



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,  
DEFENCE AND TRADE DEFENCE SUBCOMMITTEE

DEFENCE SUBCOMMITTEE

**Reference: Department of Defence annual report 2007-08**

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**JOINT STANDING COMMITTEE  
ON FOREIGN AFFAIRS, DEFENCE AND TRADE**

**Defence Subcommittee**

**Friday, 19 June 2009**

**Members:** Senator Forshaw (*Chair*), Mr Hawker (*Deputy Chair*), Senators Mark Bishop, Ferguson, Fifield, Furner, Hanson-Young, Johnston, Ludlam, Moore, O'Brien, Payne and Trood and Mr Baldwin, Mr Bevis, Ms Julie Bishop, Mr Danby, Ms Annette Ellis, Mr Fitzgibbon, Mr Gibbons, Ms Grierson, Mr Hale, Mr Ian Macfarlane, Mrs Markus, Mr Murphy, Mr Oakeshott, Ms Parke, Ms Rea, Mr Ripoll, Mr Robert, Mr Ruddock, Ms Saffin, Mr Bruce Scott and Ms Vamvakinou

**Defence Subcommittee members:** Mr Bevis (*Chair*), Mr Baldwin (*Deputy Chair*), Senators Mark Bishop, Ferguson, Fifield, Forshaw (*ex officio*), Furner, Johnston, Ludlam, O'Brien, Payne and Trood and Mr Danby, Mr Fitzgibbon, Mr Gibbons, Ms Grierson, Mr Hale, Mr Hawker (*ex officio*), Mr Ian Macfarlane, Mrs Markus, Mr Oakeshott, Mr Robert, Ms Saffin and Mr Bruce Scott

**Members in attendance:** Senator Forshaw and Mr Baldwin, Mr Bevis, Ms Saffin and Mr Bruce Scott

**Terms of reference for the inquiry:**

To inquire into and report on:

Department of Defence annual report 2007-08

**WITNESSES**

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**WARNER, Mr Nick, Secretary, Department of Defence ..... 2**



**Subcommittee met at 9.04 am**

**CHAIR (Mr Bevis)**—I will declare open this public hearing of the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade in consideration of the Defence annual report 2007-08. Members will recall the subcommittee met in April to review the annual report. This is our second public hearing session and there will be a third session scheduled in August to enable Mr Gumley to appear. His commitments have prevented him from attending in April and today. We appreciate that commitments prevented the CDF and Secretary attending earlier but we are very pleased to have the CDF, Air Chief Marshal, Angus Houston, and the Secretary of the Department of Defence, Nick Warner, at our second hearing. I now invite them to the table.

[9.05 am]

**HOUSTON, Air Chief Marshal Angus, Chief of Defence Force, Department of Defence**

**WARNER, Mr Nick, Secretary, Department of Defence**

**CHAIR**—Although the subcommittee does not require you to give your evidence on oath I do advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Welcome. I would now invite you to make any opening statements that you may wish.

**Mr Warner**—Neither of us have an opening statement.

**CHAIR**—We will proceed to business then.

**Mr BALDWIN**—There were reports in the paper this morning that the Defence Capability Plan is going to reduce its forward outlook from 10 years to five years. How do you think that will have an effect on the security of Defence industry long-term planning, employment prospects and the ability for industry and suppliers to invest with confidence?

**Mr Warner**—The DCP is still before government for their consideration and I hope you understand that because of that it is not possible for us to go into any details.

**Mr BALDWIN**—I understand what you are saying, but I am always amazed when I read detailed briefings in the newspaper but we cannot get any position or point from the people who are responsible for development of the plan.

**Mr Warner**—We are just as amazed to read some of these newspaper reports.

**Mr BALDWIN**—If I can perhaps go back to one of your predecessors Sir Arthur Tange, who was the secretary I believe in the sixties and seventies, who made a very famous statement. He said ‘If you are not talking money, you are not talking strategy.’ I go back to the white paper which in total devotes 1½ pages to the financial aspects of the white paper and then I refer to Mark Thomson of APSI who said of the white paper:

... there is a glaring absence of substantive information on funding, investment and reform.

What does that say of Sir Arthur Tange, a highly respected individual and performer, who said that if you are not talking money, you are not talking strategy. Does this place into doubt some of the strategies that are contained in the white paper?

**Mr Warner**—I would agree completely with Sir Arthur Tange’s comments about money and strategy, but I do not agree about the comments that there is a lack of detail in respect of Defence’s financing both through the forward estimates through the decade and indeed over the 21 years of the white paper. In those 1½ pages that you referred to in the white paper the government has set out very clearly and from Defence’s point of view very sensibly and

seriously a new revenue model that will remove the volatility that we have faced over the past few years probably indeed for the past 10 years while Defence has been on the non-farm deflator as its index. We have, as you know from reading the white paper, three per cent real through to 2017-18 and then 2.2 per cent—that turns out usefully to be the true cost driver of the Defence budget—and then 2.5 per cent instead of the volatile non-farm deflator. We think this is an excellent outcome for Defence and provides a balanced budget over the period of 21 years not just the four years of the forward estimates, not just 10 years but 21 years.

**Mr BALDWIN**—So you are saying to this committee that you believe \$20 billion in savings or cutbacks, whatever term you want to achieve, is achievable?

**Mr Warner**—The \$20 billion savings program is very achievable. Could I perhaps spend a few minutes explaining to you why? This reform program really had its genesis about 18 months ago. In that period of time the CDF, myself and the entire senior leadership group of defence in the defence committee have probably talked about the reform program and the savings program that emerges from it, 70 or 80 times in the defence committee. Sometimes those meetings have gone all day. We have looked very carefully and very hard both through a process of what we call companion reviews, of which there were eight, and a number of other reviews, including the Mortimer review into DMO, the Brady review into intelligence plus an external audit of defence management which went for about nine months, at every aspect of our business. What works well, what works badly, what is broken, what needs to be fixed, where the fat is in defence—because there is fat in defence—and what the best way is to harvest that inefficiency so that we can reprioritise and so that we can take money from the lowest priorities and from areas where we are inefficient to the highest priorities in defence.

**Mr BALDWIN**—Who set those priorities?

**Mr Warner**—As always we provide advice to government and the government sets priorities. I have only brought one copy but I hope you have seen a little booklet that we distributed about two or three weeks ago called the *Strategic Reform Program—Delivering Force 2030*. If you do not have copies I am sure we can provide copies. The back of that little booklet it provides a couple of tables which show over the forward estimates the amount of savings that defence will reap from the various reform streams, of which there are 15 but seven of which will provide significant saving. If you look at that table you will see that we have provided ourselves with a sensible ramp up period. That is, a period to do a further proper diagnostic of our business areas of these reform streams to ensure that we have it right through the companion reviews and the audit, and to ensure that we can actually deliver the amounts of money in each of these streams that we have committed to government that we will. In respect of the \$20 billion, I have no doubt, and CDF has no doubt, that we can and we will deliver those savings and we will do so without doing the damage to defence that previous savings programs have done.

**Mr BALDWIN**—When this committee last met, the question was asked of you, CDF, about the \$10 billion worth of cutbacks. At that stage it was \$10 billion. You said that was achievable. When was the decision made to go from \$10 billion to \$20 billion in cutbacks?

**Mr Warner**—We started work within defence on the \$10 billion savings program probably over 18 months ago now in a very quiet way. It evolved into this broader reform program and savings program. Once we had concluded that \$10 billion savings program we went into this

process of companion reviews that I referred to before and the external audit of defence. The two were interlinked and one evolved into the other. So that process of evolution started a year ago, I guess, or maybe 14 months ago, when we really started work on the white paper.

**Mr BALDWIN**—You do not see that the \$20 billion in cutbacks will have any effect on our front-line troops or forces?

**Mr Warner**—I will pass it to the CDF in a second. The \$20 billion of savings will have a very positive effect on the front end, the sharp end, capability of the ADF because we will take money from low priority areas where money has been inefficiently used or wasted and we will reprioritise it—with the government's agreement—to the sharp end. Could I ask the CDF?

**Mr BALDWIN**—Please do.

**Air Chief Marshal Houston**—The program of reform is not just about harvesting savings; it is much more than that. It is a complete reform of the way we do business, our business processes, the way we do our planning and the way we do everything that we do. What you will see is much better utilisation and much more efficiency in, for example, the maintenance function. One of the reform streams here is maintenance and the intent is to apply lean techniques, the sorts of techniques that were developed by Toyota some years ago, to the maintenance function not just within Defence but also with our contractors, so that at the end of the day we not only get savings but we also get increased availability of the front-line platforms that we need to generate capability for the ADF and for the government.

**Mr BALDWIN**—So you are telling me that, on an average basis, there was around eight or nine per cent fat that should have been cut out of Defence for quite some period of time now?

**Mr Warner**—I am not sure if it is eight or nine per cent. I have not cut the figures—

**Mr BALDWIN**—\$20 billion over 10 years is \$2 billion per year on average. Your budget is \$23-\$27 billion—

**Air Chief Marshal Houston**—It is much more than that. I think you will find it is closer to six to seven per cent. But, anyway, I will let Nick go.

**Mr Warner**—Again, if you look at the ramp-up in the early years in this book, it shows about \$800 or \$900 million per year in the first two years building up to just over a billion dollars

**Mr BALDWIN**—I was talking average.

**Mr Warner**—I know. But by the time we get up to 10 years, Defence's budget will be—I do not have those figures yet—from memory \$35 billion.

**Mr BALDWIN**—If we take a very low figure, say, five per cent, are you saying there is at least five per cent fat there year on year that could have been trimmed?

**Mr Warner**—I have said this publicly in the past and I said it to Senate estimates: for a long time, Defence has been extremely well funded and most of that funding has been very well and

properly used, but not all of it has been used in that way. There is fat in Defence. There has been great inefficiency and whether it is five per cent, six per cent or eight per cent, I am not sure but the fat is there and it can be reaped or harvested. It can be prioritised to more important areas such as the development and purchase of capability. There is no question that this can be done and, indeed, that it should be done.

**Mr BALDWIN**—My memory escapes me. What year did you start as the Secretary of Defence?

**Mr Warner**—Two and a half years ago.

**Mr BALDWIN**—So 2½ years ago your predecessors and you were looking at the financial management of Defence and, as you say, a better utilisation of the money. The government, through various ministerial levels, have talked about black holes. Why were these never put to the government of the day?

**Mr Warner**—I said this in Senate estimates the other day. Allan Hawke—my predecessor's predecessor—made a number of public speeches about these sorts of problems, beginning about 10 years ago. As you will remember very well, Ric Smith, who was my predecessor—that is now almost seven years ago—was confronted with qualified financial statements in Defence. That is the most fundamental problem that any department of state can be faced with. It is indicative of a financial system that is not in control. Part of that financial system not being in control is the fact that there was inefficiency in Defence. If you go back even further, there have been commentators that have talked about inefficiency in Defence and the need for us to do better and be more efficient. I do not actually think that this is a surprise.

**Air Chief Marshal Houston**—Let me just add a few things. I think you have to put it into context. If you go back to, say, around 1990—in fact, before then, in the late 1980s—we started a program of reform and cultural change. What we have seen over the last 20 or so years is a complete change to the Australian Defence Force and the defence organisation. If you go back to, say, around that era—in fact, I would say it started around the mid-1980s—you had the government-owned factories, such as the government aircraft factory; all the dockyards were owned by the government. The first thing that happened was we had a look at the force structure—we had a force structure review, we had a commercial support program and a lot of things were outsourced. Along the way, we have been—I think—in an almost constant process of reform over the last 25 to 30 years. Essentially what we are doing here is basically, hopefully, completing the last part of that reform program.

Back 25 years ago, we had three distinct services that did not talk to each other, were completely autonomous, and were not joined up in any way. The defence organisation was big and bureaucratic. We have evolved into a totally integrated defence organisation—in a lot of areas, we are world's best practice. Where we are going now is a further reform program—a big reform program—which will make us the best defence organisation in the world, certainly the most efficient and, also, I think highly effective.

**Mr BALDWIN**—You can tell me if I am out of line here. In your role as the CDF, do you see your first line of responsibility to our men and women of the Defence Force or to the government of the day?

**Air Chief Marshal Houston**—I think it is not an either/or. I think you would understand that it is a little more complex in character—

**Mr BALDWIN**—The reason I ask that question is how do you explain to the men and women on the front line that the \$20 billion worth of cutbacks is good for them?

**Air Chief Marshal Houston**—We are explaining that.

**Mr BALDWIN**—In plain English.

**Air Chief Marshal Houston**—You are very welcome to come to one of the presentations that we both do. I have spoken to about 7,000 people—

**Mr BALDWIN**—We have not even been briefed on the white paper yet in the shadow portfolio. That is not your fault, I know.

**Air Chief Marshal Houston**—I just want to avoid the politics here. I have spoken to about 7,000 of our people. I have explained the white paper, I have explained the reform program, and everybody that I have spoken to has been quite receptive to what we have put on the table. Are there concerns? Of course there are concerns. There are always concerns when your job is going to be changed somewhat.

But everybody can see the good sense in, for example, streamlining the way we do maintenance—adopting the proven management techniques that made Toyota highly profitable. They have also been utilised to great effect in other defence forces around the world. The Royal Air Force, for example, has saved a lot of money. In fact, our own air force was well on the way to a lean maintenance program before this came up as a department-wide initiative. So we are always looking for smarter and more efficient ways to do business and it is important that I live up to my accountabilities to the government of the day. Equally, it is very, very important that I live up to my accountabilities to my people. People are my first priority, but that does not interfere with the very responsive relationship that I have to the government. I am accountable to my minister, my minister is accountable to the Prime Minister, and that is the way the system works.

**Mr BRUCE SCOTT**—Thank you for your time, Chief. I know you are very busy, so we value your time here this morning. I want to talk about the F18, the upgrade to maintain our air superiority—as the F111 was to be phased out—and the decisions on the Joint Strike Fighter. I will start with the F18. Is its upgrade, capability and capacity running on schedule in relation to maintenance?

**Air Chief Marshal Houston**—I have not come prepared to discuss that in detail but I can respond to you in broad terms. Our program to upgrade the Hornets—the F18A and F18B models—has been going very well. I think we have probably got F18As and F18Bs that are as good as anybody else's in the world. It is a very capable aircraft and we have kept abreast of the technology that is available. So I am very comfortable with that.

Of course, you would be aware that as we go further downstream we do start to encounter some fatigue management issues and there will be a need to basically replace the centre barrel.

The centre barrel is the central part of the fuselage of some of the F18 aircraft that we have in the fleet. But with the introduction of the Super Hornet we have got a little more breathing space than perhaps we would otherwise have had. We should be able to transition into the Joint Strike Fighter quite effectively in the fullness of time. I am very comfortable with where we sit at the moment.

**Mr BRUCE SCOTT**—Is the F111 on the same schedule for replacement?

**Air Chief Marshal Houston**—The F111 will be retired in 2010 and that is going according to plan. It will be replaced by the Super Hornet. The Super Hornet, by the way, is on schedule and on cost—in fact, it is slightly below cost.

**Mr BRUCE SCOTT**—Can I ask about the proposal for the submarines. The first question—which you may not be able to answer—is: how many submarines do we have fully crewed now? We have got plans for 12 submarines. The follow-on question is: if we are having difficulty now, how on earth are we ever going to man the potential of the 12 new submarines?

**Air Chief Marshal Houston**—We will have three fully operational submarine crews next year. Right now, we can probably crew three boats, but what I am talking about is three boats that you could send away to do things. So three boats, three operational crews next year. In terms of how we will be able to crew the submarines into the future, we have had a very close look at the Submarine Force Element Group. Admiral Moffitt went in there and had a very exhaustive and hard-hitting look at where the problems were with our submarines. He came up with a number of recommendations which will now be implemented as part of the submarine sustainability project. That project, I think, is out there; you have all been exposed to that. Admiral Crane came out and told the media, told everybody what the problems were and what we were going to do about them. All of the initiatives have been well thought through and I am very confident that that will resolve our problems in the short term.

In the longer term, one thing you may not have seen is the work that Admiral Crane has been doing since he became Chief of Navy. He and his senior leadership team have come up with a new approach called ‘New Generation Navy’. It has three pillars. One is changing the organisation to two large entities: the strategic command, on the one hand; and fleet command, on the other hand. The second pillar is culture. The third pillar is leadership. With the cultural and leadership changes, I think the Navy is going to be much better placed to retain its people and to recruit people into the future. Along with that submarine sustainability project we will get into a regime where we will be able to recruit people into submarines.

If you have a look at where we are right now, in terms of the Submarine FEG, the number of people in here is exactly the same as it was this time last year; in other words, there has not been any further drain-down. Why is that so? I would like to think that the new approach the Navy is adopting is assisting in that, but, clearly, the economic circumstances in Western Australia are also playing a part. We were losing an awful lot of people to the mining companies during the boom period, but the boom is over. We are into a completely different set of economic circumstances and we are starting to see improvements in recruitment and retention.

Let me give you a feel for how things are actually going in the Submarine FEG. I was over there about four weeks ago. I spent some time aboard *Collins* and spoke to some of the crew.

The crew were very upbeat. The first thing they were really pleased about was the fact that the Navy had acknowledged the issues that were confronting the submariners and had gone out and told the world—in a very open and transparent way—what some of the problems are.

Interestingly, while I was over there, I was also told about the recruits that were coming across to have a look at the submarine FEG. Regarding the program that Navy has put in place, the top people in the course are taken over to the west. They are shown the submarines and are encouraged to join the submarine FEG. Fundamentally, the results have been quite spectacular. We are seeing about 60 or 70 per cent of those young people sign up for submarines. So I think the outlook is good, promising, and I am confident that we are on the right track. The new generation Navy will change the culture of the Navy and will improve and enhance the way they lead their people, from the top right down to the very bottom. I think we will see a turnaround in terms of recruitment and retention as it applies to submarine capability.

**Mr BRUCE SCOTT**—How is recruiting going for the Navy? Are you recruiting the numbers you need compared to, say, Army or Air Force, which I understand are running well?

**Air Chief Marshal Houston**—The problem with the Navy is not so much a problem with recruitment; it is a problem with the training system. One of the initiatives in the white paper that probably has not been highlighted is the government's approval of a recommendation from us that we increase the size of the Navy by 700. Those 700 will go into the training system. The training system at the moment is incapable of generating the Navy that we need. As a consequence of that, right now we have a substantial shortfall in naval numbers, particularly in some critical trades. Even if we had the recruits coming through the door, there are so many bottlenecks in the Navy system that we could not actually train the people who are required to fill the gaps in the operational Navy. So we are getting another 700 people into the training system. Also, the Chief of Navy has come up with a plan where the priority is on training. What you will see, again, is a remediation of the problem that has been there for a little while.

**Senator FORSHAW**—Is this a problem unique to the Australian Navy, particularly with respect to submarine crewing? Is it something that other countries with submarine capability face?

**Air Chief Marshal Houston**—I am not aware of the detail of other nations, but in Australia's case the mining boom of the last few years has had a substantial impact on the ADF across the board but most particularly on the submarine FEG. Most of the recruiting of the mining companies that operate in Northern Australia was being done in Perth. It was not unusual to have people who represented those companies down at the pubs in Rockingham recruiting people on a payday Thursday. That is how competitive the market was in those times. Of course, that is all in the past. What we are seeing is a much more stable situation.

As we made clear when Admiral Crane released the Moffitt report and announced the submarine sustainability project, one of the things that we are doing is getting a better balance between the mission focus and the need to look after the people. One of the practices that arose in the force element group was the practice of sometimes back-to-back crewing for operational reasons. Simply put, some of those sailors were never seeing their families. One of the things that Admiral Crane is seized with is the need to get the right balance between the mission and the

need for people to have time with their families. You cannot send people to sea forever and expect them to stay in the Navy.

**Senator FORSHAW**—Is it the case that other submarine fleets around the world could crew all their subs at one time and have them active? Or is it the case that you will always have a number of—

**Air Chief Marshal Houston**—If we had three boats in the water at the moment we would be crewing three boats—let me make that very clear. If you have a highly complex high-technology capability, like a submarine, you are never going to have all six boats in the water at the same time.

**Senator FORSHAW**—That is what I was trying to get across.

**Air Chief Marshal Houston**—Fundamentally, you are always going to have boats in maintenance, other boats that are basically in work-up and a number of boats that you can deploy for operations.

**Senator FORSHAW**—And that is characteristic of the submarine fleet?

**Air Chief Marshal Houston**—Yes, that is the characteristic of the submarine. Right now, we have a couple of submarines in major servicing—and that is not unusual. In order to keep them seaworthy, you have to maintain them; you cannot buy the kit and then just send it out to sea and expect it to stay at sea forever. You have to bring it back and maintain it. There are often modifications and upgrades that have to be made to ensure that the capability stays state-of-the-art. Sometimes, we will take the capability offline to put those enhancements in. Some of those enhancements we might not be able to talk about. It is a complex business, managing a capability like a submarine.

What I can tell you, though, is by next year we will be able to man all of the submarines that we would normally expect to be able to use for operations. That is the key issue. That means three fully trained crews that can go and do things, and that is the important thing. At the moment, we can put three crews in the water; but, basically, a couple of crews will be able to do things while the other crew will be in training.

**Mr BALDWIN**—The issue that was raised during the last hearing, in relation to the \$60,000-for-18-month retention fee for submarine crew, placed the most junior person on board at a combined pay—from memory—to that of the navigator. It placed the petty officer pay second only to the commander, and not by much. You talk about retaining and growing crews on submarines so that you can equip three now and 12 into the long-term future, but what effect do you think it has when you have this disparity in pay? Do you think it would have been better to have provided the \$60,000 sign-on to all members of the submarine crew?

**Air Chief Marshal Houston**—If you have a look at the figures, in terms of the retention of officers and the retention of sailors, there is quite a difference between the two. The problem we had was that we were losing sailors to the mining industry; we were not losing the officers. We have to react to the problems of supply and demand. We have to compete in a highly competitive labour market. That is really what drove the realities of the retention bonuses.

**Mr BALDWIN**—I am not questioning the retention bonus for a moment; what I am talking about is the disparities in pay on board a ship, where I accept that officers have more career structure than perhaps rankings do. When you have the entry-level ranking on board being paid at a rate in between those of a junior navigator and a person with six years experience and the PO being paid only a couple of thousand dollars less than the commanding officer—which is more than a lot of other officers on board—do you not think that creates a level of disharmony among the crew?

**Air Chief Marshal Houston**—Not necessarily. I have been in circumstances in the past—my own personal circumstances—where by virtue of age and rank I had most of the pilots in the squadron I commanded on a retention bonus. That put some of them at fairly high levels of remuneration which in some cases exceeded my own. I was the one carrying the can—I was the one who was accountable for everything that happened in the squadron—and I accepted that as the reality of the marketplace at a time when Qantas were recruiting every pilot they could get out of the Air Force. This was that the then government's response to a crisis situation. So we have to do these things, Mr Baldwin. Sometimes it does create disparity, but if you are losing pilots or sailors out of submarines, you cannot just sit there; you have got to do something about it, and that is what we are doing right now.

**Mr BALDWIN**—I do not expect you to have the numbers with you right now, but can you take it on notice and report back to the committee how many officers since the introduction of the \$60,000 bonus have resigned or sought transfer out of submarines?

**Air Chief Marshal Houston**—Yes. I think I will probably find it in a moment. The submarine sustainability program is out on the public record. We will have three sustainable submarine crews with at least 58 persons by December 2010.

**Mr BALDWIN**—That is with your lift for ratings from, I think, 45 to—

**Air Chief Marshal Houston**—Yes; that is one of the initiatives that comes out of the Moffitt review—one of the recommendations was to increase the size of the crew. We think that that will be very useful. That is phase two of the project—phase two is the stabilise phase. That will also be supported by a submarine support group to provide the technical and administrative support in-port. The idea there is that when they come back to port—where in the old days they would have stayed aboard the submarine and look after it—they go on leave and this other group gets aboard and looks after the submarine. The workforce supply across the submarine categories has been stable at 435, plus or minus five, between April 2008 and April 2009. I think that metric is a very good one, because if you go back through the last few years it was always a downward trend. So we have stabilised. Submarine workforce separation rates are 7.9 per cent for officers and 11.1 per cent for sailors over that same period—April 2008 to April 2009.

**Mr BALDWIN**—What was it in the period before?

**Air Chief Marshal Houston**—I do not have those details here, but it was much higher for sailors. I think it has been fairly consistent for officers all the way through. I might add that that separation rate for officers is really quite good and is consistent with the separation rates across the three services.

**Mr BALDWIN**—Could you take it on notice to provide an analysis of separation rates over the preceding three years to the year of the introduction of the bonus and then on from there?

**Air Chief Marshal Houston**—Certainly.

**CHAIR**—I want to ask a question that I raised at the April hearing about the training and escape facilities that we have in the west, and the difficulties we have had with the continued use of those. Can you give us an update on where that is at? I want to express a concern that I have. It seems to me that we have a world class facility that has served us well, but at the moment we are not in a position to utilise it and instead are going offshore. It seems to me to be an unhappy set of circumstances, and if I am right that it is an unhappy set of circumstances I would like to know what we are doing to fix it. If I am wrong then I would like to know why I am wrong.

**Air Chief Marshal Houston**—You would know that the tower, the submarine escape system, was outsourced some years ago because that was a more efficient way to do business and we went down that route. Unfortunately, there were some issues with the contract and in the renegotiation of a contract we were not able to get a value-for-money solution. So the DMO is working through those issues at the moment and I would invite you to perhaps ask Steve Gumley to run through some of those contractual issues when he is here on 14 August. I do not intend to address those this morning, but they are being worked hard, and once we get an agreement with a suitable contractor we are back in business. That is really the issue. That is the way it is.

**CHAIR**—Are we looking at getting back online to have that facility operating to train our personnel in the west?

**Air Chief Marshal Houston**—Yes, we are.

**Mr BRUCE SCOTT**—Can I ask more generally about equipment in the Army and Air Force and whether you are meeting your targets in recruitment there? What sort of retention do you have?

**Air Chief Marshal Houston**—The biggest problem we have is recruitment into the Navy.

**Mr BRUCE SCOTT**—But the Army and Air Force?

**Air Chief Marshal Houston**—The Air Force does not have too many problems because it has a separation rate at the moment that is probably the best we have ever had. It is down around six per cent. In fact if I could put it that way, it is almost too healthy because we are not getting the turnover of people in the Air Force and are getting to the stage where we are going to have to almost shut down the training system because it is geared for a higher level of intake than we need at the moment. So the Air Force is in a very healthy state. It only has one critical category, which is medical doctors. In every other area of recruitment it is doing well and, whilst that is probably not reflected in the overall achievement of targets, Air Force is fully manned and fully capable of doing what it is required to do through my preparedness directive and through the guidance that I get from the government. So Air Force is in really good shape.

Army is also in reasonable shape. You would be aware that in enhancing the land force there is a requirement to recruit a large number of riflemen for the new battalions. We are way ahead of

schedule there because we are having absolutely no difficulty recruiting riflemen. Given the educational requirements for an occupation such as that, there are absolutely no difficulties with recruitment in that area. The problem area for Army is in the higher skill areas, and we still have a number of critical categories in the Army in those higher skill areas—the maintenance and technician areas and so forth. I could run through them if you like.

**Mr BRUCE SCOTT**—No need.

**Air Chief Marshal Houston**—Generically, that is the issue. To a large extent that is very similar to the Navy. The Navy has a problem in the higher skill areas. We still have 20 critical categories in the Navy, which is an improvement from where we were two or three years ago, but we still have a lot more work to do. To summarise, the problem for the Defence Force is a very similar problem to the rest of Australian business and industry. We are short of recruits in the higher skill areas—information technology, avionics technicians and people who can maintain information-age technology. That is where all the shortfalls are. One of the reasons is that everybody in Australia has the same issue, except the Air Force. The Air Force seems to be able to attract those people and retain them.

**Mr BRUCE SCOTT**—I would like to ask about the gap year. I understand that it had to be slowed down—it may be a rumour; I do not know. School leavers would go in and take what we would call a gap year of 12 months and may be encouraged to stay on. How is that going? Has it, as I have heard rumoured, had to be slowed down?

**Air Chief Marshal Houston**—At the moment we have about 700 people in the gap year program. At one stage there was a suggestion that we might go to 1,000. I might use the Air Force as an example again. The Air Force does not really need a gap year program because, essentially, Air Force has no difficulty in recruiting people. In fact, there is great competition to get into the Air Force, so Air Force does not really need to have a gap year program. The other aspect about the gap year is that, if you have people in the gap year, you have to train them. That takes capacity out of your training system and that can be an issue, too. So we need to balance a number of things when we decide how many people to take into the gap year program.

**Mr BALDWIN**—You are obviously not all that satisfied with the gap year and you see it as a drain on resources.

**Air Chief Marshal Houston**—I did not say that. It is never black or white; it is many shades of grey. Fundamentally, the gap year at the moment is an absolutely fabulous program for the Navy and it has been a very good program for the Army. We have had incredible take-up from gap year recruits.

**Mr BALDWIN**—Why in the estimates is there a further reduction of 100 in the gap year plan?

**Air Chief Marshal Houston**—I am not sure what we are planning for next year. I will take it on notice.

**Mr BALDWIN**—Six hundred—that is what your budget papers say.

**Air Chief Marshal Houston**—Yes, 600, but one of the reasons for that is Air Force's situation. Air Force is fully manned; nobody is leaving. We do not need as many recruits and we do not need the gap year at the moment. That is the reality. That is probably because of the Air Force. I will take it on notice and I will come back to you.

**CHAIR**—I am mindful of the time. I would like to get through as many topics as members are keen to pursue. Could everybody try to keep things compact.

**Mr BRUCE SCOTT**—Do you have any figures as to how many you retain post the initial gap year? That would indicate to me the success or otherwise. It might be very successful for 12 months but is it successful beyond the first 12 months in retaining those people?

**Air Chief Marshal Houston**—It has been very successful in Army and Navy—less so in Air Force because Air Force does not have a demand. That is the reality. The whole idea of the gap year, if you remember, when it was introduced was to enhance our recruitment, and it is doing just that for the Army and for the Navy.

**Mr BRUCE SCOTT**—Have you got any figures? Would, say, 50 per cent go on? Years ago, it was always thought that if people were in cadet school they were more likely to end up in a career in the Defence Force. Does this have the same sort of outcome? Or is it just the case that it is only 12 months and they are filling in time? I would love to know what the figures are.

**Air Chief Marshal Houston**—It is early days for the gap year program. We will always have a gap year program, but we will need to calibrate the numbers each year to reflect the situation in the three services. It is an expensive program and we need to make sure that we use government resources sensibly in terms of enhancing our recruiting outcomes.

**Ms SAFFIN**—Seeing as we are all pursuing pet projects, I would like to pursue one of mine. My question is both to the CDF and the secretary. It concerns preparedness for peacekeeping not when we are in a multilateral role—because that is a bit different—but when we have been asked to go in bilaterally. Would you be able to describe the framework for that preparedness?

**Air Chief Marshal Houston**—We have a very sophisticated and well-developed preparedness management system which takes account of all of the military response options that the government might require us to pursue. Obviously one of those is peacekeeping, so we have forces available to respond to those needs, should they arise.

**Ms SAFFIN**—Is there a special unit that gets ready or is there an underlying framework? Without divulging any secret business, how does that happen? Is one group allocated to prepare for the culture and the language and to deal with law and order—even though that is not your function? How do you integrate with the AFP?

**Air Chief Marshal Houston**—We do an awful lot of work in preparation for whatever might arise. Of course, in terms of peacekeeping, I assume you are talking more broadly than going off on a United Nations peacekeeping mission.

**Ms SAFFIN**—Not multilateral peacekeeping; I am talking about bilateral.

**Air Chief Marshal Houston**—You are talking about something like Timor Leste, where we went in, at the request of the government, to stabilise the situation on the ground.

**Ms SAFFIN**—That is correct, yes.

**Air Chief Marshal Houston**—Right. We are very well-postured to respond to those sorts of circumstances. Of course, as the white paper makes clear, the government do have a concern about the immediate neighbourhood. There is some fragility in the South Pacific and, from time to time, it may be necessary for us to go in and assist one of the governments out there. It might be a disaster or some sort of breakdown in governance. Yes, we have forces that are well-postured for those circumstances. Indeed, we have forces that are identified, trained and prepared for these sorts of possibilities.

**Mr Warner**—If I could just add something to put it in a broader context. Defence are constantly looking at conflict situations where there might be a need for the ADF to deploy or for a whole-of-government Australian approach to a crisis or post-conflict situation. So planning is always going on, but there is also dialogue within the bureaucracies. We talk to DFAT. We have an MOU with the AFP. We have an MOU with AusAID. We are constantly sharing of views and opinions. That bureaucratic structure has been in place for a very long time—certainly since 1999 and before.

The new ingredient that is still evolving is the Asia Pacific Civil-Military Centre of Excellence under Mike Smith. It is still building up its structures and its personnel, but it, too, will have a role to play in future in learning the lessons of past operations and how we can do things better.

**Air Chief Marshal Houston**—To finish off, one of the things that we do is keep all of the circumstances under constant review. I chair a meeting of the senior leadership within the Defence organisation Strategic Command policy group. Once a week, we will look at all of the issues around the world and around the region where we might have an interest and we might become involved. It is a very dynamic process. What we will do, if there appears to be something happening that requires a response, is, as Nick said, take it into the whole-of-government environment.

Let me just give you an example. It became clear to us in late March or early April 2006 that there was going to be a problem in Timor-Leste. It was quite clear that the police and the army within Timor-Leste were not getting on. So we went to the government of the day and said: 'These are the circumstances. What we need to do is adjust the levels of preparedness to go and do something.' Indeed, the government of the day decided that there was probably a need, on advice from us, to do some pre-positioning and to do some active preparation. We did all of those things. As a consequence of that, we were able to react very rapidly and we had all the major force elements in very, very quickly. We could not have done that if we had not kept the circumstances under review in the way we have both described. We were, as Nick described, linked up with the rest of government. It really was a whole-of-government approach.

**Mr BALDWIN**—I would like to ask you about the rapid acquisition program. Can you tell me a little bit about it: how it operates; how requests go up through line; how they are determined; how they come back for approval; and what the time frames normally are for rapid acquisition programs?

**Air Chief Marshal Houston**—Given the sort of detail you seem to be seeking, I would like to come back to you on notice with the fine detail, but what I can say is the system works exceedingly well. Generally speaking, what will happen is, first of all, there will be a given set of circumstances on the ground in one of the operations we are conducting. The one at the moment that probably creates the circumstances for rapid acquisition potential is Afghanistan. So, if something happens in Afghanistan, we get into the rapid acquisition process. A classic case occurred when the government recently announced a fairly large expenditure on counter-improvised-explosive-device equipment. Fundamentally, what happens? Something happens on the ground which indicates a change in the circumstances. We make an assessment. We say, ‘We need this to counter that.’ We then go—

**Mr BALDWIN**—Was that the robotic or remote control—

**Air Chief Marshal Houston**—Yes; more robots and more equipment. I cannot talk about all of the equipment. I am prepared to tell you in camera. There is a raft equipment to counter the circumstances that have developed on the ground. As soon as we have made our assessment, we talk about it in the Strategic Command Group and engage Steve Gumley in the DMO. We then go through the Secretaries Committee of National Security and the NSC, the National Security Committee of cabinet and put the proposal on the table. Our minister will take it to the NSC, NSC will consider it and, if they think it is a viable proposal, they will make a decision and we get on with it. It is as simple as that.

**CHAIR**—I think Mr Baldwin may wish to ask some questions about specific equipment. In those circumstances, you may wish to do it in camera.

**Air Chief Marshal Houston**—I am very happy to do it in camera.

**Mr BALDWIN**—Why don’t I defer that question until the end?

**CHAIR**—Okay.

**Mr BALDWIN**—I do not wish to raise something in a public arena which might have some effects. I would rather have the question and answer on that in camera.

**Air Chief Marshal Houston**—And it might be that there is a piece of equipment that we need very urgently. We always do it through our minister and our minister then has other avenues that are available to him to engage the—

**CHAIR**—I suggest that we go in camera about 15 minutes before the end. So we will work on that basis.

**Mr Warner**—I would just add one point to that. As you know, Mr Baldwin, the cost of operations is funded a no-win, no-loss arrangement, and that is the case of course with rapid acquisitions as well.

**Mr BALDWIN**—I will leave my further questions on this until the in camera session at the end. I would briefly like to go to the air warfare destroyer construction project and the fourth air warfare destroyer. How close are we to making a decision about whether to proceed with that

fourth air warfare destroyer and how long is the contract opportunity there to be a part of the initial three acquisitions? I understand that, if we do not engage as part of the process fairly shortly in the purchase regime, to go back and build a single stand-alone air warfare destroyer would be at some exorbitant cost, as against having another one brought into the train. Could you update us on where that is at the moment?

**Air Chief Marshal Houston**—In terms of the fourth air warfare destroyer, the government will continue to assess the environment to determine if there is a need for a fourth air warfare destroyer. I think that was made explicit in the discussions around the white paper. In terms of how long options are available and so on, may I suggest you take that up with Stephen Gumley when he is here on 14 August?

**Mr BALDWIN**—What concerns me in relation to that program of acquisition are the two preferred tenders. One I am ecstatic about—the F4 jets, obviously; declaring a local interest there—but there has been media reporting that NQEA has an inability at this stage to fund its \$20 million worth of guarantees that it needs to put up, which could leave you with, at this point, only one external supplier of modules. What is the back-up plan? Are you going to look at whether Bianco in Adelaide or BAE in Williamstown could become a preferred tenderer?

**Air Chief Marshal Houston**—I could give you a response, but mine would be broad. I think from the sense of the question, the best way to proceed here is to get Stephen Gumley to answer that in detail. He will come on 14 August well prepared to answer your question, Mr Baldwin.

**Mr BALDWIN**—This is where I am going with that. Given that Williamstown missed out on any of the work and that Williamstown have the contract to supply the superstructure for the LHD, if there is not the viability of keeping the yard, what concerns me is that superstructure may be built in Spain as part of a whole ship and therefore Australian jobs will be lost, and Australian opportunity will be lost and we will be left with only one major shipbuilder in Australia. Then we will have no competition.

**Air Chief Marshal Houston**—I note your concern, Mr Baldwin, but I think the best way to proceed here is to talk to Stephen Gumley about all of that. That is very much where he focuses. Nick and I trust his judgment on the sorts of things.

**Ms SAFFIN**—I do not think the CDF is responsible for boat building.

**CHAIR**—On a separate issue altogether—public-private partnerships. In particular, I want to refer to the ANAO report on construction at the joint operation headquarters. That report says:

Therefore, at the time the final decision was taken by Defence to enter into a PPP arrangement for the Project, Defence estimated that the financial benefit offered to the Commonwealth for doing so compared to using direct procurement was a potential saving in NPC terms of \$0.94 million, or 0.18 per cent, over 30 years.

With the best of judgment in estimates, the capacity to determine costs over a 30 year period with a margin of error of 0.1 or 0.2 per cent is a goal that few would claim to be able to achieve. Given that background, what is the benefit to the Commonwealth, what is the benefit to Defence, in embarking upon an alternative means of acquisition when the best estimate is pretty much break-even?

**Mr Warner**—I have not come with details about that PPP today. I would be very happy to take some of those points of yours on notice. I would like to say, though, that from a Defence point of view this has been a good outcome. We have a very good state-of-the-art facility that is assisting operations immeasurably.

**CHAIR**—I am not doubting or questioning the facility's capacity and whether it meets today's needs—I would expect it does; my question is on a different point.

**Mr Warner**—I understand that. Those points, if you do not mind, I will take on notice.

**CHAIR**—I am happy for you to take them on notice.

**Mr BRUCE SCOTT**—I have a question about the 8th/9th Battalion in Brisbane. Is it fully operational now? It was reformed as a new battalion in Enoggera.

**Air Chief Marshal Houston**—Yes, it has.

**Mr BRUCE SCOTT**—Has the 8th/9th Battalion got its full complement there?

**Air Chief Marshal Houston**—No, not yet. That is part of the Enhanced Land Force program. There is still some way to go to get the full Manning. You may recall that the time line for the Enhanced Land Force saw us finally raising that battalion I think around 2012 or something in that order. If I have not got the date right, I will come back to you. But we are way, way ahead of the time line. Because we have been so successful in recruiting the riflemen for the battalions, we are in pretty good shape, but there are still a way to go. I think we have got about half of the battalion at this stage. That is where we stand at the moment.

**Mr BRUCE SCOTT**—I have another interest because, in another life I donated—

**Mr BALDWIN**—Are you coming out of the closet, Bruce?

**Mr BRUCE SCOTT**—'Private Macarthur', their ram, before it was disbanded. It was from friends of mine in the merino industry. He rose to the rank of lance corporal and used to do R and R in western Queensland. I have been in dialogue with Army about arranging a new Private Macarthur to be their new mascot. I think there has been some delay. I have been in dialogue for some time now. I know our chair would also be very interested, because I think Enoggera sits in your electorate?

**CHAIR**—It does.

**Mr BRUCE SCOTT**—I well remember the day I handed over Private Macarthur, who rose to lance corporal but in one stage got into some trouble and was demoted again and sent out to western Queensland for R and R until he behaved himself. I think he got a haircut out there. His hair got a bit long, too. That is just a bit of light-hearted stuff, but I am interested in it, given the history of it. I have a photograph that they presented to me of Private Macarthur in all his regalia. I would rather like to present that back to the reformed battalion when it has its full complement.

**Air Chief Marshal Houston**—Mr Scott, I take it we are talking about—what is it?—a goat.

**Mr BRUCE SCOTT**—No, it is a merino ram—highly prized.

**CHAIR**—It was the mascot for the battalion in its previous incarnation and, whilst perhaps not the most important thing for you to take on notice out of this morning's hearings, you may nonetheless want to make an inquiry. I did suggest to Mr Scott that, assuming they want a ram again—

**Mr BRUCE SCOTT**—They do.

**CHAIR**—They did in fact have a rams head bar at the back of the barracks, which I am sure we could all adjourn to.

**Air Chief Marshal Houston**—We will take it on board.

**Mr BALDWIN**—It has got to be right up there!

**Air Chief Marshal Houston**—I am sure you would be able to present the photograph to the commanding officer. In fact, we can probably arrange that.

**Mr BRUCE SCOTT**—We have been in dialogue with the commanding officer.

**Air Chief Marshal Houston**—You have? Okay.

**Mr BRUCE SCOTT**—They are not quite ready. I just thought you might have had some other intelligence that I was not aware of.

**CHAIR**—Yes, we do not understand why it is not on your daily agenda!

**Air Chief Marshal Houston**—I imagine there would be no problems recruiting Private Macarthur mark II.

**Mr BRUCE SCOTT**—I think probably mark III by now.

**CHAIR**—I have a couple of questions in respect of the F35, at two levels. One is getting the mix right. I know the white paper has made its statement, so perhaps all of this is somewhat superfluous in a sense. But I notice that in the United States the United States Air Force submission to the House Armed Services Committee earlier this year—in fact, 20 May this year—said:

Both the F22A and the F35 represent our latest generation of fighter aircraft. We need both aircraft to maintain the margin of superiority we have come to depend upon.

I know there was some debate in various places around Australia over some years about F22s—whether we could get them, whether it would be desirable to have them. Decisions have since been taken in the United States that make that somewhat academic. Given the US Air Force view

that they need both capabilities, we are now on a path to have only one of those capabilities. Is that a satisfactory position for Australia to place itself in in the outlook for the next 20 or 30 years?

**Air Chief Marshal Houston**—Simply put, there isn't anything else available. If you are after a generation 5, highly capable air combat aircraft—an aircraft that has a multirole capability—you cannot go past a joint strike fighter. The F22 will not be available. The US Air Force has said previously that they would like a lot more F22s, but Secretary Gates has said no. I think they are going to get three more and that will be the end of the line. So, as you say, I guess it is an academic discussion.

**Mr BALDWIN**—Is that because of cost, or is there a reason you would not continue with a very potent piece of defensive weapon?

**Air Chief Marshal Houston**—I do not think it is proper for me to make comment, but I have heard Secretary Gates talk about the F22. I cannot share that with you at this time.

**Mr BALDWIN**—That is fine. I accept that.

**CHAIR**—I would like to make an observation. I understand exactly what you are saying and it may well be that the debate is over. But I noticed this week a report that US General John DW Corley, the four-star chief of Air Combat Command at Langley—obviously you are familiar with him—has apparently written to a US senator. Not surprisingly, that letter is now in the public domain, or what purports to be that letter is now in the public domain. In it he allegedly says:

In my opinion, a fleet of 187 F-22s puts execution of our current national military strategy at high risk in the near to mid term. To my knowledge, there are no studies that demonstrate that 187 F-22s are adequate to support our national military strategy.

It may be that it is a debate that has concluded in the US or it may be that it is a debate that is still unfolding. From a personal perspective, I have to say that, if it is a debate that unfolds and takes a different course, it is certainly something that I would want to rediscuss at a future point. I just flag it from that perspective.

**Air Chief Marshal Houston**—I note your comments.

**Mr BALDWIN**—I understand there are cost savings in reducing the number of platforms for servicing, supplies and maintenance. Regarding the Silent Eagle, the new variant that has come through, have you considered it at all as a backstop measure, should there be problems with the F35?

**Air Chief Marshal Houston**—No, we have not. By the way, you talk about the Silent Eagle. In the past we have considered the F15, but not specifically the Silent Eagle because that has only been around for a very short period of time.

**CHAIR**—Are you, as chief, satisfied and comfortable with the acquisition of the one-engine type aircraft? That has been a debate in the United States in respect of the JSF. There has been a difference between the congress and the administration about the issue for some time. It is an

ongoing issue. I know, from reading transcripts of US congressional committees, that it has been actively under debate there in recent months. From Australia's perspective, as chief, are you satisfied with the one-engine option? By that, I do not mean an aircraft with one engine; I mean there is one manufacturer of one engine that goes in the aircraft.

**Air Chief Marshal Houston**—You are talking about a Pratt and Whitney engine. There is a General Electric engine.

**CHAIR**—Yes—exactly.

**Air Chief Marshal Houston**—Again, I am not across the detail of where this is going, but I think that, if we have a set of circumstances where two engines are available, that is very nice.

**Mr BRUCE SCOTT**—I have a question regarding the disposal of assets. I know the Iroquois, the Kiowas and the F111s are at the end of life. I ask this in the way of a constituent inquiry. What is the process for the disposal of military assets? We get requests as local members, I am sure, from our local RSLs, museums and places like that. Is there a process they go through? Do they go to a graveyard? We know what happens to the naval ones—they usually go to a watery grave—but what happens to the air based and land based assets that are no longer required?

**Air Chief Marshal Houston**—There are a number of constraints on us in terms of the disposal of assets. For example, if we want to dispose of F111s in a particular way, we have to go back to the US government and seek clearance from them. For example, I do not think we would be able to on sell the F111s to another nation.

In terms of something like the Iroquois, some of the Iroquois are around the countryside and have been obtained by RSL clubs and so forth. But a large number of the Iroquois will probably end up going to other nations. Again, the United States government will be very closely involved in any process where that happens. No decisions have been made along those lines but you would recall that the first Iroquois, the UH1s, we disposed of went to Papua New Guinea. That sort of possibility still exists for a piece of equipment or helicopter like that.

**Mr BRUCE SCOTT**—So there is life left in them.

**Air Chief Marshal Houston**—How the process runs is that the DMO is responsible for disposal of equipment. I guess if a particular piece of equipment was going to be disposed of by being scrapped one of your constituents could write to us and we will take a look at the proposal and go from there. You would be aware that a number of Leopard tanks, for example, will be going to RSL clubs. The process there is run by the DMO and it seems to work okay.

**Mr BRUCE SCOTT**—They will make the decision on where they go based on an application or—

**Air Chief Marshal Houston**—It depends. Ministers do get involved if there is high demand for a particular piece of equipment.

**Mr BRUCE SCOTT**—The Oakey aviation base has their museum there and you will often get requests for letters of support for things and there is the odd RSL dating back through time.

**Air Chief Marshal Houston**—Museums are probably in a better position to obtain equipment we have used. They are probably better placed.

**Mr BALDWIN**—Secretary, I want to ask you about the strategic reform program. The SRP says that you have got 350 properties, 350 leases and 70 major bases. It lists five criteria on your basing principles. Can you tell us how much in the budget, in the forward estimates, the disposal or rationalisation of bases and the sale of surplus land make up as a part of that \$20 billion worth of savings?

**Mr Warner**—Yes, I can: nothing, zero.

**Mr BALDWIN**—From memory, the forward estimates in the budget papers said there would be an excess of \$200 million.

**Mr Warner**—\$190 million, I think, would be spent on remediation. An additional \$190 million would be spent on remediation of bases over the forward estimates.

**Mr BALDWIN**—I do not have the budget papers with me so I cannot pull it up, but there was section in there that talked about income from the disposal of assets.

**Mr Warner**—We are always selling bits and pieces, parcels, of the 3.4 million hectares of land in the bases that we own that you referred to. But that is not part of the savings program. Any money that is derived from the sale of defence property does not come to Defence, it finds its way—sadly—back to Finance.

**Mr BALDWIN**—That is terrible. When will the list of base rationalisations and property disposals be listed?

**Mr Warner**—This issue is still before government and no decisions have been made at all in respect of base rationalisation.

**Mr BALDWIN**—So just to be clear: none of the base rationalisation or property sales makes a part of your \$20 billion in cuts.

**Mr Warner**—That is right.

**Mr BALDWIN**—The money from all that goes purely back into consolidated revenue, not back into Defence?

**Mr Warner**—We need to separate the usual process of property sales, which has always occurred—that money goes back into government coffers; it does not stay with Defence and that has always been the situation—and what you have on page 23 of the booklet that talks about the Defence estate and has those five principles that you referred to. That also says:

No decisions have been made by government about base rationalisation.

It is an issue still before government.

**Mr BALDWIN**—In general, what bases are recommended for closing, given that Minister Kelly in the parliament this week during consideration in detail of the budget referred to creating superbases and talked particularly about Amberley?

**Mr Warner**—I am sure you will understand that, as this is a matter that is still before government, there are no further details that I can go into.

**Mr BALDWIN**—Without naming individual bases, how many bases would you see us reducing to?

**Mr Warner**—I can only repeat what I have said: this is a matter before government and no decisions have been made about any rationalisation—we are still in the process of going forward to government and government is still considering this issue.

**Air Chief Marshal Houston**—Mr Baldwin, I presume you are aware of the strategic basing principles that are in the white paper?

**Mr BALDWIN**—That is the five basic principles?

**Air Chief Marshal Houston**—Yes.

**Mr BALDWIN**—Yes. I have those.

**CHAIR**—I do not want to go to any particular case, but can I ask about the administration of the pay system—having a pay system that accurately and rapidly adjusts pay as required by decisions of the appropriate authorities. We have experienced a couple of examples going back some years where decisions were taken but it took many months for that to translate to pay in the pocket of the service men and women. Why is that so and how are we redressing that?

**Mr Warner**—This goes to the whole issue of the reform program: the inefficiencies within Defence, the poor processes that we have in Defence in many areas, the poor systems that we have in other areas and the need for there to be a holistic process of reform. One of the issues we had most recently, of course, was the SAS pay debacle, where a number of factors were in play: the lack of specific and clear individual accountabilities, the lack of good process and the fact that there are IT systems in respect of pay and HR which do not talk to each other and are old, inefficient and in some respects even ‘handraulic’.

All those questions and problems led to the SAS pay problems and to the other pay problems that you are referring to. What we are doing now—since the reform program has been agreed and since we have been through this problem with special forces pay—is to go to government with a program that will knit together our various processes, update our ICT systems, create a shared services approach to payroll and to payroll reform and give us much clearer individual accountabilities.

That whole process, and I talked about this at Senate estimates the other day, will take some years to get in place. That is just because defence is so big, the processes are so large and the ICT systems are so expensive and so diverse. But we are giving ourselves three years to get that right, and the process has begun.

**CHAIR**—What has bewildered me about this from day one is this. Integrated pay and personnel systems are not new, nor are they rocket science. We are not talking about designing the next fifth-generation fighter here. These are systems commonly in use in large organisations with complex structures. I have to say that I had always just assumed similar capabilities existed within defence. When I found that was not the case, I was personally very surprised. I do not know how that situation could occur and be lived with. We are talking here about a core business function of any organisation. Why have we had this problem? The other side of the coin is: why does it take three years to fix it? Are there not commercial, off-the-shelf packages available for this sort of thing? Or are we tailor-making something for us?

**Mr Warner**—Let me take your two questions one by one. I have talked publicly and I have talked to Senate estimates about defence's broken backbone. This is part of defence's broken backbone. I talked earlier about the qualified financial statements and how they were indicative of a broader problem of malaise right throughout defence. Defence does many things extremely well, and it does some things very badly. There are myriad reasons for that. Some of them relate to the fact that all defence organisations are large and complex. They are not just war-fighting machines. They are also hoteliers, restaurateurs and land managers. All defence organisations suffer to varying degrees from these sorts of problems—the Brits, the Americans, the Canadians, the New Zealanders do too. Anyone who is like minded is going through the same process, as Angus put it before, of continuous reform.

In some areas—and this goes back decades—governments have not focused their attention or their money into the backbone of the defence organisation. That has gone into shiny toys. It is much more exciting to put money into jet fighters, ships, submarines and battalions than it is into ICT systems, payroll processes or estate management. I could go on and on. This is an endemic problem. The reform program that the government has agreed to and that defence is determined to push through will address this issue—will address all the issues—in respect of the broken backbone. As I said earlier, we will be taking money from inefficient areas and putting it to higher priority areas. One of the highest priorities we have is fixing our wretchedly poor ICT systems. Those wretchedly poor ICT systems have impacted, and do impact today, on our ability to pay our staff in an efficient and effective way.

Why is it going to take three years? It is because it is so difficult and it is so complex. You just cannot transition to a single payroll ICT system overnight. You have to transfer the data. You have to plan it. You need to get it right. A lot of large organisations have gone down this path. You are right, a lot of them have done it successfully, but a lot of them have done it unsuccessfully and ended up in an even greater pickle than they were in beforehand. We need to get this right to ensure that we do not have any further SAS pay debacles. We need to get it right so that this underpinning of the defence organisation works as well as some other parts do.

**CHAIR**—So we are getting a system designed specifically, are we?

**Mr Warner**—We are just at the beginning of this process. I hope that we do not get a system designed specifically, because I think there are some very great risks in doing that. As you said, I hope we can actually get an off-the-shelf system that will suit our processes. Bear this in mind. It is not just the ICT systems that are broken. It is more than that that led to the SAS problems. But we have three relevant pay systems here. We have ADF pay, we have CENRES, which does Reserve pay, and we have Def pay. CENRES is MS-DOS. This is as old as it gets in ICT

systems. The other two systems do not talk to each other. This is a ridiculous and appalling situation, but it is a situation we are faced with and a situation we are determined to fix.

**CHAIR**—We look forward next year to some progress.

**Air Chief Marshal Houston**—The other thing that is going on here is a total reform of our remuneration system. We are rolling allowances into pay and we are banding our pay and so on. This probably would not have popped up in the form it did if we had been going along not changing anything. The fact is that we are in the process of completely turning our remuneration system upside down, and the system was incapable of handling those sorts of changes.

**CHAIR**—I did earlier suggest that about this time we would go in camera. Can I ask those people who are not members of the committee or staff required by Mr Warner or Air Chief Marshal Houston to depart. For the secretariat, the secretary and the defence adviser only can remain. I will take your advice as to who you require from your department and staff.

**Air Chief Marshal Houston**—These are our staff.

**CHAIR**—That is fine.

Resolved (on motion by **Mr Scott**):

That this subcommittee authorises publication of the transcript of the evidence given before it at public hearing this day.

*Evidence was then taken in camera—*

**Subcommittee adjourned at 11.07 am**