



Australian Government
Department of Defence
Strategy, Coordination and Governance

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14 November 2008

Dr Margot Kerley
Secretary
Joint Standing Committee on
Foreign Affairs Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Dr Kerley *Margot*

Please find attached responses to questions taken on notice from the Defence Annual Report 2006-07 hearing held in August this year.

The responses have been cleared by the Minister for Defence, the Hon Joel Fitzgibbon MP.

Also attached are the responses to the eight questions in writing, received following the hearing.

If you would like to discuss further, please contact Cameron Gill, Director Ministerial and Parliamentary Reporting, on telephone (02) 6265 6277.

Yours sincerely

Tony Corcoran
Tony Corcoran
Assistant Secretary
Ministerial and Executive Support
Ministerial Support and Public Affairs Division

JSCFADT Defence Sub Committee

Inquiry into Defence Annual Report 2006-07 – 29 August 2008

List of questions taken on notice, and in writing, by the Department of Defence

QUESTION	TOPIC	ASKED BY
1	Submariner retention issues	Mr Scott
2	Recruitment and retention of air traffic controllers	Mr Baldwin
3	FBT effects on free return flights for Defence personnel	Chair
4	Surveys on Cadets and joining the ADF	Chair
5	Efficiency Dividend	Mr Baldwin
W1	Joint Strike Fighter	Mr Bevis
W2	Future Air Capability	Mr Bevis
W3	Lightweight Torpedo Project	Mr Bevis
W4	Project Vigilare	Mr Bevis
W5	Project Wedgetail	Mr Bevis
W6	AP-3C Aircraft Fleet	Mr Bevis
W7	FFG Upgrade	Mr Bevis
W8	Major project slippages and reallocation of funding	Mr Bevis

JSCFADT Defence Sub Committee

Inquiry into Defence Annual Report 2006-07 – 29 August 2008

Responses to questions taken on notice, and in writing, by the Department of Defence

Q1

Submariner retention issues

Mr Bruce Scott, Hansard, 29 August 2008, p7

Could you advise whether we are able to fully crew our submarine capability?

RESPONSE

As at 3 October 2008, the Royal Australian Navy's submarine workforce was at 63.7 per cent of the required number of submariners across the fleet. We need 667 submariners. We presently have 425 submariners. Currently, the Navy is able to crew three submarines using three operational crews. It is expected that a fourth crew can be sustained from mid-2010. A concerted submariner recruitment effort is being made.

Q2

Recruitment and retention of air traffic controllers

Mr Baldwin , Hansard, 29 August 2008, p8

Could you please inform the committee how many air traffic controllers we lost last year and this year, what is the shortfall, what we are doing to recruit and retain air traffic controllers and what bases are affected in operational capability by the reduction in air traffic controllers?

RESPONSE

There were 14 Air Force Air Traffic Control separations in the period 1 July 2007 to 30 June 2008. So far this financial year (to 25 September 2008), there have been 18 separations. The surge has been attributed to better remuneration and location conditions offered by Airservices Australia which has recruited 15 of these personnel since July. There may be some additional separations in a follow-on round of recruiting which will take effect in January 2009.

We currently have a shortfall of 14 personnel spread across 11 detachments that deliver air traffic control services. The Air Force maintains a robust training program and intends to start an additional ab-initio course in November 2008 for 12 recruits. Total graduations in 2009 are expected to exceed 30, which will meet Air Force requirements.

The Minister for Defence has approved a retention bonus of \$30,000 to be paid to a target group of experienced controllers for short-term assurance of keeping the experience levels to maintain capability sustainment. Longer term sustainment initiatives are aimed at improving career opportunities, location stability and core remuneration. Resources have been allocated to progress these initiatives and they are underway.

In terms of operational capability, there has been a slight reduction in airfield operating hours at East Sale and Nowra air bases, but operational capability and safety have not been compromised.

JSCFADT Defence Sub Committee

Inquiry into Defence Annual Report 2006-07 – 29 August 2008

Responses to questions taken on notice, and in writing, by the Department of Defence

Q3

FBT effects on free return flights for Defence personnel

Chair, Hansard, 29 August 2008, p9

Could you please provide the committee with following information:

- a) a list of the postings that attract the free return flights which are subject to the FBT; and
- b) the basis of Defence's argument as to why you think there should be some relief from FBT in respect of Defence personnel's return flights?

RESPONSE

- a) For ADF members, Darwin attracts an annual entitlement to remote location leave travel (RLLT) while Cairns and Townsville attract a biennial entitlement. These locations are recognised by the ADF as remote, but they are not recognised by the Australian Taxation Office as such (it does recognise Darwin as a remote location for charities, the police force and certain hospitals). The value of RLLT undertaken by ADF members posted to these locations is reportable on Payment Summaries.
- b) The vast majority of ADF members posted to ADF-recognised remote locations are posted to Darwin, Cairns and Townsville. Defence has not sought relief through exemption from the requirement for the Department to pay Fringe Benefits Tax (FBT) on RLLT. However, Defence has sought relief on behalf of ADF members by way of exclusion from the FBT Payment Summary reporting requirement for RLLT through three formal submissions by Defence to the Treasury in 1999, 2002 and 2006. The basis of Defence's submissions was:
 - RLLT is intended to support a small, highly deployable and well-trained Defence Force which has contemporary needs and aspirations for partners and families. There is evidence that a number of ADF members do not access their full entitlement to RLLT due to the potential impact that Payment Summary reporting would have on their government benefits or liabilities. This has the unfortunate result that members and their families become unhappy with their ADF conditions of service, particularly when they are required to move to areas where they are remote from extended family and where employment opportunities for partners are limited.
 - The impact of FBT reporting of RLLT is seen by ADF members in the north of Australia as an unfair consequence of a condition of service that is necessitated by the Government's requirement to have an ADF presence in northern Australia.
 - Members serving in Darwin, Cairns and Townsville do not understand why their RLLT is reportable on payment summaries while the travel for members in Tindal, just three hours away from Darwin and with a similar level of climatic discomfort, is excluded.
 - Attraction, retention and morale of members posted to northern Australia are issues of utmost concern to the ADF. These issues have the capacity to affect operational efficiency in the medium to long term.
 - Retention of ADF members rather than their replacement constitutes a major cost benefit to the Commonwealth.

Q4

Surveys on Cadets and joining the ADF

Chair, Hansard, 29 August 2008, p9

Is work being done on surveying attitudes towards joining the ADF either among the general cohort of the cadet age group or among the cadets on entry?

RESPONSE

An attitudinal survey of ADF Cadets and Cadet Staff was undertaken in 2007. Cadet views were sought on their knowledge of, and interest in, the ADF and included a measure of the Cadets' intent to join the ADF. The report found that 79.1 per cent of respondents had an interest in joining one of the Services prior to joining the Cadets. This was consistent with the findings of a 2004 survey. Overall, 42.1 per cent of Cadets indicated that they would 'definitely' consider a career in one of the Services, and a further 18.9 per cent indicated they would 'probably consider' such a career.

Defence also commissioned a pilot study in 2008 to measure the awareness of, and perceptions around, ADF Cadets among the broader Australian community. A more detailed study was also undertaken into community views of the motivators and barriers to joining the ADF Cadets. This study found that 71 per cent of youth who would consider joining Cadets would also consider joining the ADF, compared to 39 per cent of all youth who would consider joining the ADF.

ADF recruits may also complete a voluntary survey upon enlistment. Results indicate that 51 per cent of respondents had previous military-like experience with the Cadets, and 10.78 per cent indicated that Cadet participation influenced their decision to join the ADF.

Q5

Efficiency Dividend

Mr Baldwin, Hansard, 29 August 2008, p49

To which part of the defence budget does the efficiency dividend apply?

RESPONSE

The Government's efficiency dividend is applied to civilian and non-operational functions and activities within Defence. This has no impact on the operational and military side of the organisation.

The following items are currently exempt from the application of the efficiency dividend to Defence appropriations:

- Military Employees Expense
- Housing and Accommodation
- Major Capital Equipment Program (Approved and Unapproved)
- Major Capital Facilities (includes facilities Net Personnel and Operating Costs)
- Defence Capability Plan Net Personnel and Operating Costs
- Capability Sustainment (Material Sustainment Budget)
- Outcome 1: Command of Operations
- Net Additional Cost of Current Operations
- Outcome 6: Intelligence
- DSTO (70 per cent Exempt)
- Special Purpose Aircraft
- ADFA
- Service Training Commands:
 - Navy
 - Army
 - Air Force
- DMO Workforce relating to DMO outputs 1 & 2

JSCFADT Defence Sub Committee

Inquiry into Defence Annual Report 2006-07 – 29 August 2008

Responses to questions taken on notice, and in writing, by the Department of Defence

W1

Joint Strike Fighter

Mr Bevis, Written, 4 September 2008

Please comment on the concerns raised in Submission 2 regarding the RAAF's Loss of Professional Mastery and detailed in Submission 7. In particular:

- a) With regard to the Joint Strike Fighter (JSF), at the Senate Estimates Hearing on 20 February 2008, CDF advised that the JSF was one platform in a "system". If this "system" fails, then the individual platforms will fight against our adversaries' individual platforms (page 14 of Submission 7). Shouldn't the ADF be seeking superior system components that together create a superior "system"?
- b) The concern detailed at page 16 of Submission 7, that Australia disregarded USAF analysis that dictates the acquisition of an air dominance fighter is necessary to ensure air superiority.
- c) On pages 21 and 23 of Submission 7, concern is raised over the fielding of capabilities in our region that will be superior to both the Super Hornet and the JSF.
- d) Much discussion during the two public hearings into the Defence Annual Report has centred on the "cost" of the JSF. On page 26 of Submission 7, the authors argue that Defence should be looking at the "cost of mission/capability", rather than the "cost of an aircraft".

RESPONSE

- a) The planned air combat capability "system" includes the combination of:

- the advanced Super Hornet and Joint Strike Fighter,
- advanced weapons,
- key force multipliers of the Airborne Early Warning and Control and Multi-Role Tanker Transport aircraft,
- advanced intelligence, surveillance and reconnaissance systems such as the Jindalee Operational Radar Network,
- broad command and control capabilities such as Vigilaire, and
- highly trained people and advanced tactics and doctrine.

The total "system" will provide Australia with the edge; however, even at a platform versus platform level, future ADF platforms offer significant benefits over likely threat systems. For example, when considering the capability of an air combat aircraft the entire 'kill-chain' (detect, track, shoot, guide, hit, survive) must be considered rather than simple characteristics such as aerodynamics. The JSF's combination of stealth, advanced sensors, data fusion, data links, situation awareness, weapons and countermeasures, coupled with superior training, currency and professional development of our crews, give it a major advantage over any likely threat systems.

- b) Maintaining air superiority in likely threat scenarios is a fundamental role of the RAAF. Ongoing Defence analysis shows that the JSF, when integrated into the networked ADF, can achieve that in a way we can afford to acquire and sustain throughout its life. The USAF has a broader range of strategic requirements and has decided it needs a dedicated air dominance fighter, the F-22. It is useful to note that, among the JSF partner nations/services, the USN, USMC, Royal Navy, the Netherlands, Turkey, Canada, Denmark, and Norway are looking to the JSF to provide their sole or primary air combat capability.

JSCFADT Defence Sub Committee

Inquiry into Defence Annual Report 2006-07 – 29 August 2008

Responses to questions taken on notice, and in writing, by the Department of Defence

- c) As identified in a) above, capabilities must be considered in the context of the overall system and environment rather than specific platform elements. That said, air combat aircraft capabilities are a critical element of overall system capabilities. While there is no doubt that there will be an increased air combat capability within our region in the coming years, ongoing analysis by Defence shows that the Super Hornet and subsequently the JSF will provide the capability the ADF needs. It should be noted that the Super Hornet will provide the front-line capability for the USN out to around 2015 at which time it will be progressively replaced by the JSF which will then become the USN's front-line fighter.
- d) Defence fully agrees. The ADF's future air combat aircraft must be affordable to acquire, operate, sustain and upgrade throughout its life. Ongoing analysis by Defence, including DSTO, shows that the JSF offers the most cost effective capability for the ADF's needs.

W2

Future Air Capability

Mr Bevis, Written, 4 September 2008

On pages 19 to 22 of Exhibit 2 – Discussion Paper (Issue V) “Strategic Needs and Force Structure Analysis: The Thinking Behind the F-22A and Evolved F-111 Force Mix Option”, the authors discuss “Force Multipliers (2005 – 2035)”. Please provide your thoughts regarding the impact of these capabilities in our region and their impact on Australia’s ability to maintain air superiority into the future.

RESPONSE

The introduction of air-to-air refuelling and airborne early warning and control platforms, and improvement of air launched weapons within the region is expected. Defence analysis takes into account likely developments in regional systems and planned acquisitions, and recognition of the need for ongoing upgrades to ADF systems, are factored in Defence capability planning.

W3

Lightweight Torpedo Project

Mr Bevis, Written, 4 September 2008

What was the cause of the significant underspend from both the Budget Estimate and the Revised Estimate for the Lightweight Torpedo Project (JP2070)? What is the current status of this project?

RESPONSE

JP2070 Phase 2 - Lightweight Torpedo Replacement (MU90)

The underspend was due primarily to the achievement of the Factory Acceptance Test of the first batch of torpedoes slipping from April 2007 to July 2007. The slippage was due to technical problems with the torpedo, which have since been resolved. The under expenditure in 2006-07 was rolled in to 2007-08. The 2007-08 achievement for Phase 2 was \$33m against an Additional Estimates budget of \$32m.

JP2070 Phase 3 - Lightweight Torpedo Replacement (MU90)

The underspend was due to a delay by the contractors in delivering major software documentation and the late ordering of long-lead items by the contractor, which has since been resolved. The under expenditure in 2006-07 was rolled in to 2007-08. The 2007-08 achievement for Phase 3 was \$46m against an additional Estimates budget of \$47m.

JSCFADT Defence Sub Committee

Inquiry into Defence Annual Report 2006-07 – 29 August 2008

Responses to questions taken on notice, and in writing, by the Department of Defence

W4

Project Vigilare

Mr Bevis, Written, 4 September 2008

Project Vigilare (AIR 5333) – Is the first command and control system still expected to be installed and operational at Tindal by early 2009? Or is Boeing still struggling to deliver this capability on time?

RESPONSE

Vigilare's initial operational capability, represented by conditional acceptance of the Northern Regional Operations Centre at RAAF Tindal, is currently planned to be provided to the RAAF in April 2010. Boeing commenced installation at the Northern Regional Operations Centre in May 2008.

Vigilare's final operational capability, represented by conditional acceptance of the Eastern Regional Operations Centre at RAAF Williamtown, is currently planned to be provided to the RAAF in June 2011.

Progress on the project has been slower than all parties anticipated, but the criteria for the first few major milestones have been satisfied. The dates depend on the current schedules being met for other new and existing systems to which Vigilare is required to interface.

W5

Project Wedgetail

Mr Bevis, Written, 4 September 2008

In relation to Project Wedgetail:

- a) Is it customary in aircraft projects of this kind for sensors to be individualised for each platform or is it normal for these sensors / components to be interchangeable between like-platforms / aircraft?
- b) What work has been done on the through life service (TLS) costs for Wedgetail, given that Australia is currently the only confirmed customer / sole-user of this platform? Were the TLS costs based on this fact or did we base the TLS costs on predicted sales to other countries?
- c) Are we expecting that other countries will purchase Wedgetail? If yes, do we have an estimate of which countries and what numbers they will buy?
- d) What is the number of aircraft considered to be 'critical mass' for cost effective TLS? What additional premium will Australia be paying as a result of Boeing not achieving critical mass for construction of this platform?

RESPONSE

- a) It is customary for sensors and components to be common across the fleet and interchangeable between platforms within the fleet. This will be the case on delivery of the Wedgetail platforms. However, while the surveillance radars (the primary sensor) will all be delivered to the same build configuration, each one will be calibrated to the airframe upon which it is mounted. Interchanging radars between platforms is not envisaged.
- b) Through-life-support costs for Wedgetail were the subject of detailed consideration during the tender evaluation/source selection phase conducted in 1999. Initial cost estimates that formed part of the source selection decision were based on the assumption that Australia would be the sole customer for the B737-AEW&C product.
- c) Boeing is currently under contract to two other countries for the B737-AEW&C: Turkey ordered four aircraft in 2002 and the Republic of South Korea ordered four aircraft in 2006. The United Arab Emirates is currently conducting a competitive evaluation for the supply of four AEW aircraft and Boeing is an active bidder in that process with the B737-AEW&C. A number of other nations, including Oman and India, have also expressed interest in the AEW&C capability. The US Air National Guard has also expressed interest in acquiring some aircraft for its Homeland Defense role in due course. The Wedgetail capability is the cornerstone of the B737-AEW&C product line and, once the capability is delivered, greater US government and international interest is anticipated.
- d) The through-life-support cost analysis conducted during the tender evaluation/source selection phase did not include consideration of the 'critical mass' that would be required to optimise through-life-support costs. Demonstrated in-service performance, including exercising supply chains, would be required to support this assessment, noting that Wedgetail is a first-of-type. The premium Australia might pay as a result of world-wide fleet numbers remaining at their current level of 14 is not able to be estimated with any reliability at this time.

JSCFADT Defence Sub Committee
Inquiry into Defence Annual Report 2006-07 – 29 August 2008
Responses to questions taken on notice, and in writing, by the Department of Defence

W6

AP-3C Aircraft Fleet

Mr Bevis, Written, 4 September 2008

In relation to the AP-3C aircraft fleet:

- a) What led to the poor serviceability and spares issues, limited maintenance capability and reduced flying hours of the AP-3C aircraft fleet (page 87 of ASPI "Cost of Defence")?
- b) What is the current status of the AP-3C replacement project (AIR 7000)?

RESPONSE

- a) During 2006-07, the AP-3C fleet experienced a number of airframe problems that impacted availability and serviceability. Major problems included unscheduled engine removal because of fuel nozzle defects, air conditioning system component failures, aircraft oxygen system repairs and fatigue crack repairs to tailplanes on seven aircraft which required rework through the deeper maintenance contractor.

The AP-3C has suffered spares problems with a number of critical systems, because some spares are not held in large numbers as they are of high value, and have relatively low failure rates. When rapid, unpredictable high failure rates appear because of system age, serviceability reduction occurs. Ageing aircraft systems are also likely to suffer obsolescence effects.

During 2006-07, AP-3C maintenance capability had been stretched significantly due to the high level of deployed commitments and the need to divide the workforce across numerous operating locations. This required close management attention to achieve the delivered outcomes without adversely affecting safety or airworthiness.

- b) Project AIR7000 is intended to provide an unmanned and manned Maritime Intelligence Surveillance Reconnaissance and Response capability to perform the tasks currently undertaken by the AP-3C Orion. AIR 7000 Phase 1 will acquire the Multi-mission Unmanned Aerial System and AIR 7000 Phase 2 will acquire the manned aircraft.

Through a cooperative program with the United States Navy, Air 7000 Phase 1 personnel participated in the joint assessment of Requests for Proposals for the Broad Area Maritime Surveillance (BAMS) Unmanned Aerial System. BAMS Source Selection took place on 8 April 2008 with the Northrop Grumman RQ-4N Global Hawk selected as the preferred BAMS solution.

A decision by the Government on AIR 7000 Phase 1 is expected in the next few months.

AIR 7000 Phase 2 was granted First Pass approval on 16 July 2007, at which time the Government agreed to investigate the Boeing P-8A Poseidon maritime patrol and response aircraft as the manned platform. We commenced negotiating a Memorandum of Understanding with the USN in October 2007 to participate in a cooperative development program for the P-8A Spiral 1. These negotiations are continuing and are scheduled to be concluded before the end of 2008.

JSCFADT Defence Sub Committee
Inquiry into Defence Annual Report 2006-07 – 29 August 2008
Responses to questions taken on notice, and in writing, by the Department of Defence

W7

FFG Upgrade

Mr Bevis, Written, 4 September 2008

Please comment on the FFG upgrade and the potential erosion of costs if funding is not maintained until at least the concurrent introduction of the Air Warfare Destroyer in 2015 (page 160 of ASPI "Cost of Defence").

RESPONSE

The four upgraded FFGs are planned to be decommissioned progressively between 2015 and 2021 to align with the Air Warfare Destroyer's introduction into service. The Defence Management and Finance Plan (10-year planning basis) and current Materiel Support Agreement between the Navy and the Defence Materiel Organisation include the necessary funding to keep the FFGs operational, materially safe and fit for purpose throughout that period.

W8

Major project slippages and reallocation of funding

Mr Bevis, Written, 4 September 2008

A recent report by the United Kingdom's Public Accounts Committee was quite critical of Defence spending, particularly concerning major project slippages and the subsequent reallocation of funding. Please provide your opinion on whether the same could be said of the ADF/DMO and to what extent.

RESPONSE

The report made seven conclusions and recommendations, of which three directly related to specific UK projects or processes and therefore are not relevant to the DMO. The remaining four could be viewed as having applicability to Australia. The UK report's major criticisms centred on cost shifting and therefore placing increasing burdens on non-project budgets to absorb these transferred costs.

Post Kinnaird and the introduction of the Two Pass process, the DMO has demonstrated, backed up by Mark Thomson from ASPI's analysis in his 2008-09 Budget Brief, that project costs post-Second Pass overall are within about 98 per cent of project approval value when corrected for foreign exchange, inflation, changed quantities, and scope. Pre-Second Pass cost estimation remains problematic for Defence, given the uncertainty over the type and number of capabilities required in the future and the future environment in which they will operate.

The Two Pass process, and associated Net Personnel and Operating Costs process, ensures that all areas within Defence are engaged in the development and assessment of project costs and ongoing operating costs. Therefore, the criticisms of the UK Defence process could not be said to be a concern in the Australian context.