask the question so there is no inference reflecting upon the current circumstance.

Senator Hill—I am uncomfortable even referring to a hypothetical situation that people are going to interpret as relating to a current situation. I am going to object this line of questioning, Mr Chairman, and you can make a ruling on it.

CHAIR—I think it is very potentially detrimental to the accused and I think it would be inappropriate to entertain any further questions on what has gone before in the nature of standard operational procedure with respect to this sort of matter. It can be misconstrued and I think it is totally counterproductive to the judicial process that is in play. I think we should move on.

Senator HURLEY—Can we talk about Mr Kelly's—

CHAIR—I very much doubt it.

Senator Hill—I am happy to come back some time in the future when these matters are resolved.

CHAIR—Yes.

Senator Hill—I think at the moment it is unwise and I do not want to be a party to it so I am going to object.

CHAIR—I think the minister is absolutely right, Senator.

Senator HURLEY—All right. Naturally I will accept your ruling, Mr Chair.

CHAIR—I am obliged.

Senator HURLEY—I wish to move on to another topic.

CHAIR—Good. Which one?

Senator HURLEY—VP Day medallions.

[9.37 pm]

CHAIR—We will move to outcome 3.

Senator HURLEY—The government is issuing World War II commemorative medallions to commemorate the 60th anniversary of the end of World War II and providing personal recognition to surviving veterans, widows and widowers. Certain eligibility criteria have had to be framed for those medallions. I would like to ask if eligible veterans were discriminated against by not being able to receive a medallion for deceased partners who were also eligible, when non-eligible surviving partners were allowed to receive their deceased partner's medallion?

Mr Sullivan—You are asking: was an eligible veteran with a deceased veteran partner eligible for a medallion—yes—or were they eligible for two medallions?

Senator HURLEY—Yes, two medallions: their own medallion and one for their deceased partner?

Mr Kelly—Originally it was restricted to one but the policy has since been changed, and now if they are eligible in all ways—as the partner of a deceased eligible veteran and they are an eligible veteran themselves—they are entitled to two medallions, or it may be three if they have been married twice to two deceased eligible veterans.

CHAIR—And so on—on the policy and so on, if there were three, four, whatever.

Mr Kelly—Yes.

Senator HURLEY—That was not the initial policy, though. When did the change occur?

Mr Kelly—Changes occurred in the past month or so.

Senator HURLEY—Have veterans who have previously been advised that they are not eligible been written to or in some other way advised, or are you simply sending out the medallions?

Mr Kelly—We are doing both. We will advise those formally who have asked and send them a second one. Anyone who has applied since the change in policy and it is obvious they are eligible more than once will get more than one.

Senator HURLEY—How was that information disseminated? How was that change in policy announced?

Mr Kelly—Not publicly, but if they ask then we will send them the extra one, or if it becomes obvious. Of course, we have taken the advice of veterans organisations in coming to this decision because there was some concern about it. We have taken those concerns on board.

Senator HURLEY—Why wasn't it announced publicly so that everyone would be aware of the policy change?

Mr Kelly—The demand, I do not think, was that high where it needed to be announced publicly. We will eventually pick up just about everybody.

Senator HURLEY—How many is that?

Mr Kelly—At the moment it is a little unclear. Our records do not necessarily show that they are twice eligible.

Senator HURLEY—So how will you contact people if it is not announced publicly and you cannot identify people who have become eligible?

Mr Kelly—In some cases we have to rely on them coming to us and saying they are eligible twice.

Mr Sullivan—Senator, it has also become very well known within the veteran community that the change in policy has occurred, without going absolutely public on it. The War Widows Guild, the RSL and others are aware of the change.

Senator HURLEY—I have relatives who have had war service and are not members of the RSL. Is there a problem with announcing it publicly?

Mr Sullivan—We expect the group involved is very small.

Senator HURLEY—But you do not know how many?

Mr Sullivan—No. But we do not think it is large in respect of an overall population that we have been dealing with. Most have certainly made their views clear to us personally that they should get two and we are certainly picking them up. Why we could change this policy is that, when government agreed the criteria for the medal, a departmental view on the policy was that there was a limit of one medallion per person. When we saw that people had high feelings about the issue and that there were people coming who could point out the anomaly, as you pointed out in the first question you put, we altered the policy, went back through our records, picked up those who had told us and have applied that policy. It is an internal policy change.

Senator JOYCE—What would be lost by announcing it publicly?

Mr Sullivan—I think the problem would be that the announcement would be lost. We have certainly gone out to each of our state offices and we are beating the drums within the veteran community. If we put out a media release tomorrow saying, ‘You are now eligible for two if you were a serving veteran in your own right and you had a partner veteran deceased,’ where you would find that release I do not know. The strategy we have put in place is certainly appearing effective in respect of people understanding. We are not going to have a cut-off, in terms of a strict time line on this. If people continue to come to us saying they have just heard or they now understand, we will honour that with another medallion.

Senator JOYCE—Bringing it up here in this Senate committee is almost a form of public release, isn’t it?

Mr Sullivan—Yes.

CHAIR—You would expect people who felt strongly to come forward, as they did.

Mr Sullivan—Yes.

Senator HURLEY—Were members of parliament advised, particularly lower house members? I know a lot of them were contacted by people who missed out.

Mr Sullivan—We have been in constant contact with members' offices, because this issue has almost dominated our relationship with members' offices. Any members' office that we were talking to about medallions in general, we are telling them about this.

Senator HURLEY—So you have been in contact with most lower house members of parliament?

Mr Sullivan—Those who are issuing medallions, yes.

Senator HURLEY—So, for example, Mr Alan Griffin, who is the shadow minister for veterans' affairs, would have been advised?

Mr Kelly—We talk to members' offices quite regularly. I could not tell you when we last spoke to Mr Griffin, but I would be fairly confident in saying we spoke to him in perhaps the last month.

Mr Sullivan—Or his office.

Mr Kelly—Or his office—not him personally. We would have spoken to his staff.

Senator HURLEY—How would that communication have occurred—by phone?

Mr Kelly—Usually by phone, but there is some email communication with members' offices as well.

Senator HURLEY—Could you produce those emails for us?

Mr Sullivan—No, not between the department and individual members of parliament.

CHAIR—There may be a privilege issue attached to that.

Mr Sullivan—It would have been an option to go out publicly and say, 'This is the change.' We were not trying to hide anything. We made a business decision which said that in respect of, for instance, putting an ad in each of the national newspapers, or something like that, it was very expensive for what was seen to be limited gain. In respect of a media release, we believed it would sink without notice. We have gone with the view which said that those affected who have notified us—88 or 89 per cent of whom we are not dealing with personally but through their members' offices—will be dealt with on the basis of their past correspondence or their present correspondence.

We have talked to the War Widows Guild and we have talked to veterans organisations and said, 'If you have members who are in this situation, we are now very pleased to pass on a medallion.' As I say, it is a simple reinterpretation, not a decision which, in the event of things, was referred through to government, because government had given us the authority. It was basically that our initial interpretation was that a medallion was personal, and if you had one that was it. Now we have accepted the arguments that say that you should be allowed to have more than one.

Senator JOYCE—In your estimation, how many of these medallions, as a percentage of those eligible, have now been given out or are in the process of being given out?

Mr Sullivan—It would be a small percentage. I think it would be in the low thousands.

Mr Kelly—We do not have the figures at this moment.

Mr Sullivan—It will be in the low thousands, amongst a group of—how many have we done?

Mr Kelly—The total number of medallions sent out so far is 251,500, as at the end of October.

Senator JOYCE—And you presume that there may be just a couple of thousand left to go. The people who you presume are eligible for them but have not yet applied for them: would you have any idea what sort of number that would be?

Mr Kelly—No, not at the moment, I am sorry.

Senator HURLEY—You were saying that you have spoken to some MPs and perhaps emailed some. Is it possible that it is only government MPs that you have contacted?

Mr Sullivan—No.

Mr Kelly—Absolutely not.

Mr Sullivan—It is members' offices, of both parties, particularly those who have been quite actively engaged with this. But there has certainly been no restriction of this information to government members. I can assure you of that.

Senator HURLEY—I have had quite extensive briefings on this from the shadow minister and he did not mention to me that there was a change in policy.

Senator Hill—That is interesting, but I do not think it is a question.

Senator HURLEY—No.

Senator JOYCE—It is in the *Hansard* now.

Senator HURLEY—Just to go back a bit, you were saying that you do not know about those who had applied and were refused under the previous policy—you have no records of that in the department.

Mr Sullivan—No, we said we went back through correspondence where they indicated that to us. The problem was that we use our databases, and there is no such thing as dual eligibility for veterans benefits. There is a single eligibility. We do not have on our records that you are both this and that. So we have had to rely on our own records for people who are in receipt of services from the Department of Veterans' Affairs or who we had a record of, and that was generally a single eligibility.

A widow, for instance, in receipt of a war widows pension would be on our system as a war widow. He or she may not have had qualifying service in their own right and therefore they are on the system as a war widow. We would have sent that person a confirmation letter saying: 'You are on our system. You are eligible for a medallion. Would you please confirm your address details. Would you like this presented by your MP or would you like it directed to you?' We then advertised in the newspapers.

The advertisements in the newspapers did not say you could not get one. The advertisements in the newspapers described the criteria for getting one and could have led people to say, 'I can get two.' We did not say, 'No, you can't have one.' That is when people wrote and said, 'Look, I can get two: one for me and one for my husband or wife, who is

deceased but who was a veteran.’ Those who indicated that in their response to us—whether in response to the departmental generated letter or in response to the advertisements—were declined. When the change of policy took place we went back through that correspondence, and we have been writing to them and giving them the second medallion.

Senator HURLEY—So it is those who did not ask, who correctly read the policy criteria—

Mr Sullivan—No, that policy criterion was never published. As I say, it is quite a bit of internal micropolicy which said, ‘Our view of what this means is that you get one.’ If you look at the advertisements, they did not say—

Mr Kelly—It does not say one way or the other.

Mr Sullivan—It said, ‘You can get one of these if you are a veteran or the widow or widower of a veteran, an allied veteran or a member of the British Commonwealth Occupation Force et cetera.’ It did not say, ‘Look, if you are both of these you can only get one.’ It said, ‘You can get one.’ So some responded saying: ‘Thanks very much for the letter saying I can have one as a widow, but I want one in my own right as a veteran.’ We would have written to the person, saying, ‘No, you can’t have a second one.’ They will be picked up by saying: ‘Yes, you can have a second one. Thank you very much.’

There was nothing out in the public domain. The only people who were aware that you could not get a second one were those who wrote to us saying, ‘I want a second one,’ or those who contacted their member’s office and said, ‘I think I should get two,’ the member’s office rang us and asked, ‘Can they get two?’ and we said, ‘No, they can get one.’ We would explain it and generally get an earful—which helped prompt the change—and they would proceed from there. We are fairly confident that we understand the population. There has been nothing out there that says, ‘Don’t apply, because you can’t have one.’ There is nothing like that in the public arena.

Senator HURLEY—If a person who is now eligible had gone to a member of parliament’s office, they would have been advised that, according to the office’s experience, they would not be eligible for the two medals, and yet you have not formally advised the offices of members of parliament?

Mr Sullivan—No, we have not done an all-members formal advice.

Senator HURLEY—Okay.

Mr Sullivan—We will consider doing that.

CHAIR—The current minister inaugurated the change in policy?

Mr Sullivan—No, it was an internal policy change.

CHAIR—It was your policy change. Active service medals: are you the responsible people for that?

Mr Sullivan—No. That is Defence.

Senator HURLEY—I want to continue on eligibility. Given the precedence of eligibility being wider than the spouse for next-of-kin posthumous medals for defence honours and

awards medals, why did the DVA not then adopt a similar process and allow next of kin—for example, children—to receive the medallions using the criteria of the Department of Defence?

Mr Sullivan—Because we use the criteria developed by the Department of Veterans' Affairs, put to government and accepted. That was that this was the 60th anniversary of VP Day, and it really was to honour those survivors of World War II who had had a direct involvement in terms of being a veteran or the widow of a veteran and who were alive.

As for the advice we gave, there were clearly options in respect of the million deployed plus the land army plus whatever we could track down. You would have had a question of who was next of kin, so in respect of, say, seven children and 16 grandchildren—I think we did have a request for even 25 to cover the grandchildren—it probably would have got a little bit out of control and it may have been almost divisive if you said, 'No, we'll give you one per family and you work out whose it is or who has a right to it'. That would have been very difficult. So the advice we put was this: the best way in terms of a commemoration of the 60th anniversary was to honour those surviving people who served Australia in the war or who supported a husband or wife in that war. So it was limited to those who were living.

Senator HURLEY—But I understand that if a veteran died after 8 May 2005 the next of kin could receive the medallion—is that right?

Mr Sullivan—We had to have a date. It was possible you could get a medallion. There were veterans who died—unfortunately they passed on—two days before we presented the medallions. We had to put a date to government. It was near the date of announcement. From there on it was basically survivors as at that date.

Senator HURLEY—So how does the next of kin issue get resolved in that case if it could not be resolved otherwise?

Mr Sullivan—We leave it to the family.

Senator HURLEY—So why couldn't it have been left to the family?

Mr Sullivan—I said there were a few things in there but it was more the issue that the 60th anniversary was a good time to commemorate those who were there. We commemorate those who have passed on, and much of the commemorative activity this year was about those who had passed on. The medallion was really to say, 'You were there as a veteran or you were there in supporting a veteran, and here is something to say that you were there and that 60 years have now passed.' It ensures that the purpose is narrow. It does not at all distract from the range of other things that were done particularly to commemorate those who lost their lives directly in war, those who were POWs in war, those who have lost their lives since war as a result of war and those who have lost their lives by other causes. There was plenty to do that, but this was aimed at recognising those who were still with us 60 years later.

Senator HURLEY—It is a bit unfortunate that the medallions to celebrate the 60th anniversary, as you have described, were not ready and delivered to veterans or widows before 15 August.

Mr Sullivan—But it was never said that they were going to be. It was made very clear to people that the medallion process would be conducted over a number of months. What we ensured would happen was that there would be medallions available to become a centrepiece

in some communities for VP and other commemorations. But, no, it is not a failure that we did not deliver. We always knew that our production runs of the medallions would take us well towards the end of the year.

Mr Kelly—Senator, 140,000 of the 251,000 were made available prior to the anniversary, so more than half were.

Senator HURLEY—And it was always a part of the process of planning and implementation that something like half would be delivered before and half would be delivered later?

Mr Kelly—We did not have a specific number in mind. But you have to bear in mind that this is a major production run for the Mint and it would have been physically impossible to get however many that the total happens to be, which may be closer to 300,000, out in the time prior to 15 August. So we got out as many as we possibly could. It is a processing as well as a production issue.

Senator HURLEY—When did planning start?

Mr Kelly—Formal approval from the government came in April. Obviously, we had done some planning prior to that, but there were a lot of things that we could not do until that formal approval was given. I do not recall the exact date in April. It was 5 April, I am now told.

Senator HURLEY—It was April 2005?

Mr Kelly—This year, yes.

Mr Sullivan—This was a commitment of the government in its election platform to increase funding for the commemoration activities in relation to the Second World War. When the government was returned we were responsible for putting forward some options as to how that commitment could be implemented. The government chose a range of options and then we proceeded with implementation. Again, I want to say that there was never a commitment by government or anyone that all these medallions would be rolled out before VP Day on 15 August.

Senator HURLEY—The election was in October. When was the instruction to the department to begin preparation?

Mr Sullivan—Our department, like most departments, had a record of the commitments of both sides in the election and we were starting to work on how to deliver the government's election commitments from November through. The new government was formed a bit after the election. We had a new minister and the department had to put up with a new secretary! There was a little bit of training and tutoring there and then we were ready. The minister had to take that through the government processes and then we had to move into a design phase for the medallion. You do not just suddenly say, 'Let's have a medallion.' We had to decide what it would look like. It needed to be designed and tested. We did all those things through the Mint. Then the Mint gave us a good schedule of proposed output, which we accepted.

Senator HURLEY—So the government agreed to the planning and implementation process in April?

Mr Sullivan—I think that was when we had the final go ahead to say, ‘Yes, the medallion is a good idea; we will go that way.’

Senator HURLEY—When did the production by the Mint commence?

Mr Sullivan—The distribution started in August.

Mr Kelly—It was in May-June, from memory.

Senator HURLEY—Could you bring that date back to the committee later?

Mr Sullivan—The minister had a media release about the medallion. We will get that date for you because that is probably when the design had been finalised and the Mint was able to construct some medallions for a media release. After that they prepared the plates and other things for the production run. We can get you the details of what those production runs looked like.

Senator HURLEY—The date of the government announcement determined when the next of kin would be eligible for the medal if the veteran had died?

Mr Kelly—No, to be eligible—if that is what you are talking about—for the medallion, the person needed to be alive on or before 8 May this year. If they were alive on that day and then passed away prior to the medallion being issued it would have gone to the estate of that person. The estate may well be the next of kin, but not necessarily.

Senator HURLEY—So the date was set on the assumption that the medals had already been struck and organised?

Mr Sullivan—There was a bit more to it. I think 8 May was also Victory in Europe Day so it was basically saying, ‘You were alive 60 years after the first stages of the victory in World War II.’ So there was some relevance in the date but it also fitted. I am just being reminded that there was some precedence for this with respect to the 80th anniversary of the Armistice Remembrance Medal, which was for those who were alive and surviving on the 11th of the 11th in the late nineties.

CHAIR—What is the next subject you would like to go to?

Senator HURLEY—I would like to go to outcome 1—the BEST program.

CHAIR—Outcome 1:

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

Health studies and the BEST program—is that right?

Senator HURLEY—That is right. In the current year, applications under the BEST funding were to be submitted to the minister for approval in April and the announcement was due to be in May, as I understand. Grants were to be issued in the financial year starting 1 July 2005—this year. I understand that ex-service organisations in Victoria and New South Wales were only informed between 8 and 11 August that they had been successful in the grant allocation—that is three months past the set announcement date. Is the date on the DVA web page of 1 July each year the correct date for funding of the BEST grants to commence, and

how many of the total number of grants given this year were provided to organisations by that date?

Mr Sullivan—I am not sure about the web site. I will chase it up, but there were no BEST grants awarded prior to 1 July for the 2005-06 BEST round.

Senator HURLEY—So all the grants were in fact after 1 July?

Mr Sullivan—That is right.

Senator HURLEY—How many grants were there?

Ms Spiers—Round 7 is the 2005-06 BEST grants funding round. There were a total of 181 applications, of which 176 were successful.

Senator HURLEY—As I said, ex-service organisations in Victoria and New South Wales were informed in early August. Was that about the date that most organisations were informed?

Ms Spiers—That accords with the timetable I am aware of. It was early August.

Senator HURLEY—In announcing new round of BEST grants, what is the procedure for receiving, compiling, processing and authorising applications, organising media publicity, getting ministerial approval and distributing them? I guess part of that question is: where did the delay occur this year?

Ms Spiers—You want an answer on the A-Z of how the grants were organised?

Senator HURLEY—Yes.

Ms Spiers—In a usual year we seek applications for new grants for the next financial year in early February. We publicise that through our state DVA coordinators into the ex-service community and we usually allow about six weeks for the new round of grant applications to be opened. In that time ex-service organisations lodge their applications. We then spend some time with the state coordinators, analysing what has been requested and compiling recommendations to be put together nationally. Then we look at all the state recommendations across the board and put together a submission to the minister with recommendations as to whether applications should or should not be approved. That is effectively the process.

In terms of round seven, which you referred to, there was a complication that we did not have in other rounds of BEST grants. As you may recall, there was an election commitment made in the previous calendar year for further BEST grants to be made and we had a supplementary funding round. So we had a situation where we had a supplementary funding round occurring late into the calendar year 2004. That then, in some ways, overlapped with the new funding round for 2005-06.

Senator HURLEY—So it was a government decision that altered the normal flow of events?

Ms Spiers—To be clear: it was the colliding of the two grants rounds at that time. There was no government decision, that I am aware of, in terms of the timing as such.

Senator HURLEY—Would it have made any difference if more resources had been given to the department to deal with that, or was it simply an impossibility, given the time frame?

Mr Sullivan—The department could have applied more resources to it, but we did not. I think if we faced it again, we would.

Ms Spiers—The other aspect of this is that we do rely very heavily on the expertise that the DVA staff in the states have on BEST grants and, because it is generally a once-a-year program, except for the unusual circumstance we had in the last 12 months, there is not necessarily a depth of expertise in each of the states. There is usually one person and they are not solely dedicated to the task; they have a number of functions and they do the grants round for that part of the year.

Senator HURLEY—Given that the grants are run on a financial year, might some of those organisations have experienced problems because of the couple of months' delay in receiving the grant?

Ms Spiers—I would not like to speculate on that issue. The grants program is not a rolling grants program. Ex-service organisations must apply for it each year. There is no guarantee of funding and, in fact, in spite of the significant increase in funding for round seven, we have still been oversubscribed with applications, so there cannot be a guarantee in that sense.

The other point I would like to make in terms of the timing issue for this is that we are also reliant on the ex-service community putting in their applications at a time—given that these two programs were running not quite concurrently but in parallel to a degree—that a lot of the work had to be done for the ex-service community over that traditional December-January shut-down period that they have. So there is also the ex-service community's capacity to lodge their applications.

Mr Sullivan—At the same time, we saw a little aggravation from organisations who were hoping to succeed in their applications. If we had let it go much longer than we did let it go, I think that aggravation would have increased fairly rapidly. By the first week of August, many organisations had sustained their programs, within their own resources, on the basis that if they got funding they would be fine; if they did not get funding they could close it down and it would not be that much of a loss for them. I think if we had taken them much beyond that, it would have been causing problems. We were starting to hear from some organisations, including the large organisations like the RSL, 'We need a decision. This is starting to become a risk for our funds.'

Senator HURLEY—So were any organisations in that second position—that is, that they were defunded and, while they were getting money from their own resources, it was in vain, so to speak? How many organisations were defunded?

Mr Sullivan—We know there were only five unsuccessful applications. We would have to take on notice the question of whether they had existent funding or not. I doubt it.

Senator HURLEY—So the five who missed out were probably new applicants?

Mr Sullivan—I am not going to say. I do not even know.

Senator HURLEY—Sure; I understand that. If we could have the answer to that question on notice, that would be fine.

Ms Spiers—There is the potential for that simply because the 2005-06 funding round was the bumper year in terms of applications. We received the highest number that year, so it is potentially correct.

[10.15 pm]

CHAIR—Next?

Senator HURLEY—The DVA service review.

CHAIR—That is output 6: services to the parliament, ministerial services and the development of policy and internal operating regulations, attributed to outcomes 1 to 4. Is that correct?

Senator HURLEY—Yes.

CHAIR—Is the secretary is going to handle this on his own?

Mr Sullivan—There will be some reserves rushed up if necessary.

Senator HURLEY—Mr Sullivan, a letter was sent on 12 August this year to ex-service organisations outlining a proposal for a review of the department's service delivery. The reason outlined is that due to the dramatic drop in World War II veterans and geographic changes a review was required. The letter outlined a number of basic principles to guide the conduct of the review, notably that DVA will continue to have a senior presence in each state, that DVA will continue to provide quality service, there will be an ongoing requirements to increase efficiency and technological change will continue to influence the way DVA does business. Will the review look at changes in veterans numbers and consequently how services are delivered to them as their number reduces and will it, therefore, be looking at the possibility of reducing staff funding and resource levels?

Mr Sullivan—I will take the latter part of your question first—yes, we will face reduced resourcing and that will flow into reduced staffing as the number of veterans that we service falls and the number of services that we provide to veterans falls. We are a department which has a long history; we as a commission were created in 1918 as a result of World War I and we saw a huge expansion of the department and of the commission as a result of World War II, when more than a million people were deployed. That included, of course, our whole system of repatriation hospitals. As a department we had almost 30,000 employees at one stage. Our workload is still dominated by World War II circumstances. If you look at almost any aspect of our work, the majority of it is around World War II veterans and their widows. Those numbers are now starting to fall and I think the term 'dramatically' is a reasonable one.

We have 170,000 World War II veterans left from a deployment of about one million. That is falling. Our number of World War II war widows is actually still slightly increasing; we expect it will plateau in the next little while and then fall. The nature of our services to them change; our medical services to them change. We are probably moving away from a lot of surgical procedures into many more medical procedures. Our claims for service pensions are falling. Our claim rates are falling and so is our operating resource base. A very important point that we are making to veterans and their organisations is that this review is in no way a review of their entitlements. This is purely a review of the operating resources of the

department and that will fall—be it on a population base, be it on a transaction base, whichever way you look at it, our workloads are going down.

We have an estimate that our workload may fall by as much as 50 per cent over the next 10 years, and so the review is looking at a long-term future for DVA. We have a role that will take us through for a long time in respect of the care of World War II veterans and their widows. We have the emerging challenges facing the department, and in recent times we have been given responsibility for compensation for serving members of the forces in the new military rehabilitation compensation scheme, under its own act. We have the issues of younger veterans, probably first coming to the fore with the Vietnam veterans but now coming to the fore even more as we see many young veterans who have been in multiple deployments and whose care as a veteran, if there is any issue concerning their military service, is our responsibility. We are a department concerned a lot more with women's health, because the actual gender balance of our services has shifted from a very marked male preponderance in terms of our case load to one which in the next few years will probably balance.

We have to work through all those issues, so we then asked: how are we going to set up the department in a way which, as our resources fall, we can scale our operation in such a way that we can ensure a consistent level of service to the veteran? In fact, when we first put up our aim to maintain the quality of services to our veterans, one of the calls from inside the agency was: why just aim to maintain it; why don't we aim to improve it? That is what the review is about.

We are engaged with the veterans organisations to give them an understanding of what we are doing, why we are doing it and how we are doing it. I think there is a level of consultation there that you do not normally see in the restructuring of a department. We are engaged internally in a communications strategy with our own staff. But, with the veterans organisations, that letter basically marked the start of formal consultations. We have talked to many, and we will talk to all, of the major national organisations, and we are in the process of talking to all of the state veterans organisations so that they understand what is going on.

I am probably biased, but I feel the response of those veterans organisations to what we are doing is extremely supportive. They are obviously worried. We are 'their DVA'. We call ourselves 'our DVA' or 'one DVA', but we are 'their DVA'. They want to understand that this is not a threat to the survival of the department, and we say, 'No, it is not.' They want to understand that it is not a threat to entitlements, and we say, 'No, it is definitely not a threat to entitlements'. They will have a presence in the state, they relate to our state office and, really, we are just moving from a location based strategy to a functional based strategy which we think will set us up to be able to scale our organisation as we need to over time.

On the resourcing question—and it is rare for a secretary of a department to say this—I think we are being treated fairly. I think we have some sympathy and some sensitivity in respect of the central agencies looking at us and saying, 'Your resources need to match your workload.' I think they are being very fair about it.

Senator HURLEY—Thank you, Mr Sullivan. Has the review committee structure been determined yet; and, in particular, do we know who is chairing the review?

Mr Sullivan—The review is under the governance of our executive management group, which I chair and which has the executive of the department and all of the state deputy commissioners on it. We have a review secretariat, capably headed, that basically are the prompters and the pushers to make sure that we all do our work. That is the governance structure of the review. There is a lot of mechanical work to do as we work this through in respect of our financial charts of accounts and things like that.

Senator HURLEY—Does the review have any guidelines about the time to be taken?

Mr Sullivan—We hope that the structure that will come out of the review will be put in place on 1 July next year. That will also mean that we will be putting out to our own staff and to the veterans organisations before Christmas what that structure will look like, even down to which people will be doing which jobs in that new structure, so that we can actually start planning it down to a very detailed level and, again, with a view to getting the veterans and the veterans organisations comfortable with where we are going. The thing they are putting to us is that they want to be told, they want some time to think, they just want engagement, and I think we are giving them engagement plus at the moment.

Senator HURLEY—Will the review be looking at the VAN offices as well in areas with a decreasing number of veterans?

Mr Sullivan—Yes, we have 26 VAN offices currently. Part of our review is to look at our entire public access strategy. Twenty-six offices is a fair number, but we cannot put VANs everywhere and we are really looking at the ways in which we can deal and communicate with veterans—which is across counters, across telephones, by letter, by computer and through organisations and representatives. It is all-encompassing. One of the things we are doing with the veterans is to make sure they understand what the review is not about. Our communication strategy has to compete with the rumour mill, and it is strong in veterans affairs. It is not about closing the VANs and it is not about us being taken over by Centrelink. They could probably do a good job, but I do not think it is appropriate. It is not about changes to entitlements. We are very reassuring about that, but at the same time we are saying that everything we do—be it VANs, our agency arrangements, our outreach services, our telephone contact strategy—is currently being reviewed in this strategy.

Senator HURLEY—Thank you. I want to talk about DVA funded chaplains. I am not sure if it fits under this area.

Mr Sullivan—It is a different area, but we are on a roll.

[10.27 pm]

CHAIR—We will now move to Outcome 2: eligible veterans, serving and former defence force members, their war widows and widowers and dependants have access to health and other care services that promote and maintain self-sufficiency, well-being and quality of life.

Senator HURLEY—The DVA has traditionally provided funding to major church groups to provide the services of chaplains to veterans while they were in hospital, and these various contracts are set to run out this year and into next year around the country. I have information from some groups that there is a proposal by the DVA to no longer fund church groups directly but to include a quantum in the funding provided to the hospital itself and then the

hospital will negotiate with the church groups over the provision of services. How long has the DVA been providing funding for chaplains for veterans in hospitals?

Mr Douglas—What we have in fact is a mixture of arrangements. At the former repatriation general hospitals we were providing funding directly to the denominations offering chaplaincy services. At other hospitals with whom we had contracts, we funded the hospitals directly for the provision of pastoral services and then let the hospitals themselves work out what was the most effective way for them to offer pastoral services to veteran patients. The Repatriation Commission considered this in 2004, and decided to make a common set of arrangements whereby the provision to fund the hospitals for pastoral services and enable the hospitals to directly organise the most appropriate form of pastoral services was the preferred direction—in particular, to take account of the fact, as Mr Sullivan has indicated, that we were seeing a decline in usage of health facilities in general as our population started to decline.

We have been having discussions progressively with each of those former repatriation hospitals about the shift in this arrangement. In most of those hospitals those arrangements were accepted. In particular, I know there are some concerns in the Repatriation General Hospital at Daw Park in South Australia, and we have been having a separate set of discussions with the South Australian Department of Health and with Daw Park itself.

Senator HURLEY—And was Daw Park previously one of those hospitals where the chaplain was funded directly through the church groups?

Mr Douglas—Even this year they continue to be funded directly through the church groups.

Senator HURLEY—What was the break-up of hospitals? Was it the case that for most hospitals the funding went directly to the church or did it go through the hospitals?

Mr Douglas—Since the mid-1990s the department has progressively secured a delivery arrangement through an increasing number of hospitals. It is, of course, the more common practice that the pastoral services are funded directly through the hospital.

Senator HURLEY—Greater than 50 per cent?

Mr Douglas—In terms of former repatriation general hospitals, it is one per state.

Senator HURLEY—Did consultation on the agreement with the hospitals include a guarantee from the hospital that they would fund the level of chaplaincy services to the kind of level previously—that is, 24 hours a day, seven days a week availability?

Mr Sullivan—I think in South Australia this was a problem in that the veterans groups had a fear that the transfer of this funding to the hospitals may see a diminution in the delivery of chaplaincy services. I think in South Australia now the parties are all happy because there have been guarantees in conversations between the hospitals, the churches, the veterans and ourselves that that level of funding will be committed to the chaplaincy services.

Senator HURLEY—And will that be in the contract with the hospitals?

Mr Sullivan—We are basically continuing.

Mr Douglas—In 2005-06 we will be providing almost \$20,000 more than we provided in the preceding year.

Senator HURLEY—And will that guarantee the existing level of service 24/7?

Mr Sullivan—It will guarantee the level of chaplaincy services that we have conducted at the hospital for many decades with a lot more veterans than are there now. In the end, we will need to work through what our part is in the contract commitment. A lot of hospitals, particularly some veterans hospitals and ex-veterans' hospitals like Hollywood and Greenslopes, were exclusive veterans hospitals and we were providing chaplaincy services to those hospitals. In a hospital like that you now might find the veteran population of the hospital takes up about 50 per cent of the patients of the hospital, and it is difficult for DVA to be funding chaplaincy services for the hospital. We have to provide chaplaincy services to veterans. So we have to work that through in terms of coming up with a way of ensuring that, in our contracting with hospitals, chaplaincy services are maintained for veterans. Unfortunately, DVA is not a position to be providing chaplaincy services for hospitals. We deal with so many hospitals now, we would have an awful lot of work.

In South Australia we basically saw that, because of the position we were getting into in terms of the concern of veterans, it was not worth it, and we have now committed to a process and a payment and everyone is happy to go through that process.

Senator HURLEY—But you still have to work through that process at Greenslopes.

Mr Sullivan—I think it is more clear there, because we are in a contractual relationship. With both Greenslopes and Hollywood, we will see some tender arrangements in place next year, which opens up the market within Perth and Brisbane. That tender will include the provision of chaplaincy services to veterans.

Senator HURLEY—And only to veterans in that hospital?

Mr Sullivan—We have no authority to spend taxpayers' money on other than veterans and the veteran community.

Senator HURLEY—Concerns about Daw Park were raised by veterans groups, and you have had discussions—

Mr Sullivan—I think the veterans groups in South Australia are now satisfied.

Senator HURLEY—And the church groups are satisfied as well?

Mr Sullivan—My report today from the Deputy Commissioner of South Australia was that the chaplaincy issue is a done issue.

[10.35 pm]

Senator HURLEY—I want to go on to health studies.

CHAIR—That takes us back to outcome 1.

Senator HURLEY—I would first like to address the matter of the atomic veterans health studies and refer to the projects under Defence Links whereby the DVA is undertaking a cancer mortality study of Australian participants in the British atomic testing program. Again, this is close to my field of interest as South Australia was much affected by those bomb tests.

I understand that the study is overdue. Bruce Scott said in a statement on 2 March 2004 in the government's response to the Clarke review:

We have indicated our intention to respond positively on the question of entitlements for participants of the atomic test program, when the outcomes of the current Cancer Incidence and Mortality Study, are published later in the year.

Obviously, that date has gone past. Danna Vale actually made that statement. Bruce Scott's statement was made in 2002. So two deadlines have gone by. When are the results of the study now expected to be released?

Dr Horsley—The situation is that the studies have been moving along. There have been unforeseen barriers that have arisen that we have now generally overcome. There are three volumes of these studies. The first volume has been written and completed for some time but it was a more technical volume related to the dose of radiation that participants received. The view was taken that it would not be particularly useful to release a technical volume by itself. The next phase is a mortality study and that draft has been written and will be circulated shortly to the scientific advisory committee. The third one is the cancer incidence study. That has been delayed slightly because one or two of the cancer registries have had difficulty locating some of the clients that we are interested in. We are, in fact, waiting on a very small number of clients to come in. The report has largely been written. Obviously, it cannot be completed until we get the last two or three veterans' details come in. Once that has been done we will then move to take it to the scientific advisory committee.

There is a scientific advisory committee tentatively scheduled for early December. We are hopeful that all three volumes will be signed off by the scientific advisory committee at that time with the need for only minor rewrites. It is however in the nature of things that the scientific advisory committee may request a substantial rewrite for one or two of the chapters in which case there will be a need for another meeting of the scientific advisory committee, probably in early February. But if they are more satisfied with that, and there are only minor additions, we should see a final text agreed to around the end of the year. Of course, it will take some time after that for the printing processes to go through. So the study has been a little later than we had previously been advising ministers. We regret that, but we have been in consultation with the veteran community concerned and their repeated statement to us is, 'Don't worry about the delay; worry about getting this study right. Make sure that the quality is there. If that takes a little longer, then so be it.'

Senator HURLEY—Although a few of those people involved in the atomic tests would have died since the end of 2002 when the report was initially due out. Is there any likelihood of any retrospectivity?

Mr Sullivan—That would be for government. As Dr Horsley outlined, there is a scientific medical process engaging with a community consultation group of veterans. The Repatriation Commission will consider the report and pass it to government, then government will have to make decisions in respect of what they are going to do with the report. The only indication of that was, as you quoted, where, in response to the Clarke report the previous minister said that they would be sympathetic to issues that arose out of the reports. But that will be for government to determine at the time.

Senator HURLEY—If the only reason for the delay of the reports—the three volumes—was tracking down the final—

Mr Sullivan—I think that oversimplified a little bit. I think even the first report, the dosimetry report, turned out to be a bit more complex than expected. The second report is not yet concluded. It is drafted, but it has to go forward to the Scientific Advisory Committee. The advice we are getting from everyone is that, without these three reports together, if you do not link them as a group there is not much value. I do not think anyone is dissenting from that view. It is not just a matter of finding a couple of veterans to do some testing on. This delay has been much more to do with some quite complex scientific and health issues about these people, and Dr Horsley could go through them, if you are interested.

Senator HURLEY—If the three reports need to be linked, obviously the government will not have been able to consider their policy position? They will actually have to wait until the reports are released, so it may be some time before those policy decisions are made?

Mr Sullivan—It may still be some time, but we are just hopeful that we will get the reports to the Repatriation Commission and that the Repatriation Commission will pass them to government without any delay. I do not think there has been any unreasonable delay in this. We have to get it right. There is some concurrent reporting coming out of Britain in respect of UK veterans. We have to be confident in respect of the Australian studies.

Senator HURLEY—I would like to move on to a feasibility study and a health study of sons and daughters of Vietnam veterans. I wonder whether the minister's office has yet received a copy of the feasibility study?

Mr Sullivan—No, she has not.

Senator HURLEY—Is that far away?

Mr Sullivan—No. Barry Telford is the expert on this, but I will say this. The Scientific Advisory Committee and the consultative forum have been working hard and there have been several meetings. We have the basis of a report from them. We have to work through the implications of that report and the commission, again, have to be able to provide advice to the minister. If you talk to anyone connected with it, they will say this report is extraordinarily complex. It is not one of those things where you can have a yes or a no answer. There are issues with whatever answer you come up with and we are now trying to work through that.

Senator HURLEY—What we are talking about is a feasibility study into whether a study is worth while, and the indications are it will not be a straight yes or no answer?

Mr Sullivan—It is a case of, 'Can you do a perfect health study in respect of the sons and daughters of Vietnam veterans?' I think the answer is no. Can you do some studies? Possibly, and the answer could be yes. The work so far has been a case of, 'If you could do something, what could you do?' And we are trying to work that through.

Senator HURLEY—Is there any indication from the government on what level of feasibility that they will have a look at before they talk about funding?

Mr Sullivan—No, the commitment of government was to conduct a feasibility study. We have gone through our normal processes in respect of health studies. We have formed a community group and a scientific advisory committee. The military member of the

commission has played a leading role. Barry Telford from the executive of the department has played a leading role. Those processes have got to where they are in very recent days. We are now starting to work through the advice we will present again to the Repatriation Commission, which will present advice to government in respect of what we are finding from this feasibility study. Then it will be for government to decide. The government's commitment at the election was a feasibility study. They will need to consider what they will do.

Senator HURLEY—I could conclude from what you are saying that it would not be possible to put preparatory plans in place to expedite the study if it should be found feasible. That would be a leap too far?

Mr Sullivan—That is presuming a government decision on where it wants to take this.

Senator HURLEY—I turn now to another study—the third Vietnam veterans mortality and cancer incidence in Vietnam veterans study. This study will update the mortality figures for Vietnam veterans. There have been two previous studies. One was done in 1997. When is this current study likely to be released? What is the progress of the study? The latest advice was that perhaps it might be completed later this year or early next year.

Mr Horsley—There are proposed to be four volumes in this study. Volume 1 relates to cancer incidence, volume 2 relates to the overall mortality of the Vietnam cohort, volume 3 is a comparative mortality study between two groups of national servicemen and volume 4 looks at the effect of a drug called dapsons, which was used in Vietnam. Volume 1 is written, signed off, completed and printed. Volume 2 has been signed off by the scientific advisory committee and is moving through the processes of printing. Volume 3 has been written in first draft.

In our consultation with the veteran community concerned through our consultative forum, the veterans raised with us that they thought it was not rational for the government to release volume 1 and then respond to it, volume 2 and then respond to it, and volume 3 and then respond to it. They thought it was more appropriate and rational to keep the first three volumes together and for government to release them at one time and make one consolidated response to the three volumes. My own view is that that is a sensible approach and so we are moving to a situation where we will have the three volumes ready probably by late this year, although volumes 2 and 3 still have to go through the printing process.

The fourth volume concerning dapsons is probably more of a technical and academic interest and the veteran community is quite relaxed with the idea of that being a study which will be completed in the new year. We are seeing three volumes coming to conclusion around Christmas time. There will then be some weeks of printing. Obviously, the commission has to look at them and make a recommendation to the minister. The minister then needs to consider her position. The dapsons study will be coming on a little later in the new year.

Senator HURLEY—Will the study be made public after the minister receives it?

Mr Horsley—Most definitely. The minister wants to have an opportunity to get the studies, read them, consider what they say and think about how government will change policy or not in light of the new findings. I might add that each of these volumes is more than 100 pages of fairly dense scientific argument. It is not what you would call an easy read.

Senator HURLEY—I am sure the minister will read it very carefully. I would now like to move to the Repatriation Pharmaceutical Benefits Scheme and ask a few brief questions about that. I am interested to know the process for applying to list a medication on the RPBS. How does the application process work through to consideration and then rejection or approval?

Dr Killer—As you know, the Repatriation Pharmaceutical Benefits Scheme works in parallel with the Pharmaceutical Benefits Scheme. Veterans are entitled to drugs that are on the PBS for all Australians and there is an additional list, the repatriation list. If a pharmaceutical company wants to make an application, they make an application in a standard format. It is then addressed to our advisory committee, which is the Repatriation Pharmaceutical Reference Committee. This committee is made up of specialists from the major disciplines. The application is forwarded to the committee and one member of the committee puts the application under very stringent examination, looking at the epidemiology, all of the studies currently available and the results of any testing from overseas. It is then subject to a health economic review on the economy of the drug and how cost-effective it might be. The RPRC would then make a recommendation to the commission. That recommendation then goes forward to the minister, and it is up to the minister to take it forward and to accept the recommendation or not accept the recommendation.

Senator HURLEY—I appreciate that it might vary considerably, but what is the average time that process would take?

Dr Killer—It depends on the application. In the first instance, applications are sometimes sent back to the company for additional information. One of the issues is that much of the research into pharmaceuticals has been conducted on younger age groups and, as you know, we have an age group where the average age is late 70s or early 80s. Quite often you find that the research that is put forward to substantiate the use of the drug is not in these age groups, and you find that, given the physiology of older people, they cannot tolerate the dose that someone might tolerate at a younger age. Unless the supporting documentation produces studies in this age group, we often send a note back to the company suggesting we want more information, particularly in relation to the veteran age groups. So the time frame does vary quite considerably. But, as a rule, if an application comes forward and meets our requirements, it goes to the committee. The committee meet three times a year. Following their recommendations, it then goes through the commission and through to the minister. We might find that, from first application, a listing would take in the order of three or four months.

Senator HURLEY—Is there any process for liaising with companies who have applied to have their product listed so that they are notified as it goes along through the process—presuming, of course, that the committee does not go back to them for further information?

Dr Killer—In the first instance, informal discussions are often held with the company. These are discussions of an informal nature with departmental staff. But once the application is in, it is really in the hands of the Repatriation Pharmaceutical Reference Committee to look at the application. Once a decision has been made and it has gone back through the commission to the minister, a letter is then sent to the company, either telling them that we require additional information or what the result of the application has been.

Senator HURLEY—So that is only after the ministerial decision?

Dr Killer—It is after the ministerial decision. So there is some delay in the process, which is important because while the repatriation reference committee has a certain scientific view, there are obviously other implications. The department has to look at costings and there are political issues, as you know, in all these matters. And there has to be some consideration, I guess, at the final level of a wider government approach on some of these issues.

Senator HURLEY—Are there any informal discussions with companies to advise them whether it has been through the commission and is in the department or with the minister—is that permitted?

Dr Killer—We can tell them that it is in the process, but we obviously cannot release results of recommendations until it has been through the process.

Senator HURLEY—But you can tell them which part of the process it is currently in?

Dr Killer—We normally say that it is still in train, really.

Senator HURLEY—Is there any reason for that—a reluctance to advise companies?

Dr Killer—I think is just important that this is commercial-in-confidence and we do our best to give some indication of when we think a letter might be forthcoming. But, as I say, it goes through a number of steps and there are issues in these steps. There is no attempt to delay the process.

Senator HURLEY—No. And if it is a matter of lack of information, the company would know because they had been requested to provide more?

Dr Killer—We would ask them. We would say: ‘The committee has addressed your application. We find that, in certain areas, we think it is deficient and if you want to proceed with this application, we suggest you should provide additional information in these particular areas.’

CHAIR—On behalf of the committee, Mr Sullivan and Mr Killesteyn, thank you very much for your attendance tonight and thank you to your officers.

Committee adjourned at 10.57 pm