

## **Portfolio overview and major corporate issues**

- **Portfolio overview**

### **QUESTION 4**

**Senator Faulkner**

**Act of Grace/Compensation Payments in Afghanistan**

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In relation to Act of Grace or compensation payments paid by Defence:

- Were any Act of Grace payments made in relation to Australia's involvement in Afghanistan?
- Is there any ongoing investigation or inquiry in relation to events in Afghanistan that may lead to an Act of Grace payment?
- Have there been any compensation payments made in relation to Australia's involvement in Afghanistan?

### **RESPONSE**

- No.
- Inquiries, Quick Assessments and investigations are a routine feature of review, learn, react measures undertaken in Afghanistan. At this time there is no indication that act of grace payments will be required.
- No.

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

### **QUESTION 3**

**Senator Bishop**

**Financial Remediation Consultancies**

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Of the \$8m spent by Defence on consultants in relation to financial remediation work in 2004-05, please provide details of expenditure for the five largest accounting companies.

### **RESPONSE**

	<b>Payment amount (\$)</b>	<b>Company Name</b>
1	4,241,996	Ernst & Young
2	1,115,240	Acumen Alliance Pty Ltd
3	842,221	Walter & Turnbull
4	839,150	KPMG Australia
5	117,073	Deloitte Touche Tohmatsu

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- **Capability development**

**QUESTION W1**

**Senator Bishop**

**Capability Development**

**Air Warfare Destroyer Purchases**

- a) During public presentations of the AWD project the impression has been created that \$1.5 billion of the total \$6 billion AWD contract has been awarded to a US firm for development of digital phased array radars for the AWD's AEGIS system.
  - (i) Is it true that a company called CEA which operates in Fyshwick, Canberra, is also developing digital phased array radar and
  - (ii) did CEA develop another system that the HMAS Arunta has been operating for four years now,
  - (iii) If so, why is the government not involving an Australian company which has the potential to develop into a key player in such a niche industry?
- b) The strong impression created at the presentation was that the major contract for production of the 5 inch canon has also gone to a US company.
  - (i) Are there no capable Australian manufacturers who could viably produce such weaponry,
  - (ii) what are the guarantees that whole-of-life maintenance will not require a reliance on US parts and ammunition, even if based through Australian companies and
  - (iii) could such reliance potentially mean delays on Australian maintenance and resupply if strain is placed on the US industry by a major US deployment?
- c) Why has the government allotted such a short period of time between its 'national road show', alerting Australian companies to contracting opportunities, and the deadline of submissions in March?
- d) Will Australian Companies be able to absorb this information, develop complicated business plans including interoperability with the major US components of the project, and present comprehensive submissions in March (taking into account the Christmas break etc).
- e) Doesn't this approach heavily favour offshore companies which have pre-existing relationships with the major US firms that the Government has already employed?
- f) What assessment has been made of existing industry capacity to build the ships, and perhaps other ships – and maintain them and their systems into the future – in the interests of a sustainable long term ship building industry?

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**RESPONSE**

- a) A budget of \$1.5 billion has not been allocated to the development of a digital phased array radar by a US firm. In August 2004, the Federal Government announced that the US Navy Aegis Combat System would be the core of the Air Warfare Destroyer (AWD) combat system. The budget for the acquisition of the core Aegis Combat System from the US Government, using a vast range of suppliers, is included in the \$6 billion project budget.
- (i) Yes, CEA Technologies Pty Ltd, which operates out of Fyshwick in the ACT, is developing active phased array radar technology.
- (ii) CEA Technologies Pty Ltd has been involved in the trialling of an active phased array radar onboard HMAS *Arunta* for a period of less than one year.
- (iii) A phased array radar is incorporated into the Aegis Combat System as part of the core element of the Aegis System. The AWD project is evaluating a version of the CEA Technologies Pty Ltd radar technology for inclusion in the AWD design for other functions, but not as a replacement for the core Aegis element, namely the SPY 1D(V) radar.
- b) Defence has chosen the US Navy Mk 45 5-inch gunmount for the AWD. The gunmount will be an upgraded version of the gun already in service in the Navy in the ANZAC Class warships. The choice of the Mk 45 5-inch gunmount ensures interoperability of the Navy fleet and does not require investment in entirely new ammunition and supply support systems.
- (i) There are no manufacturers of a weapon system of this capability in Australia.
- (ii) The Navy does rely upon the US Navy for certain gunmount spare parts and detailed design support for the Mk 45 gunmount. The Navy has developed a capability to maintain the gunmount, carries stocks of spare parts and has achieved the necessary level of self-reliance required for the ADF.
- (iii) Experience with the current systems indicates that the Mk 45 gun intended for the AWD will be very reliable. The support arrangements for this gun have not yet been finalised as this is part of the design process. It is normal Defence practice to establish support arrangements that ensure Navy ships have sufficient support embedded in the ship and in Australia to support and sustain likely missions.
- c) The AWD National Roadshow announced the expected schedule of releasing Requests For Information (RFIs) on sub-systems for the AWD combat system. These are not procurement tenders, they are requests for information to support the design process. The RFIs are being released in batches and both the Commonwealth and the AWD contractors (Raytheon Australia Pty Ltd and ASC AWD Shipbuilder Pty Ltd) are conscious of the requirement to provide sufficient time for industry to provide the required information.

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- d) Yes, the schedule for releasing and closing RFIs will allow sufficient time for Australian companies to provide the required information. Many Australian companies have been following the progress of the AWD project and have been preparing their business cases for some time.
- e) No. The RFI process allows sufficient time for all respondents to provide the required information, regardless of whether they are Australian or overseas companies. The AWD project has a probity adviser to ensure that the companies that are a part of the Alliance do not have an unfair advantage in providing equipment or choosing suppliers.
- f) As part of the evaluation of the tender process for selection of Shipbuilder, Platform System Designer and Combat System-Systems Engineer, the company submissions were required to demonstrate their capacity to meet the construction and sustainment phase of the project. Based on this information, Defence Materiel Organisation conducted an internal assessment into the Australian shipbuilding industry capacity to construct new ships as well as to maintain and support existing naval vessels. This assessment indicated that there would be sufficient local capacity to meet future and existing naval shipbuilding requirements.

**QUESTION W6**

**Senator Bishop**

**Joint Strike Fighter Development and Procurement**

- a) What is contained in each of the three AIR 6000 phases listed in the Defence Capability Plan 2004/14, and what provision is made for simulators, systems, ordnance, hangars and all other support?
  - (i) What is phase 3 for? (If UAV's, what is the relationship to Air 7000?)
- b) The US General Accounting Office has documented an 18% decrease in overall aircraft orders and claims that 700 unit purchases from foreign buyers are not yet finalised. What provisions have been made in the event of a blow-out in unit costs which would result from these factors?
- c) What is the likelihood of such a substantial increase in unit cost and how will the allotted budget cover it?
- d) USAF Chief Michael Moseley recently stated that his air force would not be looking to replace its F-15s on a one-to-one basis with new F-22 Raptors or JSFs. Recently, a report from the Kokoda Foundation stated that the optimal number of JSF squadrons for Australia to buy would be five.
  - (i) Does the RAAF need to go further than the USAF deems necessary and purchase JSFs at a one-to-one replacement ratio for our current capabilities with 100 JSFs?
- e) In the PBS of 2003/04 approved project costs for the AIR 6000 SDD Stage 3 project (planning) was listed at \$269 million, with a reduction to \$211 million by 2005/06.

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- (i) What is involved in AIR 6000 Stage 3 - that is, what is the nature of the system development and demonstration project to the Joint Strike Fighter project?
  - (ii) What is the reason for the increase in costs of the AIR 6000 SDD Stage 3 project which was listed as \$50m - \$75m in the DCP 2000/10 but listed as \$269 million in the PBS 2003/04?
  - (iii) What other partner countries are involved in this part of the project and
  - (iv) What financial contribution to this part of the project is being made by partner countries?
- f) Even after the initial blow-out of 80% on development costs, the US General Accounting Office still thinks that 'JSF's planned approach will not capture adequate knowledge about technologies, design and manufacturing processes for investment decisions at key investment junctures'.
- (i) What is Defence's response to this and how will it affect the budget and
  - (ii) can Defence guarantee that it is not leading the country into the great unknown with the JSF project, in terms of cost blowouts and theoretical technology, when even the United States is raising serious questions in this regard?
- g) There is a debate within the industry on the need for the JSF and the phasing out of the F-111 and the upgrade of the F-18A. The view expressed by Air Power Australia is that the better option would be to retain the F-111's, not proceed with the upgrade of the F-18's and to buy the F-22 Raptors which are already in production. They say this would prevent any capability gap, be cheaper and be more effective strategically. Air Power Australia's rationale has been known for some time, and has been distributed, so what is the RAAF response to that model?
- h) To date, what is the extent, value and percentage of total work available to Australian industry and how does it compare with say Italy?
- i) Senator Hill and ACM Houston both quoted 'dollar figures' for the Joint Strike Fighter at US\$45 million apiece, for 'average unit recurring flyaway cost'.
- (i) Can you please state what year (US fiscal year) dollars apply to this quoted flyaway cost?
  - (ii) Is this figure in the original base date dollars for the JSF Program of 1994 dollars (as was the \$US33m as cited in 1995-96)?
  - (iii) What is the projected 'then year' dollar 'average unit recurring flyaway cost' of the JSF CTOL aircraft in 2012?

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- (iv) What is the projected 'then year' average total initial operational capability cost on a per aircraft basis for the JSF CTOL type in 2012 dollars? What is this cost for aircraft produced in 2012?
  - (v) What is the projected price that international partners are expected to pay for the JSF CTOL aircraft in 2012?
- j) Senator Hill stated that the decision to proceed with the Joint Strike Fighter will be made in 2006-2007, while LtGen Hurley stated that the decision will be made in 2006 (first pass) and 2008 (second pass).
- (i) Can you please confirm that by the time of this decision RAAF test pilots will have had an opportunity to thoroughly test a representative production configuration of the aircraft?
  - (ii) What budget has been allocated for the Test and Evaluation of the JSF by Australian experts out to 2006?
  - (iii) What budget has been allocated for the Test and Evaluation of the JSF by Australian experts out to 2008?
- k) Dr Gumley stated that the earliest production Joint Strike Fighter aircraft will be 'dearer' than \$US41m each.
- (i) If the RAAF is to take delivery of its first aircraft in 2012, what have you determined (or projected) the unit recurring flyaway cost of this batch of early aircraft will be?
  - (ii) What additional funds will have to be spent and on what to get these aircraft to initial operational capability (IOC) and when do current plans have this being achieved?
  - (iii) What length runway will be required for the CTOL JSF? Will extensions to any of the RAAF base runways be required for operating the CTOL JSF?
  - (iv) Will the CTOL JSF be able to be parked out in the weather or will it need to be kept under cover when not flying? If so, what type of cover will be required and what will be the cost for such protective coverage?
- l) Air Marshal Shepherd stated that the F-111 'does not have' 'situational awareness' and 'electronic warfare' capability.
- (i) Did Defence solicit quotations from contractors on the cost of providing 'situational awareness' capability via a Link-16 equipment upgrade, and if so, what was the proposed cost of providing this capability per aircraft?
  - (ii) The RAAF recently installed Elta 8222 electronic warfare pods on the F-111C. Does Air Marshal Shepherd's statement indicate that this equipment is no longer in use on the F-111?

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- m) Air Marshal Shepherd referred to the 'the high cost of keeping the F111 currently is distorting our Air Force's capability to transition to a networked systems based force'.
- (i) Could Defence please provide the total annual operating expenditure and the breakdown between contracted maintenance/support costs and operational costs for the F-111C, F-111G and F/A-18A aircraft fleets, covering 2000, 2001, 2002, 2003, 2004, 2005 respectively? This cost should be based on the same costing model and financial year, for all three aircraft types.
  - (ii) An independent analysis of the annual expenditures of the RAAF as reported in the Defence Annual Report claims that "the capability costings underlying the decision (to retire the F-111s early) are seriously flawed and, thus, do not engender confidence in the course being adopted". This is a quite detailed analysis entitled "A Farewell to Arms Revisited". It was part of a submission to Parliament and may be found at <http://www.ausairpower.net/FTAR-PAG-180404.pdf>. Does the RAAF agree with this analysis?
  - (iii) If the RAAF does not agree with this analysis, could you please provide the data, reports and rebuttal documents which are the basis and details for such disagreement?
- n) Air Marshal Shepherd stated 'We have kept an option to maintain the aeroplane [F-111] out to 2012 should a number of prerequisite projects associated with the Hornet upgrade be delayed'.
- (i) What specific measures are being taken to ensure that the RAAF will still be capable of maintaining the F-111 after 2010? Please provide a breakdown of these measures and the budgeted costs for their implementation.
  - (ii) What are the prerequisite project associated with the Hornet upgrade?
  - (iii) In standard risk assessment terms such as those used in AS/NZS 4360:2004, what are the statistical probabilities for each of these projects being completed on schedule? What is the overall statistical probability that all these projects will be completed on schedule?
- o) Air Marshal Shepherd stated 'Some of them [F-111G aircraft] are in protective storage tarpaulins and covers and some are in open storage.' and that open storage does not matter '... 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.'
- (i) Please explain what engineering work has been done to determine that moisture ingress in the stored F-111G aircraft will not corrode the high tensile steel, high tensile aluminium and aluminium honeycomb materials used in the aircraft. Could you please provide the reports on this work?

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- (ii) How has the RAAF ensured that the sealant in the fuel tanks of these aircraft has not dried out and cracked by being left out in the weather and, more particularly, the heat of the sun?
  - (iii) Is it not true that US Air Force F-111s stationed in the UK were all kept under shelters, and is it not true that all operational F-111s at Amberley are kept under 'carport' shelters?
- p) Air Chief Marshal Houston stated 'F-111Cs are digital aircraft. They are capable of precision strike. They have all the weapon systems enhancements to make them more lethal and survivable. The F-111Gs 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.'
- (i) It is well documented that the US Air Force and Royal Air Force have repeatedly used a technique called 'buddy lasing' where an aircraft equipped to guide laser guided smart bombs is paired with an aircraft that does not have this capability but is able to deliver such weapons which are then guided to the target which is being illuminated by the other aircraft. Please explain why this technique is not being considered to expand the usefulness of the F-111G and provide Australia with even greater strike capability, now as opposed to post 2010?
  - (ii) It has been well documented in public that the F-111Gs were used to carry laser guided bombs, with ground observers equipped with laser equipment used to designate targets for precision strike. Why has this precision strike capability not been discussed in the context of the F-111G?
  - (iii) Is it not correct that the F-111G is equipped with a digital navigation and weapon delivery computer system, installed during the US Air Force AMP upgrade, prior to delivery to the RAAF?
  - (iv) Could you please provide the contractor quoted cost per aircraft of the proposed, but never implemented precision capability upgrade on the F-111G, based on the F-111C AUP system.
  - (v) Please provide a breakdown of which capabilities and systems, such as electronic warfare equipment, are used both on the F-111C and F-111G, and which F-111C capabilities other than Pave Tack are used only on the F-111C.
- q) Air Marshal Shepherd referred to "DMO and DSTO, supported by industry, have conducted extensive analysis of the F111" and "We (the RAAF) believe that that is unrealistic and not capable in a realistic cost way."
- (i) Could you please provide a list of this extensive analysis and the associated report, citing the authoring experts and dates of authorship?
  - (ii) Could you also provide copies of the reports on this analysis or, at the very least, the unclassified versions of the Executive Summary/ies of the report/s?

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- r) LtGen Hurley advised that, as at last July, Defence had paid \$A119 million into the system development and demonstration (SDD) phase of the JSF Program and that the next payment is due in January 2006. Since Australia signed up for participation in the SDD Phase back in 2002, this equates to about \$A118,000 per day (up to July 2005). He also advised that should Defence recommend and the Government decide to sign up to the next memorandum of understanding in the SDD phase, which will come into play about October next year, then “there is about another \$120 million to be paid”.
- (i) Is this next payment (\$120 million) in Australian dollars or US dollars?
  - (ii) In addition to the monies being paid into the SDD phase of the JSF Program, what other expenditures have been incurred to date in support of our involvement in the JSF Program; for instance, the Project Office costs, the costs for the 30 or so DSTO scientists involved in the program, the costs of the personnel in Defence, Department of Industry, Tourism and Resources, the JSF Industry Team, and other departments involved in the program, etc.?
  - (iii) What is the Commonwealth’s budget (total) for Australia’s involvement in the SDD Phase of the JSF Program and how much has been spent to date?
  - (iv) What value of contracts have been won and signed by Australian Industry for the SDD Phase of the JSF Program?
  - (v) What value of contracts have been won and signed by Australian Industry for the next phase of the JSF Program?
  - (vi) Industry analysts have referred to Australia’s involvement as a significant Loss Leader and quite courageous. Is this an accurate description of this activity? If not, why not?
  - (vii) How does the balance sheet between the amount of money that has been invested in the SDD Phase of the JSF Program versus the value of contracts awarded to Australian Industry look? When and how will the Industry program get into a net gain situation?
  - (viii) What methods and resulting factors are being applied to measure the return on investment in the JSF Program and what is the level of this return today? What is the estimated, projected level of return at the end of the SDD Phase of the JSF Program?
- s) The attached table of capability comparisons has been provided to the Committee by the independent think tank, Air Power Australia. The results shown in this table, if correct, are of deep concern to this Committee. Defence is asked to comment in detail on this table, in particular explaining where they believe the table is wrong and what they believe is missing from this summary capability comparison table.

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**RESPONSE**

- a) AIR 6000 consists of acquisition in three sub-phases, Phases 2A, 2B and 2C. Defence has proposed to combine approval for Phases 2A and 2B to provide a baseline air combat capability, with a later decision on Phase 2C to provide the full capability. Phases 2A/B are expected to comprise three squadrons of Conventional Take Off and Landing (CTOL) Joint Strike Fighter (JSF) plus a training capability, maintenance aircraft, attrition aircraft and all necessary support, training and integration requirements. Phase 2C will consider additional JSF aircraft and/or advanced weapons for the JSF, and uninhabited combat air vehicles.
- (i) AIR 7000 will acquire a land surveillance and maritime surveillance capability not a combat UAV capability.
- b) The Unit Recurring Flyaway (URF) cost quoted by US sources is based on US and UK aircraft numbers only. Purchases of aircraft by other partners will reduce these costs.
- c) The project office is closely monitoring the developments in the JSF program that could affect aircraft unit costs. While it is not possible to be definitive about future events, the program has levels of contingency in its cost estimates considered appropriate for the current levels of risk relating to potential cost growth and variations in aircraft production numbers.
- d) The *Defence White Paper 2000* identified the need for up to 100 new combat aircraft to replace the current fleets of F-111 and F/A-18 aircraft. Detailed analysis is being conducted to determine how many aircraft the ADF will eventually acquire based on Australia's unique strategic circumstances and requirements.
- e) (i) AIR 6000 Stage 3 was to have been the project stage in which information was gathered on the full range of aircraft options for acquisition under the original AIR 6000 project structure. After the Government decision in October 2002 to join the System Development and Demonstration (SDD) phase of the JSF program and to not actively consider other aircraft options, Stage 3 was replaced by Phase 1A in the revised project structure.
- (ii) AIR 6000 Stage 3 (superseded by Phase 1A) was for studies and activity associated with gathering information on the aircraft options identified for consideration under the original AIR 6000 project structure. The \$269m referred to is to fund Australia's contribution to the US SDD program. These are separate activities, therefore there has been no cost increase.
- (iii) and (iv) Partners in the SDD phase of the US-led JSF program make contributions as follows (cost in US\$):
- |             |                     |
|-------------|---------------------|
| US          | approx \$36 billion |
| UK          | \$2 billion         |
| Italy       | \$1 billion         |
| Netherlands | \$800m              |
| Turkey      | \$175m              |

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Canada	\$150m
Australia	\$150m
Denmark	\$125m
Norway	\$125m

- f) (i) There has been an increase in the estimated cost of the SDD phase of the JSF program since Australia joined but Australia has not been asked to contribute additional funds.
- (ii) This question is entirely speculative and hypothetical. Extensive research and analysis is being conducted, and a decision to purchase the aircraft has not yet been taken.
- g) The Government's decision to retire the F-111 before 2020 was based on Defence's recommendation in the context of the 2003 Defence Capability Review process. Defence considered the high cost of maintaining a credible F-111 capability to be too high and that it would skew overall Defence spending when considered with the need to upgrade the F/A-18 and other demands on the Defence Capability Plan.
- The air combat capability model proposed by Air Power Australia, consisting of additional and upgraded F-111, and the F/A-22, is fundamentally different to the single platform strategy chosen by the Government. The Government has agreed that Defence investigate the JSF as the single platform solution based on its excellent strike and air control capability. The JSF, when combined with the other key elements of our future air combat system, such as the new air-to-air refuelling aircraft, airborne early warning and control aircraft, and stand-off missiles, will provide a superior air combat capability for Australia. Defence's view is that the JSF will provide the widest range of options for Government
- h) JSF is a cost and capability driven program where companies bid on a best-value basis. From US Government figures (released in mid-2004), US industry had been awarded some 74 per cent of available work, with the balance going to the partners.
- Based on its assessment of Australian industry capability, Lockheed Martin estimated that Australian industry could realistically bid for opportunities worth approximately US\$700m in SDD and Low Rate Initial Production (LRIP) Phases. In its latest estimates, Lockheed maintains that opportunities worth between US\$700-900m remain in SDD and LRIP available for Australian industry to compete for. Australia does not have Lockheed assessments for other countries.
- i) (i) 2002.
- (ii) No. See response to (i). The US Government rebases its budgeting process every five years.
- (iii), (iv) and (v) The projected costs of the JSF aircraft are under constant review by the New Air Combat Capability (NACC) Project. It is still assessed that up to 100 JSF aircraft will be affordable within the budget.

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- j) (i), (ii) and (iii) The timing and extent of Australian involvement in the JSF flight test program is still being determined.
- k) (i) and (ii) See response to Question i).
- (iii) The CTOL JSF at maximum all-up weight is being developed to safely operate from an 8,000 ft runway. No runway extensions are required to current F/A-18 or F-111 operating bases to accommodate JSF operations.
- (iv) The JSF does not require special parking facilities; however, it is anticipated that the aircraft will normally be parked under the standard RAAF 'carports' that are currently used by the F/A-18 and F-111 aircraft and available at most RAAF bases.
- l) (i) Some preliminary desk-top studies were conducted but these were not pursued. There has been no formal solicitation for quotation for the development of a Link 16 capability for the F-111.
- (ii) No.
- (m) (i) F-111C and F-111G costs are unable to be separated. The Defence Materiel Organisation expense against budget for support of the F-111, which does not include maintenance carried out by operating units, was 2000-01 \$115.7m; 2001-02 \$114.5m; 2002-03 \$125.8m; 2003-04 \$107.7m and 2004-05 \$103.1m. Note that a change in cost structure occurred from 2001 as work was contracted out as a result of the out-sourcing of F-111 deeper maintenance.
- For the F/A-18A, the DMO expense against allocated budget, which does not include maintenance carried out by operating units, was 2000-01 \$110.6 m; 2001-02 \$77.0 m; 2002-03 \$97.5m; 2003-04 \$115.7m and 2004-05 \$139.0m.
- (ii) No.
- (iii) These issues were examined by the Joint Standing Committee on Foreign Affairs Defence and Trade in August 2004 when reviewing the *Defence Annual Report 2002-03*. Supplementary Submission No 4 – Air Combat Capability and the statements of witnesses to the committee refer.
- n) (i) In addition to routine budget provisions, supplementary funding of \$17.1m spread over 2005-06 and 2007-08 has been provided to the DMO to address obsolescence issues which might prevent the aircraft achieving a 2012 withdrawal should that be necessary. In summary, total budget (including supplementary funding) provisions are \$9.1m for avionics, \$15.4m for airframe and \$12.2m for ground equipment.
- (ii) The prerequisite projects associated with the Hornet upgrade include the sub-elements of Air 5376 Hornet Upgrade (Helmet Mounted Cueing System, Link 16, Electronic Warfare Self Protection, and Structural Refurbishment), improvements to the Hornet's strike capability provided by Air 5409 Bomb Improvement Program and Air 5418 Follow On Stand-Off Weapon. The Chief of Air Force was also referring to the prerequisite elements of the air combat environment in which the Hornet will operate such as B737 Airborne Early Warning and Control

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aircraft and the extended operating range provided by A330 air-to-air refuelling aircraft.

- (iii) An understanding of risk is an integral part of Defence's management of upgrade and acquisition programs. Risk to schedule is one element of any project's overall risk profile and a schedule risk for each project is determined and treatments applied. Defence uses a combination of qualitative and quantitative measures to manage risk.
- o) (i) All spares used from stored aircraft have been inspected and maintained in accordance with authorised maintenance publications prior to use on any operational aircraft. These procedures are based on long established requirements which ensure the airworthiness of components.
- (ii) Fuel tank sealant degrades over time regardless of the aircraft storage environment. If necessary, fuel tank sealant would be refurbished as part of deeper maintenance.
- (iii) All operational F-111s at Amberley are normally kept under carports. This provides both an improved working environment for the technicians performing maintenance on the aircraft and affords the aircraft protection from the elements whilst various panels and compartments are opened for internal access. When deployed, it is not unusual for aircraft to be parked and maintained in the open, although this is not preferred. USAF F-111s in the UK were hangared in hardened shelters to protect them from direct attack by enemy forces.
- p) (i) Buddy lasing is a technique practised by RAAF F-111Cs. In certain scenarios, it is a more effective method of weapon employment and/or technique for minimising the effectiveness of defences. However, the F-111C's defensive electronic warfare suite is designed to protect the aircraft to which it is fitted, and not other aircraft in company. As is detailed in response to p (v), the less capable defensive systems of the F-111G are not adequate for assured survival in the modern battlespace. Rather, they serve to provide training in techniques that are then honed once aircrew graduate to fly the F-111C. Whilst the F-111G could conceivably be used as a 'bomb truck', this would entail an unacceptable level of risk to the aircraft.
- (ii) As discussed at p (v), the F-111G does not have the systems fitted to it that make it a preferred platform for operations in a hostile environment. The F-111C is, as a result of the Avionics Update Program and various weapon and system update programs, a much better solution for survival and successful prosecution of targets in a contested battlespace. Additionally, to impose the requirement for ground observers does limit the application of the proposed solution, as insertion of ground forces may not be operationally possible.
- (iii) The F-111G uses a different navigation system to the F-111C. Whilst relatively accurate, it does not include GPS and is of an older vintage than the F-111C systems delivered through the Avionics Update Program. Similarly, the weapon

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delivery system in the F-111G is different to the F-111C and is optimised to the F-111G navigation system.

- (iv) Upgrade of the F-111G was considered in the Defence Capability Plan under Project AIR 5404. However, upgrade of the F-111G strike capability was not progressed given their role as training aircraft.
- (v) Whilst there is some system commonality between the F-111C and G, the physical equipment providing those capabilities is almost invariably different. Therefore, the degree of capability (and serviceability where different vintage equipment is fitted) in the two aircraft variants differ.
- q) (i) and (ii) The Defence Science and Technology and Defence Materiel organisations, in their current and previous forms, have conducted extensive analysis of the F-111 since initial acquisition from 1973 and particularly since the RAAF became the sole operator. Given that all of the reports pertaining to F-111 management would consist of hundreds of documents, many of which are classified, Defence is not able to devote the considerable time and resources required to provide this information.
- r) (i) The \$120m referred to is in Australian dollars and is an initial estimate only.
- (ii) In addition to the cost of SDD participation, to date approximately \$23m has been spent on Phase 1A. This does not include salaries for Defence or other departments.
- (iii) Budget is A\$211m, expenditure to date is A\$119m.
- (iv) In the 36 months since joining the SDD Phase of the Program, 19 Australian companies have signed contracts worth approximately US \$60m.
- (v) As the US Government is yet to contract (Lockheed Martin) for the next phase of the Program – the LRIP Phase – no subcontracts have been awarded. However, several Australian companies have signed agreements worth about US \$110m with prime and major sub-contractors that should lead to contracts when the LRIP Phase is contracted.
- (vi) To achieve the JSF program goal of affordability, all work must be won on a ‘best value’ basis in international competition. This means there is no guaranteed workshare.  
Major returns will not be achieved in the SDD phase. The major returns will be achieved during full rate production and future sustainment phases. Companies that win work in the SDD phase, however, are well placed to win work in the later phases.  
Nineteen Australian companies have already won work in the SDD phases, and have shown that Australian companies can be successful in international competition.
- (vii) Australia joined the JSF Program for a range of reasons, one of which was to provide opportunities for Australian industry in the global JSF program.

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Australia's contribution to the JSF program to date is approximately US\$85m, contracts to date are valued at US\$60m and work commitments in LRIP are valued at US\$100m.

- (viii) Australia obtains a range of benefits from its investment in the JSF program. These benefits include:
- the unprecedented opportunity for Australia to participate in the development of an advanced fighter aircraft;
  - the opportunity for Australian industry to be part of the global supply chain of the world's largest defence project;
  - privileged access to JSF project information;
  - priority for acquisition of the JSF aircraft; and
  - guaranteed waiver of at least the SDD investment from Non-Recurring Engineering costs (guaranteed full waiver if Australia acquires aircraft through the Production, Support and Follow-on Development MOU, valued at as much as US\$1 billion).
- s) These matters have been extensively canvassed by previous inquiries by the Joint Standing Committee on Foreign Affairs, Defence and Trade and will be the subject of future inquiries by Senate Committees. Defence is not prepared to continually devote resources to answering questions posed by private think tanks. It is the view of the Government that these resources would be better employed on research and analysis within the NACC project.

## **Defence Materiel Organisation**

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

#### **QUESTION W2**

#### **Senator Bishop**

#### **Land 116 Bushranger Infantry Mobility Project**

- a) What will be the in-service life of the Bushrangers?
- b) What other minor projects are scheduled for delivery in the next five years for the Bushrangers and what is the estimated cost of each of these projects?
- c) What is the nature of the modifications to the Bushrangers and if the capacity exists for the installation of the Kongsberg gun turret – as fitted to the ASLAV's?
- d) How many ASLAV vehicles have been fitted with the Kongsberg gun?
- e) Where are the Kongsberg guns sourced from?
- f) What is the unit and installation costs of the Kongsberg gun?
- g) Doesn't a capacity exist in Bendigo for the construction of such a gun; if so, why weren't they considered given that the number now being fitted is extensive?

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**RESPONSE**

- a) The Life of Type for the Bushranger is 15 years.
- b) There are no minor projects currently scheduled for the Bushranger Project.
- c) Defence Materiel Organisation is currently exploring the feasibility of integrating remote weapon stations onto the Bushmaster vehicle. The Kongsberg Remote Weapon Station is only one of several potential solutions.
- d) No guns have been purchased from Kongsberg. The remote weapon station supplied by Kongsberg is designed to have a variety of weapons fitted to it. To date, DMO has delivered 40 x Kongsberg Remote Weapon Stations to meet the Army's urgent operational requirements. A further 19 systems are to be delivered in November and December 2005 to complete the Army's current endorsed requirement of 59 systems.
- e) Kongsberg is a Norwegian company.
- f) Unit and installation costs per system are approximately \$350,000.
- g) DMO needed to provide the Army with a proven system that could be supplied within the operational time frame. The Kongsberg Remote Weapon Station was the only system available to meet this requirement. If the Army requires another significant acquisition of remote weapon stations, in a non-operationally urgent time frame, DMO intends to seek a competitive tender from global suppliers of this type of equipment.

**QUESTION W3**

**Senator Bishop**

**RAAF-Boeing dispute**

- a) What is the current state of the industrial dispute between Boeing and members of the Australian Workers Union employed at Boeing's Williamstown premises.
- b) What effect has that dispute had on (i) Boeing's maintenance program; (ii) The program to upgrade FA18 aircraft; (iii) How many FA18 aircraft were in service before the dispute commenced; and (iv) How many are currently in service?

**RESPONSE**

- a) Defence is not a party to the dispute, and is therefore not in a position to provide information on the status of the matter.
- b) (i) There has been no impact on the overall Hornet maintenance program.  
(ii) There has been no impact to the overall Hornet Upgrade program.  
(iii) and (iv) The number of aircraft in service is operationally sensitive information and will not be disclosed.

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**QUESTION W4**

**Senator Murray**

**Senate Order for departmental and agency contracts**

- a) What guidance is provided to staff with responsibilities for contract negotiations specifically about the requirements of the Senate Order? If relevant guidance is not provided, please explain why this is the case.
- b) What training and awareness sessions are provided, either in-house or through other training providers (e.g. DOFA, APS Commission or private firms) in respect of the Order? Please provide a list of the dates, the identity of the training providers and the content of the training that staff attended in 2005. If training and awareness sessions are not provided, please explain why this is the case.
- c) Has the department/agency revised its procurement guidelines to incorporate the new Commonwealth Procurement Guidelines that took effect from 1 January 2005, particularly with respect to the confidentiality elements contained in those guidelines? If so, when did this occur and can a copy be provided? If not, what is the cause of the delay and when will the revision occur?
- d) ANAO audits for the last three years have revealed a consistently low level of compliance across most agencies with DOFA confidentiality criteria (February 2003) for determining whether commercial information should be protected as confidential. The ANAO's latest report on the Order (No.11 2005–2006, September 2005) states that departments and agencies need to give higher priority with this important requirement of the Senate Order.
  - (i) What specific measures have been or will be taken to address this problem, give it higher priority and raise compliance levels?
  - (ii) What guidance and training are provided to staff about the confidentiality criteria and the four tests employed to determine whether information should be protected?
  - (iii) What internal auditing or checking is performed to test compliance in this area? If none is performed, why not and is the agency considering the adoption of internal controls and checks?
- e) What problems, if any, has the agency and/or relevant staff experienced in complying with the Senate Order? What is the nature and cause of any problems? What measures have been, or could be, adopted to address these concerns?

**RESPONSE**

- a) Guidance is provided to the Department of Defence in the Defence Procurement Policy Manual Version 5.5, Section 3, Chapter 3.11 making reference to the Department of Finance and Administration publication 'Guidance on the Listing of Contract Details on the Internet (Meeting the Senate Order on Departmental and Agency Contracts).'

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Guidance in relation to the Defence Interim Defence Contracts Register which captures the information for the Senate Order is provided in the Defence Procurement Manual Version 5.5, Section 5, Chapter 5.8.

- b) Defence does not provide specific training for the Senate Order. Rather generic procurement courses make reference to the Senate Order obligations. The Simple and Complex Procurement training courses are held throughout the year across Australia and by correspondence overseas.
- c) The Defence Procurement Policy Manual officially released its update on 19 May 2005 to incorporate the Commonwealth Procurement guidelines of January 2005, including guidance on recording of confidentiality aspects (Section 5, Chapter 5.8). A copy of the Policy Manual can be obtained on [www.defence.gov.au/dmo/gc/dppm.cfm](http://www.defence.gov.au/dmo/gc/dppm.cfm).
- d)
  - (i) The ASDEFCON suite of templates has been updated to include a Commercial-In-Confidence attachment as a core requirement of the Defence tender documentation. The attachment requires Defence projects to list confidentiality clauses and clauses seeking to be classified as confidential. The attachment requires procurement officers to give reasons for the classification/ confidentiality clause and list the party for whom the information/ contract/ clause is classed as confidential.
  - (ii) The Defence Procurement Policy Manual provides guidance in relation to confidentiality criteria and Procurement Services staff in General Counsel Division, Defence Materiel Organisation provide advice to Defence procurement officers. No specific training is given in relation to confidentiality criteria.
  - (iii) At this stage, Defence has no specific measures to ensure compliance in the area of confidentiality, nor an internal audit mechanism. As part of the DMO Procurement Improvement Program, Defence will review its procurement documentation and ensure adequate guidance is written in relation to the Senate Order obligations and for assessing confidentiality criteria. Procurement Services within General Counsel Division are looking into mechanisms to allow for internal auditing to test for confidentiality compliance.
- e) Reporting of all Defence contracts, including both ongoing and new contracts in each monthly reporting period, is not feasible for Defence. This is due to the high volume of contracts entered into by Defence generally; and the high volume of contracts with very long terms (10, 20 and 30 year contracts). As an example, in order to be able to list the new contracts in 2004-05, a spreadsheet of 360 pages was required for the 5,700 contracts.

Identification and feasibility of a permanent, integrated information/contract management system to collect the Senate Order data, which will interface with all Defence systems, is presently being undertaken by the General Counsel Division, Defence Materiel Organisation.

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- **Major Capital Facilities projects**

**QUESTION 8**

**Senator Hogg**

**HQJOC Project**

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When was the Managing Director of the Defence Housing Authority informed of the reduction in the number of people to be accommodated at the Headquarters Joint Operational Command at Bungendore?

**RESPONSE**

Mr Alan Henderson, Deputy Secretary Corporate Services, undertook to check the precise date on which he informed the Managing Director of the Defence Housing Authority of the impending decision to reduce the number of staff positions needed in the Headquarters Joint Operations Command facility at Bungendore.

Mr Henderson's diary does not record the date of the call. However, he has consulted the then Managing Director, Mr Keith Lyon and agreed that the telephone conversation in which Mr Henderson advised Mr Lyon of the impending announcement almost certainly occurred in the week ending 19 August 2005.

**QUESTION W12**

**Senator Bishop**

**Headquarters Joint Operations Command Project**

- a) Given that downsizing of the project has extended the tender process what is the revised schedule for the following;
  - (i) When will the new tender process be completed?
  - (ii) When will the successful tenderer be announced?
  - (iii) What is the updated timeframe for finalisation of the design process?
  - (iv) When will the construction phase commence and when will it be completed?
  - (v) When will the installation of internal fit-out commence and when will it be completed?
  - (vi) When will the Headquarters be fully operational?
- b) At what point in the above timeline, is it anticipated that the 30 year lease agreement will commence and at what date will the facility revert to the Commonwealth?

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- c) What contractual arrangements will be put in place to ensure that construction is completed on schedule?
- d) The previous costing of the project was \$318.8 million - has this figure now been amended and if so, what are the latest estimates?
- e) Of the new estimates,
  - (i) What is the estimated cost of construction and infrastructure to be provided by successful tenderer?
  - (ii) What is the estimated cost of the installation of the internal fit out to Defence specifications with work to be financed by the Department of Defence?
  - (iii) What amounts have been expended to date and what work was carried out for this sum?
- f) Apart from the construction of buildings what infrastructure components will form part of the contractual arrangements with selected tenderer? (for example; internal road systems, perimeter and security fencing)
- g) What is the estimated cost of this part of the contract?
- h) Is this the first PPP Defence has engaged in, and what is the policy with respect to future PPP's, including ships etc?
- i) What advice is being sought on financing arrangements that apply under Public Private Partnerships and Build Own Operate Transfer (BOOT)?
- j) What formula will be used as a basis for calculation into the cost effectiveness of such a lease agreement under a Public Private Partnership agreement?
- k) What tax concessions are involved – or any other Commonwealth incentives?
- l) Will a residual payment at the end of the lease period be a factor in the Public Private Partnership agreement?
  - (i) If so, what proportion of the total construction costs is anticipated as a payout figure at the completion of the lease?
  - (ii) Will an interest component be factored into a final payout figure?

**RESPONSE**

- a) (i) Tenders for the Request for Final Revised Offers for the delivery of the buildings, infrastructure and services components of the Headquarters Joint Operations Command Project under private finance arrangements close on 19 January 2006. Tender evaluation will commence shortly thereafter and the

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recommendation of the preferred tenderer is expected to be taken to Government by the end of the first quarter of 2006.

- (ii) An announcement on the preferred tenderer is expected in the second quarter of 2006.
  - (iii) The detailed design of the facility is the responsibility of the tenderer. The timeline for the completion of the design will be advised in the tendered responses to be submitted on 19 January 2006.
  - (iv) The construction phase will require approximately 28 months, and is inclusive of detailed design and internal fit-out. The construction phase is anticipated to commence around mid-2006 with the facility expected to be completed in the third quarter of 2008. More detailed advice on the construction phase will be known after tenders are submitted on 19 January 2006.
  - (v) The time required for the internal fit-out is included in the construction phase of approximately 28 months. Separate to the internal fit-out is the installation of the command, control, communications, computer and intelligence systems within the facility. This activity will require between three and four months to complete, and will be scheduled to commence towards the end of the construction phase.
  - (vi) The Headquarters is expected to be operational in the fourth quarter of 2008.
- b) The 30-year lease agreement will commence at contract signature, anticipated to occur in May 2006. The facility will revert to the Commonwealth 30 years later.
- c) The contractual arrangements to ensure construction is completed on schedule are specified in the draft Project Deed, which will be finalised during contract negotiations with the preferred tenderer. The draft Project Deed contains a number of construction phase milestones to ensure that the facility is delivered on schedule. The final Project Deed will be signed by the preferred tenderer at contract signature. In addition, under the private finance arrangements, payments to the contractor do not occur until after the facility has been commissioned, and are conditional upon satisfactory completion.
- d) The total estimated cost of the project is \$301 million (2003-04, constant prices). The estimated cost of \$318.08 million is the \$301 million outturned to the end of the construction phase in mid-2008. The estimate has not changed since project approval in 2004.
- e) (i) and (ii) The estimated cost of construction, including infrastructure and internal fit-out to be provided by the tenderer, is approximately \$221 million (2003-04, constant prices). The estimated cost of the procurement and installation of the command, control, communications, computer and intelligence systems and other activities such as land acquisition and workplace relocation to be financed by Defence is approximately \$80 million (2003-04, constant prices).

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(iii) Generally, as part of the initial development of facilities projects, funds may be expended on a range of studies and other activities, including site studies, preliminary engineering studies, an environmental impact statement and the development of the strategic and detailed business cases. The range of studies would depend on the location of the works, what was known about the site from previous studies, the scope and complexity of the project, and the proposed procurement method. The funds expended on these studies are not included in the project budget.

(1) Preliminary funds expended:

(a)	Feasibility studies	\$1,694,658.72
(b)	Environmental Impact Statement (including additional studies)	\$1,038,097.53
	<b>TOTAL</b>	<u>\$2,732,756.25</u>

(2) Project funds expended to 1 November 2005:

(a)	Financial advice (private finance advice and tender evaluation)	\$ 750,000.00
(b)	Legal advice (development of Request for Tender)	\$ 994,175.19
(c)	Legal process and probity advice	\$ 713,991.78
(d)	Tender process (Invitation to Register Interest and Request for Tender development and evaluation)	\$3,126,440.58
(e)	Risk management advice	\$ 414,602.27
(f)	Project consultancy	\$1,658,410.25
(g)	Command and control systems (development of systems function performance specifications)	\$ 655,686.91
(h)	Land acquisition (surveys and land acquisition process)	\$ 413,804.28
(i)	Communications Consultant (media releases, community meetings and surveys)	\$ 42,770.47
(j)	Replacement boundary fence	\$ 76,344.84
(k)	Trial tree planting	<u>\$ 53,200.00</u>
	<b>TOTAL</b>	<u>\$8,899,426.57</u>

f) Apart from the construction of the buildings, the contractor will be responsible for the delivery of the site infrastructure including civil engineering works such as the access roads, internal service roads, car parks, site boundary fence and the security fences; engineering services such as electrical services and emergency power supply, hydraulic services including waste water treatment and stormwater management, and the provision of gas supply to the site (if required).

g) The estimated cost of the site infrastructure is included in the overall estimate of the cost of construction of approximately \$221 million (2003-04, constant prices). More

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details on this component of the project cost will be known after tenders are submitted on 19 January 2006.

- h) No. Other Defence public-private partnership arrangements include the Navy Port Services and Support Craft contract, the provision of child-care facilities for Defence families, the project to refurbish propellant facilities at Mulwala, New South Wales, and the Replacement Patrol Boat Project, which was initially considered for a public-private partnership arrangement then reverted to the use of Government finance, as the private finance arrangement did not offer sufficient value for money advantage. In addition to the Headquarters Joint Operations Command Project, Defence is exploring the delivery of the Single Living Environment and Accommodation Precinct Project to improve the standard of permanent live-in accommodation for single ADF members under a Public Private Partnership arrangement. Policy for Commonwealth public-private partnerships is contained in the 'Commonwealth Policy Principles for the Use of Private Financing' and Defence's 'Private Finance Manual'.
- i) Private financing advice for the Headquarters Project has been provided to Defence by a range of advisers including the Project's commercial and legal adviser (Blake Dawson Waldron Lawyers) and former financial adviser (Macquarie Bank Limited).
- j) The cost effectiveness of the private finance solutions being tendered is subject to value for money assessments. Value for money is the critical component in assessing private financing proposals. The assessment covers the total whole-of-life costs of delivering the service and not just the construction costs. Value for money is determined through a comparative analysis of the benefits, costs and risks associated with private financing and other procurement alternatives. The assessment of the value of these variables requires both quantitative and qualitative analysis.
- k) There are no taxation concessions or other incentives involved in the Headquarters Project transaction. The transaction is structured to trigger Division 16D of the Income Tax Assessment Act 1936 (Cth) or Division 240 of the Income Tax Assessment Act 1997 (Cth). Tax ownership of the facility would rest with the Commonwealth under these provisions. This effectively neutralises taxation by characterising the transaction as a sale and loan for taxation purposes. The lessor would be denied any depreciation or development allowance deductions, minimising tax leakage. The successful tenderer will be required to obtain a private binding ruling from the Australian Taxation Office in respect to its taxation structure.
- l) The lease classification (finance lease) for this project results principally from the retention of residual value risk by the Commonwealth; that is, ownership of the whole facility would revert to the Commonwealth at the end of the 30-year term.
  - (i) It is anticipated that the total construction costs will be included in the lease payment over the 30-year term. The payout figure at the completion of the lease is anticipated to be minimal, consisting of transaction costs and associated handling charges.

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- (ii) It is anticipated that there will be no interest component factored into a final payout figure, as these costs will be factored into the lease payment over the 30-year term.

**QUESTION W13**

**Senator Bishop**

**Darwin Waterfront Development**

- a) What is the status of negotiations with the NT Government over the Darwin waterfront development project?
- b) What are the major issues of difference between Defence and the NT Government?
- c) Are there any deadlines that are approaching for which resolution might be required?
- d) Are you confident that these problems can be resolved, especially given the fact that construction is close to commencing?
- e) Should they remain unresolved, have any indemnity arrangements been considered?

**RESPONSE**

- a) A working group consisting of senior Defence and Northern Territory Government representatives is addressing the issues associated with Darwin City Waterfront Redevelopment project.
- b) Defence has a number of concerns about the impact of the Darwin City Waterfront project on berth access, security and operational support for visiting warships. Defence is also concerned about the proximity of residential apartments proposed as part of the project to working wharves, particularly potential noise and traffic issues.
- c) No.
- d) Defence is hopeful the issues can be successfully resolved.
- e) No.

**Defence Outcomes**

**Outcome 1: Command of operations in defence of Australia and its interests**

**QUESTION W5**

**Senator Ludwig**

**Illegal fishing operations in the north of Australia**

- a) In respect of the media reports about illegal fishing operations in the north of Australia:
  - (i) Can you advise the type and nature of the defence operations that have been tasked to support and assist operations, either alone or with other agencies in

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respect of suspected illegal fishing. If 'yes', can you outline the number of sea days, ships, other vessels or aircraft that are being tasked.

- (ii) In addition, the period of task, start date and finish date or projected finish date.
  - (iii) Please state the costs of any provision of assistance.
  - (iv) Can you indicate which agency you are working with [i.e. Customs, AFFA etc].
- b) Can you outline what results you have realised? For example, number of sightings, number of detained suspected illegal fishing boats.
- c) Can you indicate whether you can make available a map detailing the number of sightings of suspected illegal shipping for the period 2004 and 2005.
- d) Please indicate whether any boarding parties have been denied access to a suspected illegal fishing vessel; or, whether any boarding parties have decided not to continue to board a suspect vessel. If the answer is 'yes' to any part of the question, please provide reasons.

## **RESPONSE**

Assets that support the Civil Maritime Surveillance Program (CMSP) are multi-tasked to identify all activities of interest to the clients of the program. There are no assets assigned exclusively in respect of suspected illegal fishing. The responses below, unless otherwise specified, relate to the totality of the CMSP and not solely to illegal fishing activities.

- a.
- (i) and (ii) The ADF's commitment to the CMSP is delivered, under the codename Operation Cranberry, in response to Customs Coastwatch specific taskings.  
  
ADF contributions to these tasks form part of its support to the Civil Surveillance Program in consultation with Coastwatch. Details of this support are reported in Defence annual reports (see pages 154 and 165 of the *Defence Annual Report 2004-05*).
  - (iii) The Defence commitment to the Civil Maritime Surveillance Program is detailed in the Customs Service Annual Report 2004-05. The support provided is drawn from Defence's allocated resources, and represents no net additional cost to the Defence Budget.
  - (iv) The Coastwatch Division of Customs manages and coordinates the CMSP, including operations in relation to illegal fishing in northern Australia. The following are the Commonwealth agencies that are primarily involved in relation to this activity, although other agencies may also become involved depending on the circumstances of the individual Foreign Fishing Vessel: Australian Customs Service, Australian Fisheries Management Agency, Department of Immigration and Multicultural and Indigenous Affairs, the

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Australian Quarantine and Inspection Service and the Department of the Environment and Heritage.

- b. Navy vessels have conducted 127 boardings resulting in 57 apprehensions and 58 legislative forfeitures of Foreign Fishing Vessels fishing illegally within the Australian Economic Exclusion Zone in the financial year to 18 November 2005.
- c. No.
- d. Boarding parties have been denied access to suspected illegal fishing vessels. Details regarding these incidents can not be released as they may compromise operational security and the safety of surveillance personnel.

**Outcome 3: Army Capability for the Defence of Australia and its Interests**

**QUESTION 6**  
**Senator Faulkner**  
**APCs in Australia**  
Hansard page 82

How many serviceable Armoured Personnel Carriers are currently operating in Australia?

**RESPONSE**

161.

**QUESTION 7**  
**Senator Faulkner**  
**ASLAVs in Australia**  
Hansard page 84

How many Australian Light Armoured Vehicles are currently operating in Australia, and what is the proportion of gun-type vehicles to troop-carrying vehicles?

**RESPONSE**

There are 100 Australian Light Armoured Vehicles currently operating in Australia. Of these, 57 are Type 1 'gun' variants, 19 are Type 2 Personnel Carrier variants and the remaining 24 are other Type 2 and Type 3 vehicles (ie. Command, Ambulance, Surveillance, Fitters and Recovery variants). The proportion of gun-type vehicles to troop-carrying vehicles is currently 3:1.

**Outcome 4: Air Force capability for the defence of Australia and its interests**

**QUESTION W7**  
**Senator Bishop**  
**F-111 deseal/reseal**

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- a) Can it be confirmed that at a meeting recently at Amberley, people affected, and their families were told that the RAAF would no longer provide the services of an advocacy officer to assist them; if so, why is that service being withdrawn?
- b) Given that funds are to be provided by Defence, from what allocation will they be made available, and will funds be sought in Additional Estimates?
- c) Why is compensation for death restricted to those who died after November 2001 - what about those who died before?
- d) Is the detail of the scheme under review, and is it the view of the Government's backbench committee that changes are needed?
- e) On the details of the scheme, what's the difference between exposure for 29 days and 30 days which warrants a difference of \$30,000 in the lump sum?
- f) Have discussions been held with COMCARE as to whether COMCARE will be conducting an OH&S investigation; and if so, will such an investigation take place?
- g) Why did it take the RAAF so long before anything was done to investigate this very serious breach of OH&S?
- h) What action was taken as the result of Defence's own Board of Inquiry, and what was the reason for the delay between the announcement of a compensation scheme and the terms of the compensation to be paid?

**RESPONSE**

- a) The service has not been withdrawn.

The Air Force Advocate's role was established in 2001 to provide immediate and professional advocacy support to everyone affected. The Air Force Advocate has provided support to both current and former serving members.

The Air Force Advocate has provided assistance and advice to assist deseal/reseal participants in accessing health and welfare services and federal and state compensation entitlements.

Advocacy services are able to be provided to deseal/reseal staff by Ex-Service Organisations advocates once they have been made aware of the deseal/reseal participants' special circumstances.

As individual claims progress to the point where specialist support is no longer required, deseal/reseal participants are transitioned to advocates from Ex-Service Organisations.

This process of transitioning deseal/reseal participants and their claims to Ex-Service Organisations has been normal practice for some time.

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The Air Force Advocate, through the Air Force Military Compensation Liaison Office, continues to provide support to currently serving members and those ex-serving deseal/reseal staff who are yet to be transitioned to an Ex-Service Organisation advocate.

- b) Consistent with the recommendation of the Minister for Finance and Administration, the costs of the lump sum scheme will be absorbed within the Defence budget.

The costs associated with the benefits will be met by the existing appropriation for Outcome Four – *Air Force Capability*. The relevant appropriation is *Appropriation Act No 1 (2005-06)*.

- c) There is no restriction on compensation for anyone. All staff remain entitled to their statutory compensation claims.

The lump sum payments are ex gratia.

It is usual for Government policies to place limitations on claims including the retrospectivity of claims.

8 September 2001 is the date the F-111 Deseal/Reseal Board of Inquiry report was made public and was recommended to the Government as an appropriate cut-off date.

Defence relied on Department of Veteran's Affairs specialist knowledge in this area.

- d) The scheme for the payment of lump sums is not under review. The Government has not sought changes to the scheme.

- e) The periods are based on the typical work patterns of those employed on the F-111 deseal/reseal programs and differentiate between staff who entered the aircraft fuel tanks or disposed of deseal/reseal by-products over a prolonged period (Tier 1) and those who had a lesser involvement (Tier 2). In most cases, eligible personnel will have been employed for either considerably more or considerably less than 30 days on the program. Payments to date have been almost exclusively Tier 1 with only three Tier 2 payments. No one has been denied payment for the difference of a day's exposure.

Anyone suffering an immediate reaction qualifies for consideration irrespective of the duration of their involvement in deseal/reseal procedures.

- f) Comcare has carried out two investigations. Both investigations have been formally closed.

- g) The background to occupational health and safety failures within Air Force over the period before 2000 and the failure to react has been covered in considerable depth by the F-111 Deseal/Reseal Board of Inquiry Report.

Responsibility for the deficiencies identified through the Board of Inquiry has been accepted by the Government, Defence and the Air Force.

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- h) The Air Force and the Department of Defence have accepted responsibility for the findings in the F-111 Deseal/Reseal Board of Inquiry.

All 52 recommendations from the inquiry have been accepted and have been acted on. Additionally, actions taken in the last four years to revamp safety management within Defence clearly demonstrate this:

- Establishment of RAAFSafe – the Air Force specific safety management system.
- Establishment of Army Safe – the Army specific safety management system.
- Establishment of NavSafe – the Navy specific safety management system.
- The forming of the Defence Occupational Health and Safety Committee, with membership from the Deputy Chiefs – has responsibility for safety governance within Defence and reports to the Defence Committee.
- Defence OH&S Strategic Plan – three-year rolling plan for Defence safety management with systematic management of risks, measurement of improvement and appropriate resourcing.
- Reviews of implementation of recommendations – Defence Committee-directed review of the progress of the implementation of F-111 Deseal/Reseal Board of Inquiry recommendations to report in June 2006.
- Behavioural Bench Mark – In 2004, approximately 12,000 Defence personnel and contractors were interviewed to establish occupational health and safety attitudes that existed in the ADF. The results from this survey informed the Service specific safety management systems and the strategic plan.

The announcements related to lump sum ex gratia payments not to compensation. Anyone who has a health condition believed to be associated with the deseal/reseal procedures is encouraged to contact their compensation scheme.

The decision to provide a lump sum payment was announced on 22 December 2004 and the detail of the scheme was announced on 19 August 2005.

The Government was determined to ensure that those who were eligible received the lump sum. This required detailed consultation across several Government Departments. The proposal was complex and required full consideration of the possible impact on individuals.

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**Outcome 5: Strategic policy for the defence of Australia and its interests**

**QUESTION 1**

**Senator Bishop**

**Status of Forces Agreements**

Hansard page 28

Please provide the committee with a list of existing Status of Forces Agreements that Australia has with other nations.

**RESPONSE**

Australia has the following Status of Forces Agreements with other nations (ordered by commencement date):

<b>Country</b>	<b>Title/Detail</b>	<b>Commencement</b>
United States of America	Agreement between Australia and the United States of America concerning the Status of United States Forces in Australia, and Protocol	Entry into force: 9 May 1963
Malaysia	Exchange of Notes constituting an Agreement between Australia and Malaysia on Five Power Defence Arrangements ( <i>providing for the status of Australian visiting forces in Malaysia for Five Power Defence Arrangements activities</i> )	Entry into force: 1 November 1971
Singapore	Exchange of Notes constituting an Agreement between Australia and the Republic of Singapore on Five Power Defence Arrangements ( <i>providing for the status of Australian visiting forces in Singapore for agreed activities</i> )	Entry into force: 1 November 1971
Papua New Guinea	Agreement between Australia and Papua New Guinea regarding the Status of Forces of each State in the Territory of the other State, and Agreed Minute	Entry into force: 26 January 1977
Singapore	Exchange of Notes constituting a Status of Forces Agreement between Australia and the Republic of Singapore ( <i>This Agreement reciprocates the Five Power Defence Arrangements Agreement with Singapore and provides for the status of Singaporean personnel in Australia. It has a Claims Annex, which also applies to Australian personnel in Singapore</i> )	Entry into force: 10 February 1988
Papua New Guinea, Fiji, New	Protocol of 29 April 1998 concerning the Peace Monitoring Group made pursuant to [and	Entry into force: 1 May 1998

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Zealand, Vanuatu	amending] the Agreement between Australia, Papua New Guinea, Fiji, New Zealand and Vanuatu concerning the Neutral Truce Monitoring Group for Bougainville of 5 December 1997	
Malaysia	Agreement between Australia and Malaysia concerning the Status of Forces ( <i>This Agreement covers any Defence activity in Australia or those activities in Malaysia that are not a Five Power Defence Arrangements Activity</i> )	Entry into force: 22 July 1999
Kyrgyz Republic	Agreement between Australia and the Kyrgyz Republic concerning the Status of Australian Forces in the Kyrgyz Republic	Entry into force: 9 July 2002
Solomon Islands, NZ, Fiji, PNG, Samoa, Tonga	Agreement between Australia, the Solomon Islands, New Zealand, Fiji, Papua New Guinea, Samoa and Tonga concerning the operations and status of police and armed forces and other personnel deployed to Solomon Islands to assist in the restoration of law and order and security	Entry into force: 24 July 2003
New Zealand	Agreement between the Government of Australia and the Government of New Zealand concerning the Status of their Forces	Entry into force: 27 May 2005

In addition, Australia has two unclassified Status of Forces Arrangements with other nations:

Kuwait	Exchange of Letters constituting an Arrangement concerning the status of Australian Defence Force in Kuwait	Came into effect: 24 September 2002
Afghanistan	Exchange of Letters between Australia and the Islamic Republic of Afghanistan constituting an Arrangement for Australians deploying to Afghanistan	Came into effect: 29 August 2005

**QUESTION 2**

**Senator Faulkner**

**US Department of Defense Report to Congress**

Hansard page 30

In relation to the US Department of Defense report, Measuring Stability and Security in Iraq:

- a) Is Defence able to indicate the accuracy of the reference in the report that attacks by insurgents in Iraq have tripled from under 200 a week at the start of 2004 to more than 650 at present?

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- b) Could Defence comment on the estimates of Iraqi civilian casualties contained in the report?

**RESPONSE**

- a) and b) Defence is not in a position to assess independently the accuracy of the estimates contained in the US Department of Defense report.

**QUESTION W8**

**Senator Stott Despoja**

**ADF training and exercises with Indonesia**

- a) Can the Department please list the numbers of Indonesian military personnel (navy, army and air) trained in Australia, from 2000–2005, provide a breakdown of those numbers for each corresponding institution, base or educational facility, list which Indonesian unit or battalion they were from, at which bases and educational facilities (universities and colleges) they were trained and what they were trained for?
- b) What training is planned for 2005–2006, 2006–2007 for Indonesian personnel (army, navy, air) to be trained in Australia and the breakdown of those numbers for each corresponding institution, base or educational facility. Please list the numbers expected to be trained, which unit or battalion they belong to, the bases at which they will be trained and the type of training they will undertake?
- c) Can the Department please list the numbers of Indonesian military personnel (army, navy and air) trained by Australian military personnel (army, navy and air) outside Australia, from 2000–2005, and the breakdown of those numbers for each corresponding institution, base or educational facility. Please list the unit or battalion they belong to, at which bases they were trained and what they were trained in?
- d) What training is scheduled to be conducted outside Australia by Australian military personnel (army, navy and air), to which Indonesian military personnel (army, air and navy), which unit or battalion they belong to, which bases and what type of training for the years 2005–2006, 2006–2007?
- e) Can the Department please list the numbers of all Indonesian military officials given Government funded scholarships to study at Australian, Indonesian and foreign tertiary institutions?
- f) Can the Department please list which Indonesian military personnel (army, air and navy) and which units or battalions received scholarships, how many they receive, which tertiary institutions they are studying at and what they are studying?
- g) Can the Department explain and please list which Government organizations supply these scholarships and on what basis they are awarded?

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- h) Can the Department please list what military exercises involving Indonesian military personnel have taken place between 2000–2005, the numbers involved, which Indonesian military personnel (army, air and navy) and which units or battalions were involved, what these exercises were called, which other militaries (if any) also participated, and where they took place?
- i) What guarantees can the Department give that those soldiers trained by Australia have not or will not be involved in human rights violations?

**RESPONSE**

- a) From 2000 to 2005, Defence has provided training in Australia to approximately 472 Indonesian military personnel. Training has occurred at a number of Defence facilities and academic institutes across Australia and has covered staff college placements, language enrichment and teaching, non-combat related single Service training, postgraduate study programs, information analyst training, maritime studies, Army junior regimental officer training, military police training and flying officer training. Personal details of Indonesian military personnel, including home units, are provided to Defence in confidence. Release of this information without Indonesian Government agreement would potentially damage the Defence relationship.
- b) As indicated in a), training provided to Indonesian military personnel in Australia covers staff college placements, language enrichment and teaching, non-combat related single Service training, postgraduate study programs, information analysts' training, maritime studies, Army junior regimental officer training, military police training and flying officer training. Approximately 110 Indonesian military personnel receive training in Australia each year, at a number of Defence facilities and educational institutes across Australia. This figure will remain broadly consistent for 2005-06 and 2006-07.
- c) Since 2000, ADF personnel have provided training to Indonesian military personnel in Indonesia in the areas of information analysis and training development. To collect and assemble further information to answer the question would be a major task requiring considerable time and resources. In the interest of efficient utilisation of departmental resources, I am not prepared to authorise the time and effort that would be required.
- d) Over 2005-07, further ADF training of Indonesian military personnel in Indonesia will be provided in the area of information analysis and English language enrichment. Other training opportunities for Indonesian military personnel outside of Australia over this time frame are yet to be developed.
- e) Records are maintained only for those scholarships awarded to the TNI by Defence. Defence awards 13 Scholarships each year under the Defence Cooperation Program to military and civilian members of the Indonesian Department of Defence.
- f) Defence awards 13 Scholarships each year under the Defence Cooperation Program to military and civilian members of the Indonesian Department of Defence. Students are able to study at a range of Australian universities at the post graduate level. Areas of

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study have previously included Engineering, International Relations, Defence Studies, Human Resource Management, Information Technology, Logistics, Psychology and Media Studies. Personal details of Indonesian military personnel, including home units, are provided to Defence in confidence. Release of this information without Indonesian Government agreement would potentially damage the Defence relationship.

- g) Defence awards scholarships on the basis that the courses undertaken meet our mutual strategic objectives. Defence has no visibility of scholarships awarded by other government organisations.
- h) Since 2000, Indonesia has participated in two Australian military exercises.
- Exercise Albatross Ausindo, a combined air maritime surveillance exercise was conducted between the Royal Australian Air Force and the Indonesian Air Force from 11 to 15 April 2005. The exercise involved approximately 34 air and ground crew from the Australian and Indonesian Air Forces and was conducted in Denpasar, Bali.
  - An Indonesian Navy frigate, KRI Fatahillah, participated in the Royal Australian Navy's multi-national maritime exercise, Exercise Kakadu from 26 July to 12 August 2005. The exercise was conducted in northern Australia with New Zealand, Singapore, Malaysia and Papua New Guinea participating alongside Australia and Indonesia. The exercise involved over 1700 personnel from across the six nations participating.
- i) The Government excludes cooperation with all foreign military personnel who are known to have been involved in human rights abuses. Australia continues to emphasise, through our engagement with TNI, the importance of professionalism, adherence to appropriate rules of engagement consistent with the laws of armed conflict, and respect for human rights and the rule of law.

**QUESTION W9**

**Senator Stott Despoja**  
**Arms exports to Indonesia**

- a) What does ADI export to Indonesia either directly or via the Department of Defence?
- b) What mechanisms are in place to ensure that arms and munitions are not used for human rights violations?

**RESPONSE**

- a) In 2003, approval was provided for 4,000kg of desensitised RDX to be exported to an oil mining company in Indonesia. RDX is an explosive and was used for oil well shaped charges. The RDX was exported by ADI directly.
- b) All export applications of defence and dual-use goods are considered on a case by case basis. Export applications for military and related goods of sensitive nature are

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referred to other government agencies on the Standing Inter-Departmental Committee for Defence Exports for consideration against various criteria, including foreign and strategic policy implications and human rights issues. Membership of the committee includes Defence, the Department of Foreign Affairs and Trade and the Department of the Prime Minister and Cabinet.

**QUESTION W10**

**Senator Stott Despoja**

**Allegations of US troops burning bodies of Taliban fighters in Afghanistan**

SBS's Dateline program on the 19 October showed US forces verbally taunting Afghanis over a loudspeaker while they burned two Taliban. Both the burning and the fact that the bodies were laid out to face Mecca was allegedly done as a deliberate desecration of Muslim beliefs. Does the Department engage in or condone any such activity and what is the Department's response to these allegations?

**RESPONSE**

Defence deplores such acts and Australian soldiers treat the bodies of enemy killed on the battlefield with dignity and respect. Australian soldiers are trained to conduct themselves at all times in accordance with the Laws of Armed Conflict.

There are no reports of Australian involvement in any detainee abuses in Afghanistan. A US investigation into the incident is being conducted and further enquiries should be directed to the US Department of Defense.

**Business processes**

**Corporate Services**

**QUESTION W11**

**Senator Conroy**

**Performance of information technology outsourcing arrangements**

- a) Please provide details of total departmental/organisational spending on Information and Communications Technology products and services during the last 12 months. Please break down this spending by ICT function (eg communications, security, private network, websites).
- b) Was this spending in line with budget forecasts for this 12 month period?
  - (i) If not, please provide details of:
    - (1) The extent that ICT spending exceeded budget forecasts for this 12 month period;
    - (2) Details of on specific ICT contracts which resulted in department/organisation spending in excess of budget forecasts for this 12 month period;
    - (3) The reasons ICT spending exceeded budget forecasts for this 12 month period.

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- c) Please provide details of any ICT projects that have been commissioned by the Department/organisation during the past 12 months that have failed to meet designated project time frames (ie have failed to satisfy agreed milestones by agreed dates).
- (i) For such projects that were not completed on schedule, please provide details of:
- (1) The extent of any delay;
  - (2) The reasons these projects were not completed on time;
  - (3) Any contractual remedies sought by the Department/organisation as a result of these delays (eg penalty payments).
- d) Please provide details of any ICT projects delivered in the past 12 months that have materially failed to satisfy project specifications.
- e) Please provide details of any ICT projects that were abandoned by the Department/organisation within the last 12 months before the delivery of all project specifications outlined at the time the project was commissioned.
- (i) For such abandoned projects, please provide details of:
- (1) Any contractual remedies sought by the Department as a result of the abandonment of these projects.
  - (2) Any costs of re-tendering the ICT project.

**RESPONSE**

- a) The total spending on ICT products and services for 2004-05 was \$776.524m (not including employee expenses). Current financial systems are capable of producing the following breakdown:
- |                             |            |
|-----------------------------|------------|
| User Applications:          | \$173.949m |
| Voice Management Contracts: | \$ 21.445m |
| User Devices:               | \$ 0.567m  |
| Systems Hardware:           | \$389.292m |
| Networks and Datalinks:     | \$ 27.127m |
| Infrastructure:             | \$ 89.902m |
| Usage Costs                 | \$ 74.241m |
- b) (i) (1) (2) and (3). Defence expenditure on ICT in 2004-05 did not exceed budget forecast.
- c) Fifteen ICT projects commissioned in 2004-05 failed to meet designated project time frames.
- (i) The details are provided at Annex A.

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- d) None of the ICT Projects delivered in 2004-05 materially failed to satisfy project specifications.
- e) Within the last 12 months, the Department has not abandoned any ICT projects.
  - (i) Not applicable.

<b>ANNEX A</b>			
<b><i>Projects Commenced in 2004-05 (Projects &gt; \$250,000) that failed to meet designated project time frames</i></b>			
<b>Project Name</b>	<b>Delay in Months</b>	<b>Reasons for Delays</b>	<b>Any Contractual Remedies ?</b>
South Aust Base Area Networks Remediation	4	Scope increases to cover additional requirements not evident at project initiation.	N/A, project using internal Defence resources
Trevor Percy House, Bruce - Install DRN & DSN	3	Dependency on other projects which themselves were delayed.	N/A, project using internal Defence resources
Rapid Prototyping and Development – Brindabella Park Building 20	3	Construction and security requirements taking longer than originally estimated.	N/A, project using internal Defence resources
JP2080 2B PMKeys Upgrade (Chief Information Officer Group Component)	7	Scope increases required to complete major project capability documentation.	N/A, project using internal Defence resources
Network Availability Monitor	8	Differences in expectations between Defence and the contractor on the requirements of a fixed price contract.	N/A, project using internal Defence resources
Netapp Filer Implementation and Rationalisation	7	Scope increases to cover additional requirements not evident at project initiation.	N/A, project using internal Defence resources
Russell R8 Remediation	5	Acquisition and integration of major components taking longer than planned.	N/A, project using internal Defence resources
Open Systems Consolidation Project	8	Dependencies on other projects which themselves were delayed, plus resource delays and approval delays.	N/A, project using internal Defence resources
CADETNET Online Administration (COAS)	17	Changes in scope and the need to customise the resultant solution.	N/A, project using internal Defence resources
Internet-Intranet Search Engine Procurement	10	Dependencies on other projects and other areas in Defence.	N/A, project using internal Defence resources
Optus Connectivity to HMAS Stirling WA	3	Delay due to dispute between Defence and third party regarding access to site.	Yes. Payment withheld pending resolution of issues
Optus Connectivity to Campbell Barracks WA	3	Dependency on another project associated with dispute between Defence and third party regarding access to site.	Yes. Payment withheld pending resolution of issues
Wide Area Network Node (Passport) Installation at Australia House - London	6	Late installation of carrier service between Canberra and London.	N/A, project using internal Defence resources
Extend Server Room -Building -Swanbourne	1	Postponement of server relocation due to operational requirements.	N/A, project using internal Defence resources
Project PARARE	2	One of the Project Milestones missed.	N/A, project using internal Defence resources

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**QUESTION W14**

**Senator Bishop**

**Sale of Jezzine Barracks and Kissing Point**

- a) Does the Minister for Defence stand by Peter Lindsay's assertions in parliament on 11 August this year that 'there is no proposed sell-off of Jezzine Barracks or Kissing Point – none'?
- (i) Does he also agree with the following Lindsay statement in a parliamentary speech of 15 February: 'I say to the people of Townsville: Jezzine Barracks is currently not for sale'?
- b) How does the government respond to the report in the Townsville Bulletin of 5 February, which claims that 'developers were spotted eyeing off the site'
- (i) Peter Lindsay made comments in the same article that 'Whether it's a five-star hotel, units, housing estates, a business complex or whatever... the benefits to Townsville will be enormous'. Is this the range of options that the Government has in mind for the land and how is it congruent with Mr Lindsay's recent statements in Parliament?
- c) Have any representatives of the local tourism industry or business community been invited to Defence's 'consultative group' meetings?
- (i) Is it true that two concerned local residents were excluded from the meeting of the group at Jezzine Barracks; why are meetings not open to the general public?
- (ii) Are there any public forums planned to discuss the issue, outline the Defence's plans or seek feedback from individual residents?
- d) A Townsville land developer has been quoted as saying that because the land was listed as a 'Commonwealth reserve', its valuation would depend on how it is zoned and what development was allowed in these zones.
- (i) Is the area of Kissing Point listed as Commonwealth reserve and
- (ii) what development could potentially be allowed at Kissing Point?
- (iii) Would the Government allow development in the area of the 1891-vintage fortress? Or would it go the way of the WWII-vintage drill hall, which Peter Lindsay claims 'is well beyond its useful life' and 'should be demolished today'?
- (iv) Is it true that the barracks museum may have to be moved for the sale to go ahead, as a spokesman for the former Defence Minister said in February 2005?

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- (v) Would the Government consider damage to the view from Kissing Point by construction on Jezzine Barracks land as detrimental to its environmental attributes and how would it respond to the community members who do?

**RESPONSE**

- a) With the relocation of 11 Brigade to Lavarack Barracks scheduled for early 2007, the Parliamentary Secretary to the Minister for Defence, the Hon Teresa Gambaro MP, directed Defence to undertake a Future Options Study for the Jezzine Barracks, including the Kissing Point site, taking into account heritage, cultural, military, environmental, town planning, indigenous and community issues.

The Future Options Study includes extensive heritage and environmental investigations as well as an extensive community consultation program. Based on the outcome of these investigations, a number of options for the future use and management of the site have been developed.

The draft options were presented to the Jezzine Barracks Consultative Forum on 17 November 2005. The options were on public display for comment at shopping centres and markets from 25 to 27 November 2005 and at the Townsville City Council foyer and three libraries from 24 November to 15 December 2005.

The Future Options Study will be completed by the end of December 2005 and put to the Federal Government for consideration in 2006.

- (i) No decisions regarding the future of the site have been made at this time. The Government will consider the Future Options Study report in early 2006.
- b) Defence has not held discussions with any developers.
- (i) The draft options developed for the Future Options Study range from community use only through to some development.
- c) The Townsville Chamber of Commerce and Townsville Enterprise are both represented on the Jezzine Barracks Consultative Forum.
- (i) The Jezzine Barracks Consultative Forum comprises key Townsville leaders and senior Defence personnel representing the views of a wide cross section of the community. Its purpose is to provide advice regarding what should be considered in developing future options for the site. The Forum comprises representatives from local, State and Federal Governments, Defence, the Queensland Heritage Council, the National Trust of Queensland, the Environmental Protection Agency, the Townsville Chamber of Commerce, Townsville Enterprise, Townsville RSL, the North Australian Military Heritage Association, North Queensland Military Museum, and indigenous groups – the Bindal and Wulgurukaba. Two members of the public arrived to attend the first meeting of the Forum and were advised that the meeting was not open to the public. The Consultative Forum is not designed for public involvement but there is an appropriate opportunity for public comment as detailed below.

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- (ii) An extensive consultation process is being conducted as part of the Future Options Study. The Defence Project Team has met with a wide variety of stakeholders. Focus groups have been conducted on heritage and indigenous issues. Input into the Study has been sought from the Townsville community through a telephone hotline (1300 739 959), by email and by letter. Staffed public displays of the various options were held from 25 to 27 November 2005 at four shopping centres and markets for community members to comment on the draft options. Static displays were shown from 24 November to 15 December 2005 at the Townsville City Council foyer and three libraries.
- d) (i) The Jezzine Barracks site is zoned Defence 'Special Purpose'.
- (ii) and (iii) Kissing Point is recognised as a place of Commonwealth heritage value and is listed on the Commonwealth Heritage List. Defence has an obligation to protect and conserve the site's heritage values under the *Environment Protection and Biodiversity Conservation Act 1999*. Kissing Point will be protected under a Conservation Management Strategy and development is not being considered.
- (iv) As part of the Future Options Study, Defence proposes to relocate the Army History Unit's military museum to other buildings on site to provide additional display and storage space. Defence proposes to retain the buildings and land in question.
- (v) Defence has an obligation under the Environment Protection and Biodiversity Conservation Act 1999 to protect the site's heritage and environmental values. The draft options take into consideration community comments regarding future use of the site, as well as the findings of detailed heritage, environmental, town planning and indigenous investigations.

**QUESTION W15**  
**Senator Fielding**  
**Airline costs**

- a) How much money has the portfolio spent on domestic airfares for each of the last three financial years?
- b) How much money has the portfolio spent on overseas airfares for each of the last three financial years?
- c) How much money has the portfolio spent on economy class domestic airfares for each of the last three financial years?
- d) How much money has the portfolio spent on business class domestic airfares for each of the last three financial years?
- e) How much has the portfolio spent on first class domestic airfares for each of the last three financial years?

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- f) What would be the estimated financial year dollar saving if all public servants in the portfolio travelled economy class for flights of less than one and a half hours duration?

**RESPONSE**

- a) For each of the past three financial years, Defence has spent the following on domestic airfares:

<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
\$104,635,810	\$110,148,612	\$94,550,024

- b) For each of the past three financial years, Defence has spent the following on overseas airfares:

<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
\$39,722,657	\$47,495,094	\$54,066,822

- c) For each of the past three financial years, Defence has spent the following on economy class domestic airfares:

<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
\$100,863,389	\$105,696,254	\$90,952,378

- d) For each of the past three financial years, Defence has spent the following on business class domestic airfares:

<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
\$3,772,422	\$4,452,358	\$3,597,647

- e) Nil.

- f) The possible financial savings if all Defence members travelled economy class for flights less than one and a half hours is estimated at \$350,000 per year, noting that Australian Workplace Agreements for all Defence Senior Executive Service officers specify that all Canberra/Sydney flights are to be taken in economy class.

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**QUESTION W16**

**Senator Bishop**

**Legal Services Division**

- a) Can you confirm the following legal costs have been incurred on the following cases:
  - (i) \$444,000 on Commander McKenzie
  - (ii) \$101,000 fighting Lt Commander Fahy
  - (iii) \$300,000 in prospect against Susan Campbell
  - (iv) \$160,000 against Criss
- b) With respect to the answer given at budget estimates on the costs of the Criss case, what was the final cost of providing legal advice and assistance, and to whom was it paid.
- c) Was AVM Criss obliged to sign a confidentiality agreement?
- d) Is this a practice applying to all defective administration claims?
- e) By what other means are settlements made other than by defective administration, out of the compensation and legal vote?
- f) What has been the total cost of payments made from that vote in each of the last 3 years and how many people were involved?
- g) (i) How many common law applications seeking damages or any other form of redress are currently being handled by the Division? (ii) Of those, how many are contracted to private firms and (iii) which firms?
- h) How many claims for redress outside the courts are being dealt with at present eg HREOC?
- i) (i) What are the processes by which compensation is offered in HREOC cases; (ii) who has the authority to make offers and (iii) who has the authority to withdraw?
- j) Was an offer ever made to Ms Susan Campbell?
- k) Was an offer of \$15,000 made to Lt Commander Fahy and withdrawn – and if so, on what grounds?
- l) How many other such offers have been made to settle grievances in the last year?
- m) What is the practice of offering a "Calderbank" letter – is it a practice whereby defence offer settlement on the basis of a complaint being withdrawn?

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- n) What is the policy towards HREOC applications – it seems to be that there is a willingness to settle for a modest sum, but only on the basis of a Calderbank letter?
- o) In the last two years, how many Calderbank letters have been offered and signed?
- p) (i) How many cases remain unsettled or unresolved from Voyager/Melbourne claim and  
(ii) what is the budget estimate for legal costs?
- q) (i) How many claims have been received from F-111 people and  
(ii) To date, how many have been settled?
- r) Will the Government be waiving its rights under the statute of limitations in the F-111 matter which is about to expire; if not, why not.
- s) Can it be confirmed that Philips Fox are handling the claim and grievance by Ms Kelly Wiggins on a matter of sexual assault which has been on foot since 2001?
- t) To what extent do Philips Fox seek instructions on such cases – for example the belligerent behaviour and attitude of Philips Fox towards Ms Wiggins.
- u) Was Ms Wiggins offered a Calderbank letter on 6 September 2004, 3 years after she lodged her application with HREOC?
- v) Did HREOC find in favour of Ms Wiggins, and did Defence refuse to mediate; if so, why?
- w) Can it be confirmed for example that Ms Wiggins now has an action in the federal magistrates Court seeking damages and investigation of the harassment against her?
  - (i) Is Philips Fox, acting for Defence in that matter; (ii) did they seek to cancel a mediation conference set down for 19 October last and (iii) If so, on what grounds?
- x) (i) What investigations were conducted into Ms Wiggins' complaint; (ii) when was an investigation conducted and (iii) who conducted the investigation?

**RESPONSE**

- a) As at 28 November 2005, the following amounts have been paid for matters concerning:
  - (i) Commander McKenzie: \$384,844 (a further \$60,000 was paid in relation to the Western Australia's Medical Board's inquiry costs);
  - (ii) Lieutenant Commander Fahy: \$93,867;
  - (iii) Ms Susan Campbell: \$193,090; and

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- (iv) AVM Criss: \$162,314. This includes payments to Phillips Fox for legal advice, counsel fees and fees for expert advice and also included work done by a seconded AGS officer working on the matter within Defence Legal. This amount does not include costs incurred by Defence for an independent review by Mr Bill Blick, nor the cost of legal assistance provided to AVM Criss.
- b) see answer to question a) (iv).
- c) No.
- d) No.
- e) Defective Administration settlements paid under the Compensation for Detriment from Defective Administration scheme are not paid from the compensation and legal vote. However, settlements of legal claims against the Commonwealth, which are determined in accordance with the Legal Services Directions issued by the Attorney-General, are paid from the compensation and legal vote.
- f) It is not in the Commonwealth's best interests to disclose such a breakdown of settlement figures. The information may provide both current and potential future litigants with an expectation as to the quantum of claims payable, regardless of the merits of individual cases.
- g) These figures are not readily available and Defence is not able to devote the considerable time and resources required to provide a response.
- h) Defence cannot provide a global figure in response to this request. The scope of what could constitute a claim for redress is difficult to identify and could include such things as a letter of demand received by the Commonwealth. As at 29 November 2005, Defence was responding to five complaints made to HREOC.
- i) (i) Claims are assessed in accordance with legal principle and practice. The Director of the Complaint Resolution Agency (DCRA) is a delegate of the Secretary for the purposes of settling claims against the Commonwealth. Where an offer to settle claims in HREOC exceeds \$10,000, DCRA must refer the matter to a legal panel adviser for advice that settlement of it would be in accordance with legal principle and practice.
- (ii) There are a number of delegates of the Secretary under the *Financial Management and Accountability Act 1997* for the purposes of settling claims against the Commonwealth. In practice, the Director of the Complaint Resolution Agency exercises this delegation within Defence for the purposes of HREOC matters.
- (iii) Offers are not 'withdrawn'. When an offer is made by DCRA, it remains available for a specified period after which the offer lapses if not taken up by the complainant.

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- j) Ms Campbell and the Commonwealth have various proceedings on foot, some of which have involved confidential meetings, as such it would be inappropriate to respond to the question.
- k) All parties to a HREOC conciliation conference agree to confidentiality provisions prior to commencement of the conference. It is not appropriate for any party to disclose the content of discussions occurring within the conciliation conference.
- l) Assuming this question relates only to HREOC matters, Defence attended ten HREOC conciliation conferences in the past year (1 December 2004 – 30 November 2005). In a number of these matters, Defence made settlement offers which included financial compensation but for the reasons identified in part k), it would be inappropriate to provide details.
- m) A ‘Calderbank’ offer is a common law based form of ‘without prejudice’ offer to settle a claim on the terms contained in the offer, rejection of which can leave the rejecting party at risk of having to pay the offeror’s party and party costs if a higher figure is not awarded by the Court.
- n) There is no particular policy concerning Calderbank offers. Each case is considered on its merits.
- o) In relation to HREOC cases it would be inappropriate to identify precise details. Defence does not have a central record listing Calderbank offers. More generally, to determine the exact number Defence would have to manually check each case file. Defence is not able to devote the considerable time and resources that would be required to undertake such a task.
- p)
  - (i) 122 Voyager/Melbourne claims are before various Supreme Courts as at 1 December 2005.
  - (ii) No specific budget has been set for these claims.
- q)
  - (i) 23.
  - (ii) Two claims to which Defence was a party have been settled by another defendant.
- r) No decision has been taken.
- s) Phillips Fox is representing Defence in relation to a sexual harassment claim by Ms Wiggins.
- t) Panel law firms, including Phillips Fox, act on specific instructions as to the conduct of each case. There is no basis for the claim that Phillips Fox has acted inappropriately in the case of Ms Wiggins.
- u) Ms Wiggins is presently proceeding in the Federal Magistrates Court in connection with her allegations of harassment, which the Commonwealth is defending and it is

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therefore not appropriate at this time to comment on whether such a letter was offered to her previously.

- v) HREOC does not make findings in relation to alleged breaches of the *Sex Discrimination Act 1984* as this is a matter to be determined, if necessary, by the courts. Defence did not refuse to mediate.
- w) Ms Wiggins is presently proceeding in the Federal Magistrates Court in connection with her allegations of harassment, which the Commonwealth is defending.
  - (i) Yes.
  - (ii) No.
  - (iii) Not applicable.
- x) Personnel at HMAS Creswell and ADFA have checked their records with regard to an incident which occurred at HMAS Creswell in 1996. An incident was investigated and an investigation report concluded. Adverse administrative action was taken against the respondent. For reasons of privacy, it is not appropriate to disclose the name of the investigating officer.

**QUESTION W17**

**Senator Bishop**

**Legal Service Directions**

- a) In how many different forms in the Department of Defence are the provisions of Appendix E of the Attorney General's Department Legal Direction Guidelines for "Assistance to Commonwealth Employees for Legal proceedings" incorporated—and in each case (i) what departures from those Directions have been made in the detail of the provisions, (ii) what was the reason for each variation, (iii) when was each document last (1) reviewed and (2) revised, and (iv) in how many cases was approval of the Attorney General's Department sought.
- b) When was the Health Policy Directive # 904 of 31 October 1991 issued by the Surgeon General last reviewed. Has Directive # 904 ever been submitted to the Attorney General's Department with respect to its contents and any changes made since its original issue; if not, why not.
- c) (i) How many applications have been made in each of the last five years from Defence and ADF personnel for assistance under the Legal Service Directions for "Assistance to Commonwealth Employees for Legal Proceedings" in whatever form they may exist within Defence directions, and (ii) how many have been approved.
- d) For each application approved, (i) who was the applicant, (ii) who approved each application, (iii) which were (1) criminal or (2) civil in nature, (iv) before what tribunal was the matter heard, (v) what was the nature of the action being defended or prosecuted, (vi) and what final amount spent on each case for (1) representation and (2) penalties and damages.

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- e) (i) In how many instances in the last five years, what approvals for assistance referred to in (c) above have been given to personnel who had given an indemnity to the Commonwealth or who were insured, as referred to in Finance Direction 21, (ii) who were those personnel, (iii) for what reason was payment made regardless of the indemnity or insurance, and (iv) in which cases were repayments sought.
- f) For what reason does Directive # 904 referred to in (b) above, at paragraph 8 state that "from a practical point of view, it is considered most unlikely that a member of the ADF Health Services would be made personally responsible for meeting any judgement given in respect of negligent acts occurring in the course of their employment", in direct contradiction of the Legal Service Guidelines, Finance Directions, and indeed the preceding sentence of paragraph 8 viz: " ADF Health services personnel do not have a specific statutory right to be indemnified by the Commonwealth for acts of negligence in the course of a member's duties...".
- g) In how many instances in the last five years has the Attorney General's Department investigated breaches of the Legal Service Directions by the Department of Defence.

**RESPONSE**

- a) Appendix E of the Attorney-General's Legal Services Direction applies to Defence, since Defence is an agency under the *Financial Management and Accountability Act 1997*. Defence has developed a standard form to enable Defence personnel to apply for such assistance. Defence also has a Defence Instruction (General), issued in 1996 by the then Secretary and CDF in exercise of their powers for administration of the Defence Force under Section 9A of *The Defence Act 1903*. This instruction provides for legal assistance to ADF members and is in recognition of their unique circumstances. The assistance provided is generally of a preliminary nature or directed to the special requirements of the ADF (for example preparation of wills). The assistance provided is additional to, not replacing, any coverage under Appendix E of the Legal Services Directions.
- b) Defence Health Services records show that Health Policy Directive 904 was last amended on 19 February 1992 and reviewed on 19 September 2000. At the time of its drafting, Defence records show that advice was sought from the Department of Finance and Administration with regard to content, and the document was circulated to other areas within Defence, including the Directorate of Navy Legal Service and the Directorate of Army Legal Service. Defence does not have records of the directive being submitted to the Attorney-General's Department, or whether this was considered.
- c) (i) Defence has recently developed its record of applications for assistance. 65 applications have been recorded on that register for the period 25 January 2000 to 31 October 2005 although Defence believes that other applications may exist in individual case files. A precise response could only be determined through a search of all individual case files raised over the last five years. Defence is not able to devote the considerable time and resources that would be required to undertake such a search.

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- (ii) Assistance was approved in 42 cases. Many of the approvals were made pending further development in the case, which did not occur.
- d) (i) For privacy reasons the specific details of the applicant cannot be provided.
- (ii) Director Litigation approved all applications.
- (iii) Four matters were criminal matters, 31 related to civil matters and seven related to Coronial inquests.
- (iv) While applications for legal assistance may be approved, a number of matters are resolved without litigation. Of those matters heard, the Courts and Tribunals included:
- High Court;
  - Supreme Court;
  - Coroners Court;
  - Federal Magistrates Court;
  - Magistrates Court New South Wales;
  - Local Court New South Wales;
  - Human Rights and Equal Opportunity Commission;
  - Administrative Appeals Tribunal;
  - Anti –Discrimination Commission Tasmania; and
  - Western Australian Medical Board.
- (v) The nature of the actions that proceeded to Tribunal/Court are coronial hearings, constitutional challenge, claims for sexual harassment, industrial relations, negligent driving causing death, offences against water traffic regulations, defamation and criminal compensation.
- (vi) These figures are not readily available and Defence is not able to devote the considerable time and resources required to provide a response.
- e) Finance Direction 21 ceased to be in force in 1998.
- f) These words are quoted in filed correspondence by the then Director Defence Force Clinical Medical Policy, on 17 September 1990, as having been received in advice from the Office of the Assistant Secretary Legal, Royal Australian Navy.
- g) Advice to Defence from the Office of Legal Services Coordination, Attorney-General's Department, is that there have been nine investigations into alleged breaches over the past five years. Two of these were found to be breaches. One of these cases is currently under investigation.

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**QUESTION W18**

**Senator Bishop**

**Commander McKenzie**

- a) On what date did Commander McKenzie lodge an application for assistance in the inquiry into his medical practice at HMAS Stirling, as investigated by the Medical Board of WA which reported in July 2004.
- b) Did Commander McKenzie have indemnity insurance as referred to in paragraph 11 of Directive # 904, and was that known at the time of his application; if not, when did that become known and what action was taken to reconsider the application for assistance.
- c) (i) Who approved the application, (ii) what was the original estimated sum budgeted for, (iii) how many times was that sum reviewed as the inquiry progressed, and (iv) who approved each increased allocation.
- d) Was a separate application made for payment of the Board's legal costs levied on Commander McKenzie by the Board; if so when, and who approved the decision to pay 80% of those costs as testified in Senate Estimates in June 2005.
- e) Was any application made by Commander McKenzie for his \$10,000 fine to be paid as well, and if so, what was the decision and the reasons for it.
- f) At any stage in the consideration of assistance to Commander McKenzie, was the Office of Legal Services Coordination consulted with respect to compliance with the Legal Services Directions; if not why not.
- g) In the event that no assistance for payment of the fine was given, can it be inferred that the Department accepts the findings of the Board.
- h) In the event that Commander McKenzie did have indemnity insurance as recommended in paragraph 11 of Directive #904, on what grounds was the decision made to pay his total legal costs including those imposed by the Board, particularly in light of the specific provisions of the General Legal Directions and Finance Directions.
- i) What was the justification used to pay only 80% of the Board's legal costs imposed by the Medical Board of WA, rather than 100%, and does this imply some assessment of personal culpability on his part in view of the findings of gross misconduct against him.
- j) Was an appeal considered against the findings of the Board, and if such a proposal did not proceed, what were the reasons.
- k) Given the findings of the Medical Board of WA against Commander McKenzie, can it be confirmed that Commander McKenzie has been assessed as having continued suitability for promotion.

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- l) In light of the findings of the Board and the consideration given to his suspension from medical practice, what counselling or disciplinary measures have been conducted.
- m) With respect to Dr McKenzie's selection for deployment on the *HMAS Kanimbla* during the period prior to the Medical Board of WA inquiry, (i) what was the process of selection with respect to advertising, (ii) the number of applicants, (iii) the selection process, (iv) who approved the posting, and (v) how many candidates were considered and interviewed.

**RESPONSE**

- a) 5 February 2002.
- b) Yes, but not insurance that responded to the proceedings.
- c) (i) Director of Litigation, Defence Legal Division.  
(ii) No estimate was made.  
(iii) The costs of the proceedings were monitored throughout the case to assess that they were reasonable in terms of the services provided.  
(iv) The assistance was not subject to an allocation.
- d) Yes, an application was approved on 22 October 2004 by the Director of Litigation, Defence Legal Division.
- e) No.
- f) Yes, on several occasions.
- g) Defence has acted on the basis of the findings and the penalty imposed by the Board.
- h) Commander McKenzie's insurance did not respond to the matter. The provision of assistance at Commonwealth expense, where a claimant holds insurance in a private capacity, was considered appropriate within the terms of Appendix E of the Attorney General's Legal Services Directions. Discussion of that interpretation with the Office of Legal Services Coordination, Attorney General's Department in October 2004 confirmed this.
- i) The decision of the delegate was that "it is appropriate to approve only part payment of the party and party costs and to apply a discount referable to the Board's findings in respect to the letter. I consider that the Commonwealth's assistance should be discounted by 20 per cent reflecting the seriousness of the event and the fact that its effect is now the subject of further cost to the Commonwealth in the Human Rights and Equal Opportunity Commission proceedings".

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- j) Commander McKenzie wrote to the Chief of Navy on 5 December 2004 requesting Commonwealth-funded assistance to appeal the judgment. Commander McKenzie was asked to provide further legal justification to mount an appeal before the Chief of Navy made any recommendation to the delegate to expend Commonwealth funds (noting that the Chief of Navy does not hold the appropriate delegation). Commander McKenzie indicated that he would be obtaining the advice of counsel, but has yet to provide the requested information to the Chief of Navy. Accordingly, the Navy has not put forward a recommendation or otherwise in respect of an appeal. Hence, neither further consideration nor a decision has been made in relation to an appeal against the findings of the Western Australian Medical Board.
- k) Refer to House of Representatives Notice Paper Question 394, dated 11 May 2005.
- l) No disciplinary action was taken but Commander McKenzie was counselled.
- m) (i) The position was advertised on the Navy Reserve Medical Officer database, and the Fleet Medical Officer emailed prospective candidates and telephoned both permanent Navy and Reserve Medical Officers to ascertain their availability.
- (ii) Of all prospective candidates, Commander McKenzie was the only Medical Officer who declared his availability for the deployment.
- (iii) The Fleet Medical Officer advised the Director of Naval Officers' Postings to post Commander McKenzie for the period 26 January to 5 August 2003. The Fleet Medical Officer made this recommendation cognisant that Commander McKenzie was a registered and qualified medical practitioner with the relevant skills and experience for the deployment, and that he was the only volunteer for the deployment.
- (iv) The Director of Naval Officers' Postings.
- (v) The number of Medical Officers that the then Fleet Medical Officer considered for the deployment is not known. Interviews would not have been conducted, as Commander McKenzie was the only Medical Officer available to deploy.

## **People**

### **Defence Personnel**

#### **QUESTION 5**

#### **Senator Bishop**

#### **Redress of Grievance**

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What is the number of cases currently in the backlog of redress of grievances?

#### **RESPONSE**

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As at 3 November 2005, 12 cases had been at Complaint Resolution Agency for more than 12 months. Of these, three were with the delegate for a decision, four were under investigation, and five were suspended due to action being taken outside the Agency that will impact on the decision to be made on the complaint.

**QUESTION W19**

**Senator Bishop**

**ADF Recruitment and Retention**

- a) The 2005/06 ASPI report *Your Defence Dollar* noted that "in the last five years \$500 million has been directed towards improved conditions for military personnel".
  - (i) What money was expended in each of the last five budget periods and (ii) what programs were funded in each budget period?
- b) What recruitment is conducted in house, and what by contractors, who are the contractors and what is the annual bill for each; (i) what are the payment schedules and timeframes of the contracts?
- c) Which companies/consultants are engaged in the recruitment of active service personnel and which are contracted to recruit reserves; (i) what are the payment schedules and timeframes of the contracts?
- d) What is the monetary value and period of all recruitment contracts?
- e) What evaluation has been conducted on the number of recruitments by contractors and (i) is any assessment made on retention rates of those recruited by contractors?
- f) (i) What is intended or underway with respect to overseas recruitment in Europe and the Pacific, (ii) who is conducting those campaigns, (iii) at what cost, and (iv) with what results so far?
- g) (i) What was the cost of producing the recruitment computer war game announced by the minister, (ii) who produced it, (iii) how and where is it distributed, and (iv) what evaluation has been done on its success?
- h) Retention bonuses have been offered before, and have just been legislated out of the Act because they have some unfair downside effects. How does the current proposal to offer such bonuses compare with the old scheme?

**RESPONSE**

- a) (i) and (ii) See *Defence Annual Report 2004-05*, page 113.
- b) - d) Australian Defence Force ab initio recruitment for full-time and part-time (Reservists) recruits is conducted by uniformed ADF members and Defence Australian Public Servants in conjunction with a recruitment agency. Defence has entered into an exclusive four-year contract with Manpower Services (Australia) Pty Ltd from 1 July 2003 until 30 June 2007. The contract comprises a fixed fee of approximately

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\$6m per annum and a variable amount paid per recruit (dependent upon the category of entry).

- e) The contract specifies the requirement for a full evaluation of the contract commencing 1 July 2006, with a report being provided to Defence in the last quarter of 2006.
  - (i) The single Service training establishments provide data on failures during initial training. This data is provided to the field recruiting staff providing an insight into areas that require closer attention during the recruiting selection process.
- f) Refer to Senate Notice Paper Question 1138, dated 8 November 2005
- g)
  - (i) The cost of producing the recruitment computer war game announced by the Minister was approximately \$70,000.
  - (ii) Visual Jazz.
  - (iii) The game is solely distributed online at the Defence Force Recruiting website where users download the game for free.
  - (iv) Over 4,200 individual users have registered and downloaded the game online with 188 users applying for entry to the ADF online.
- h) The *Military Superannuation and Benefits Act 1991* Retention Bonus was targeted at personnel with 15 years service who had reached the rank of Sergeant (equivalent) or Major (equivalent). It provides an amount equal to a member's annual salary, plus service allowance, as an incentive to continue to serve in the Permanent Forces until a member completes 20 years of continuous eligible service.

The ADF Review of Remuneration (the Nunn Review) recommended that the retention benefit be discontinued as it was insufficiently targeted and did little to assist in reductions in separations at critical points of service.

While the *Military Superannuation and Benefits Act 1991* was amended on 6 October 2005 to cease the benefit, a grandfathering clause was included to preserve the benefit for ADF members serving prior to that date. The type and nature of the retention benefit remains identical to that offered prior to the amendment. Only members who join the ADF, and thereby the Military Superannuation Benefits Scheme, after the date of legislative change will not be entitled to the retention benefit.

A range of other retention benefits are offered in the ADF, under Section 58B of the *Defence Act 1901*, to retain personnel in branches or categories that are experiencing critical shortage and/or high separation rates. Retention benefits target specific exit points and employment groups. For example, the Navy-Electronics Technical (junior sailor) bonus provides a completion bonus scheme for junior sailors in the Electronics Technical employment category in the Navy. Annual bonuses are designed to encourage sailors to remain in this category and to undertake further training.

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**QUESTION W20**

**Senator Bishop**  
**Training**

- a) Could Defence provide an update on the trade skills shortages matrix discussed at Budget estimates?
- b) What resources have been allocated to the development of programs to increase training in 21 identified skill shortages categories?
- c) Who runs the 'Skilling Australia Defence Industry program, (i) what does it cost, (ii) over what timeframe will it run, (iii) what have been the successes to date and (iv) what evaluations of the program have been done?
- d) Have investigations into the payment of HECS or other education fees to encourage recruitment in specialist areas progressed to a costed program. (i) If so, what is the estimated cost of the program for a five year period, (ii) how many places will be available, (iii) what recognised skill shortage areas will be targeted under this program (iv) will places only be available to new recruits or will it also apply to current members of the Defence Forces? (v) If no progress has been made, why not?

**RESPONSE**

- a) The ADF formally updates its risk assessment of workforce groups annually, with the most recent update being undertaken in April 2005. The list discussed at Budget estimates remains extant.
- b) Existing resources have been redirected to increase throughput of training in the 21 employment categories. This has resulted in the refinement and redevelopment of the existing training programs to address the category issues.
- c) The Skilling Australia's Defence Industry Program is run by the Industry Division of the Defence Materiel Organisation.
  - (i) The Government has committed 0.5 per cent of the capital equipment budget equating to around \$215 million over the next ten years, or over \$21 million per year on average, to the Skilling Australia's Defence Industry Program.
  - (ii) The program commenced on 1 July 2005 and will run for ten years.
  - (iii) As at 15 November 2005, formal agreements had been signed with Austal and ADI. These agreements cover not only the training of additional apprentices, technicians and professionals, but also provide formal and on-the-job supervisor, leadership and management skills training.

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- (iv) The first round of company performance evaluation is scheduled for completion by February 2006.
- d) No. The payment of HECS as a recruiting incentive is currently provided through the undergraduate sponsorship scheme only. ADF undergraduates are paid up to \$30,100 p.a. to study for their degree and are guaranteed a career in the ADF upon graduation. The wider options to pay HECS and other education fees to attract other new recruits to the ADF is under consideration within the ADF Recruiting Strategic Plan 2005-10.

**QUESTION W21**

**Senator Bishop**

**Remote Locality Allowances**

- a) What was the schedule of payments for the air-conditioning allowance paid to Defence force personnel and (i) how was this allowance paid to ADF personnel?
- b) What locations were eligible for the air-conditioning allowance?
- c) Why was the air-conditioning allowance discontinued?
- d) Was the ADF required to pay FBT on the payment of an air-conditioning allowance to service personnel?
- e) What is the net increase in Remote Locality Location payments for those personnel who previously received the air-conditioning allowance?
- f) Is the Remote Locality Location Allowance classified as a non-taxable item? If not, why not?
- g) What effect has this allowance had on ADF families' benefits such as Family Tax Benefits, all other allowances, due to means testing? Have some families in fact suffered a net loss of family income?

**RESPONSE**

- a) Air-conditioning allowance was paid to ADF members who lived in service residences or were in receipt of rent allowance in a small number of remote locations. The entitled amount depended upon the number of refrigerative air-conditioners installed in the residence and the period of entitlement, which varied depending on the harshness of the climate.
- The proportions of electricity accounts for which members were entitled to claim reimbursement varied as follows:
    - homes with one room air-conditioner installed – 50 per cent of the total charge,
    - homes with two room air-conditioners installed – 65 per cent of the total charge,
    - homes with ducted air-conditioning system or three or more room air-conditioners – 70 per cent of the total charge,

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- if the air-conditioner was separately metered then members were entitled to 85 per cent of the total charge.
  - Darwin has historically not been entitled to air-conditioning allowance as one of the Department of Employment and Workplace Relations approved locations. In December 2002, Defence extended the allowance to Darwin on a trial basis, pending a review of remote locality conditions of service, as a specific retention initiative.
    - i) The allowance was paid as a reimbursement of expenditure upon presentation of an acceptable electricity account.
- b) The locations and associated periods during which air-conditioning allowance could be claimed were:

**Northern Territory**

Darwin	September to May
Katherine	September to May
Nhulunbuy	September to June (Note 1)

**Queensland**

Thursday Island (including Horn Island)	November to March
Weipa (including RAAF Scherger)	October to March

**Western Australia**

Broome	September to April
Carnarvon	January to February
Derby	August to May
Exmouth (including Learmonth)	October to March
Karratha (including Dampier)	September to April
Kununurra	August to May
Newman	November to March
Port Hedland (including South Hedland)	October to April
Tom Price	October to March

Note 1. Reimbursement of costs for members in Nhulunbuy was based on the number of units of electricity used up to a maximum of 1,120 units per month.

- c) The remote locality conditions of service for the ADF underwent review in 2004-2005. As part of this review, air-conditioning allowance was discontinued as it was a complex and cumbersome allowance for a number of reasons including:
- the absence of any financial cap on the reimbursable amount discouraged energy conservation;
  - the inability of homeowners to claim air-conditioning allowance under the old provisions was a constant source of complaint;
  - due to power grid restrictions, members living on RAAF Base Darwin were unable to operate air-conditioners and were therefore ineligible to claim air-conditioning allowance; and

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- it involved high administrative overheads.

Air-conditioning allowance was subsumed into the new rates of 'ADF district allowance' based on the grossed up value of the average of amounts claimed. In all cases, the resultant amounts of ADF district allowance were further increased. For example the rate for Darwin was increased by \$2,190 per annum for a member with dependants. For Karratha the amount was increased by \$6,660 for a member with dependants.

- d) Defence was required to pay the full Fringe Benefits Tax amount on air-conditioning allowance paid to members serving in Darwin as it is defined as non-remote for the purposes of paragraph 140(1) (b) of the *Fringe Benefits Tax Assessment Act 1986*. Defence was liable to pay Fringe Benefits Tax on only 50 per cent of the value of air-conditioning allowance paid to members serving in all of the other entitled locations as they are considered by the Australian Taxation Office to be remote.
- e) As the net increase would depend upon the amount of air-conditioning allowance previously claimed, the income tax liability, level of entitlement (if any) to other Government financial assistance and liability (if any) to Child Support Payments of individual members, this question cannot be answered.
- f) ADF district allowance is subject to income tax. The allowance is ordinary income and is assessable under Section 6-5(2) of the *Income Tax Assessment Act, 1997*.
- g) Under Family Assistance Office legislation, district allowance is considered to be assessable income. Therefore, any increases in the rates of the allowance have the potential to result in reductions in Family Tax Benefit Part A entitlements. Under Child Support Agency legislation increases in district allowance may result in increased obligations to Child Support Payments, in a similar way to a salary increase. Only in the extreme cases of high-end air-conditioning users on upper marginal tax rates is it likely that the new package would deliver an overall reduced entitlement. To date, no examples of this having occurred have been forthcoming.

Air-conditioning allowance was a reportable fringe benefit in Darwin and as such would also have had an impact on Family Tax Benefits.