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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Defence Subcommittee

Wednesday, 8 May 2002

Members: Senator Ferguson (*Chair*), Mr Brereton (*Deputy Chair*), Senators Bourne, Calvert, Chapman, Cook, Evans, Gibbs, Harradine, Hutchins, Sandy Macdonald, Payne and Schacht and Mr Baird, Baldwin, Mr Beazley, Mr Bevis, Mr Edwards, Mr Ferguson, Mrs Gash, Mr Hawker, Mr Jull, Mr Lindsay, Dr Martin, Mrs Moylan, Mr Nairn, Mr Price, Mr Prosser, Mr Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Subcommittee members: Mr Scott (*Chair*), Mr Price (*Deputy Chair*) Senators Calvert, Evans, Ferguson (*ex officio*), Gibbs, Sandy Macdonald, Payne and Schacht and Mr Baldwin, Mr Beazley, Mr Bevis, Mr Brereton, Mr Edwards, Mrs Gash, Mr Hawker, Mr Lindsay, Mr Nairn, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Senators and members in attendance: Senators Calvert, Ferguson, Gibbs, Sandy Macdonald and Schacht and Mr Baldwin, Mr Bevis, Mr Edwards, Mr Price, Mr Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Terms of reference for the inquiry:

Review of Defence report 2000-01

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Subcommittee met at 10.15 a.m.

BENNETT, Mr Lloyd Peter, Acting Chief Finance Officer, Department of Defence

HAWKE, Dr Allan Douglas, Secretary, Department of Defence

MUELLER, Lieutenant General Desmond Maurice, Vice Chief of the Defence Force, Department of Defence

McLENNAN, Air Commodore Roxley Kenneth, Director General, Career Management Policy, Department of Defence

ROCHE, Mr Michael John, Under Secretary, Defence Materiel Organisation

CHAIR—I declare open this first public meeting of the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade for the 40th Parliament. The purpose of today's hearing is to review the Defence annual report 2000-01. Under the provisions of the resolution of appointment of the committee, annual reports of relevant government departments and authorities tabled in the House stand referred to the committee for any inquiry the committee may wish to make. As the Defence report rightly points out, the annual report, together with the portfolio budget statement, is the principal formal accountability mechanism between government, the department and the parliament. It is fitting, therefore, that the committee examine the report in its entirety at this public forum.

The committee is pleased to welcome the Secretary of the Department of Defence, the Acting Chief of the Defence Force and other representatives of Defence who will appear here today to assist the committee in this review. I advise you that the proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the subcommittee may be regarded as a contempt of parliament. The subcommittee prefers that all evidence is given in public, but should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. I now invite Dr Hawke to make some opening remarks before we proceed to questions.

Dr Hawke—Mr Chairman, I have not prepared a formal presentation, but if it is the wish of the committee, I could give you about eight to 10 minutes on the conceptual underpinning of what we are trying to do in the organisation—if that would help.

CHAIR—Yes, it would.

Slides were then shown—

Dr Hawke—I have brought along three slides to demonstrate this. These are the same three slides that I presented to the senior leadership of Defence in February 2000 about what we will do. I spoke about what was called the big 'S' strategy and the little 's' strategy. The big 'S' strategy was essentially about delivering by the end of the year 2000 the Defence white paper. That was important for us because it would give us our riding instructions in terms of the strategic circumstances we would face in the region, the sorts of capabilities that the

government might wish to have in the Defence Force and the sorts of military response options it might call upon the ADF to exercise. Associated with that, of course, was the issue of the funding for the forward years.

Ironically, that big ‘S’ strategy—delivering the white paper—I thought would prove easier than delivering the little ‘s’, which was all about organisational renewal or transformation. I said at that time that this would be a harder thing to do, that we would make some mistakes along the way, but that really this was a three- to five-year time frame we were looking at to get our house in order. What we did then was fundamentally readdress our purpose—some people call this ‘mission’. The reason for that is that during the 20th century the mission that had served Defence well was to prevent or defend Australia against armed attack. But as we moved into the 21st century it was highly likely that the ADF would be called upon to do other sorts of activities. These activities were outlined in the white paper at the end of 2000 and included issues like terrorism, cyberattack, illegal fishing and people-smuggling as well as our normal work in terms of humanitarian assistance, peacekeeping, peacemaking and the like. Contained in the overview of the annual report was the change to Defence’s mission which was simply to defend Australia and its national interests.

We spoke about a future or a vision for the organisation—and again that is dealt with in the annual report—and we have delivered that. We also had some discussion about values. The reason for this is that people do not actually join the Australian Defence Organisation; they probably do not even join the Australian Defence Force. They either join the Navy, the Army, the Air Force or what we call the fourth service: the Australian Public Service. Each of those has its own traditions, mores, esprit de corps and way of doing business. At the senior leadership level—the top 250 people who are one-star military officers, Senior Executive Service Band 1 equivalents and above—you have a responsibility to work across the Defence organisation as well as within each of those four arms of the organisation. So the senior leadership group then proceeded in June 2000 to develop a set of values and unbreakable rules and they are articulated in the overview in front of you.

We—and I use the word ‘we’ because Admiral Chris Barrie and I, the co-leaders of the Defence Organisation, ran all of this jointly—said that we wanted to have a ‘results through people’ leadership philosophy. This slide has actually attracted a bit of comment around the town and elsewhere. I will explain that in terms of accrual based outcome budgeting. Each year, in the form of the budget, the government purchases from Defence a set of outputs. The minister is the person who, on behalf of the government, oversees the delivery of those outputs. In that context my guess is that the government and the parliament are interested in whether we are delivering value for the taxpayer’s dollar.

The next point was the one that caused a bit of a stir. I made the point that public sector organisations and departments of state are a bit unusual because the purchaser or the customer, if you want to think about it in those terms, is also the owner of the business. But it is important to understand, and I said this at the time, that the government of the day own Defence in a stewardship capacity. While ever they are elected by the Australian people and remain in government, they have a stewardship responsibility to build and hopefully sustain organisational capability. All the ministers I have ever known or worked with are genuinely interested in leaving an organisation in better shape than when they inherited it. This caused some debate because there was some argument about whether or not the minister was the boss. We can return

to that a little later if you wish. I also made the point that, if we were truly aspiring to be what is called in the jargon a high-performing organisation, we needed to develop almost an obsession with evaluation to establish the criteria against which we would be measured and to check progress against those criteria.

This is the last slide. I made the point that we really wanted to become a people first organisation. The debate here centred around the argument that, surely, the Defence Force should be capability first—that that should be what we look at. We do not actually share that view, because we think the Australian way of war fighting depends on the way in which our people do that. So becoming genuinely a people first organisation in Defence is very difficult. I said at the time that you need to know only four things about this: how to attract, recruit, develop and retain your fair share of talented people. One of my military colleagues pointed out to me that I had missed one: transition. The importance of that was that often, when our uniformed colleagues retired from the ADF to go to civilian life, we did not actually do too much for them. As soon as they signalled that intent, we more or less ignored them. It is much more important for us to actually be intimately involved in the transition of the uniformed arm into civilian life. We have done quite a lot of work in that regard with your former department, Mr Chair. That is essentially the philosophy underlining what we have been trying to do since February 2000.

CHAIR—Thank you. Are there any questions for Dr Hawke?

Mr EDWARDS—I am particularly interested in the issue of people first. It impacts on a whole range of things, including occupational health and safety, proper training of troops and preparedness for overseas duties. Given that you have, in your own words, indicated a poor performance in the area of occupational health, that you do not have enough resources to purchase enough ammunition so that soldiers can have proper firing activities and proper training, and the problem of maintenance in the ADF, I find it very difficult to understand how you can sit on some \$310 million in cash reserves in the bank while there is this unmet need. What is your response to that?

Dr Hawke—The Acting Chief Finance Officer will be here later this morning and you can ask him that in detail. But \$310 million is probably a week's worth of cash for Defence.

Senator SCHACHT—But is that not a short-term base paymaster?

Dr Hawke—No. We would normally have an arrangement with the department of finance on the cash at hand that we would have at the end of the year to roll over early into the new year to pay bills in the first few weeks. It is not an unusual thing.

Mr EDWARDS—Last year the figure that showed up in the report was \$58 million. So \$58 million to \$310 million is a fairly sizeable jump—a jump that occurred during the year when, for instance, our diggers did not have enough ammunition to get the sort of practice that they needed to for live firing exercises.

Dr Hawke—Lloyd Bennett, the Acting Chief Finance Officer, could assist us with that question.

Mr Bennett—One of my concerns is that you balance the liquidity of an organisation so that you have the cash reserves you need to deal with the financing requirements you have. If you were to look at any commercial organisation, you would see that they tend to operate on a 14/30-day cycle of short-term cash at hand to deal with their liquidity requirements. We are probably in a more privileged position in that we would have access to government funds more quickly than they would have access to perhaps their customers' earnings. We probably tend to operate under the eight-day cycle, but it is normal sound commercial practice to make sure that we have cash at hand to deal with any contingency. If we flip across to, say, the ordnance side of the matter, the problem there is the lead time on some of the ordnance. So we should not confuse anything cash at hand with the lead time to purchase that ordnance that is required.

Mr EDWARDS—I understand the need for liquidity. Can you tell me why there was a difference: last year it was \$58 million and this year, as I understand, it is about \$310 million? That is a fairly significant growth at a time when our diggers just do not have enough ammunition for proper live training exercises.

Mr Bennett—I do not know if I can comment on how much ammunition the diggers do or do not have for their training exercises. It is also hard for me to go back in history, given the short time I have been at Defence, and respond immediately today. Again, I would state that it is important we have the adequate cash in hand to deal with the situations as we go through this period.

Mr PRICE—Should we have been alarmed at \$58 million?

Dr Hawke—I think \$58 million would have been less than what was warranted. On the point that Mr Edwards is making, I had understood that Army had said that there was no shortage of ammunition.

Lt Gen. Mueller—I might comment on that particular matter. The first issue, and I think fundamentally the most important one, is that we have not and will not commit sailors, soldiers or airmen to operations if their training in any way has been diminished due to a lack of ammunition. In recent times there have been some ammunition types for which the operating stock levels were not what was desired. In some cases that was due to technical problems and in others it was due to the need to wait for Army to complete their ammunition study, which they are in the process of working on now.

Mr EDWARDS—I appreciate that answer. I have one further question. If our troops are receiving an adequate level of training, particularly on live firing, how do you account for such a large number of unauthorised discharges on deployment in East Timor? Surely that comes back to a lack of training and particularly a lack of live training?

Lt Gen. Mueller—I think that unauthorised discharges are due not so much to lack of training but to negligent weapon-handling on the part of individuals.

Senator SCHACHT—Dr Hawke, I came in a bit late and missed part of your presentation, but I did pick up the end of it. Some time ago we had a discussion in the estimates hearing about whether or not the defence department was part of the government. You told me that it was not and I was somewhat startled at that suggestion. I thought maybe we were arguing semantically

and that we might have actually been agreeing but had a different interpretation. You said that the minister was your boss. If he is your boss, doesn't that make the department part of the Australian government?

Dr Hawke—I do not think so. It is a department of state. Our responsibility is to serve the government of the day no matter what its political persuasion. So I see a distinction there. Anybody who doubts that the minister is the boss should really have a look at sections 8 and 9 of the Defence Act. Also, those who argue that the Governor-General, as commander-in-chief, is the boss of the Defence Force, should have a look at the paper that Sir Ninian Stephen wrote, which explained that he was actually only able to operate in accordance with the instructions from the elected government. So he was not actually the head of the Defence Force in that sense.

Senator SCHACHT—Why then do I get sent to me regularly a book called the *Commonwealth Government Directory* which lists all the departments with telephone numbers—?

Dr Hawke—It also has opposition members, and I doubt that they are part of the government.

Senator SCHACHT—No—

Dr Hawke—No doubt at all.

Senator SCHACHT—It is from different departments. It lists all the telephone numbers and is freely available—it is not a secret document. I would have thought that that is something which should be straightened out by you, Dr Hawke.

Dr Hawke—My view is that we serve the government of the day but that we are not part of the government.

Senator SCHACHT—If, as you say, you serve the government but are not part of the government, do you think it would have been wise for you, as the head of the department, to tell Mr Reith when he was minister that when he clamped down on press releases and public comment—they all had to be cleared by him—that was an indication that he actually saw you as being part of his government in that he was giving those directions and you accepted them?

Dr Hawke—No. He was giving a lawful direction to us as the minister.

Senator SCHACHT—And, as a direction, did you say in your advice as a good public servant, 'Minister, I think this is going overboard. We are a department, not part of the government, and there has to be a balance here'? On the issue of not being part of the government, did you advise him that this was unreasonable?

Dr Hawke—Mr Chairman, am I required to answer that? That goes to an issue of advice between me and the minister.

CHAIR—I would say that you do not necessarily have to answer that if you feel that it is an issue that is between you and the minister.

Senator SCHACHT—You are claiming—

CHAIR—Senator Schacht, I think you have had five questions. We have got a lot of people and are working to a very tight schedule.

Senator SCHACHT—Dr Hawke, you are claiming that that is either cabinet-in-confidence or executive confidence?

Dr Hawke—What I advise the minister is essentially privileged information.

Senator SCHACHT—I think it just proves again that you are part of the government, but this is an argument that you and I are going to continue for some time, long after I am finished in this place.

Senator FERGUSON—Today's program has been divided up into four different sections, but they tend to overlap a bit. There is one issue that I would like to particularly ask Lieutenant General Mueller about. During the life of the last parliament there were a number of inquiries into the behaviour of one of the armed forces in particular. You say that there are reports of unacceptable behaviour. I want you to describe to me the range of things that can be included in 'unacceptable behaviour' because it seems as though within each of the three forces there has been an increase of unacceptable behaviour—minor occurrences as well as major occurrences.

Lt Gen. Mueller—The person who is probably best placed to answer your question would be the head of the Defence Personnel Executive. But, from the documents which cross my desk occasionally, I can say that unacceptable behaviour includes a fairly wide range of misdemeanours for which we have no tolerance. Some of those would quite clearly amount to harassment and others could be viewed as consisting of behaviour which, within the social constructs of an institution like the Defence Force, is simply seen to be out of place.

When I speak of harassment, human nature being what it is, people often turn their minds to harassment of a sexual nature. In talking informally with people who handle these issues, I understand that often it is more a manifestation of bullying, or what I would call inappropriate leadership skills, and that these people can manifest what would be described as inappropriate behaviour. So it covers a fairly wide spectrum. Statistics are kept on inappropriate behaviour and they are reported monthly to the service chiefs.

Senator FERGUSON—Lieutenant General Mueller, when you have a table titled 'Reports of Unacceptable Behaviour', it can be misconstrued. There could be a couple of reports of serious misbehaviour and the others could be very minor infringements of what you consider to be the social norm. I am wondering whether in future those reports of inappropriate behaviour could be separated into incidents of a more serious nature and incidents of a minor nature. My view is that in reading that you could misconstrue the situation. There were 54 reports; we do not know whether there were two serious reports and 52 reports of drunken, disorderly behaviour. It does not give us a true picture.

The other area is incident reports and safety management. This year there seems to be a new entry of 'Dangerous Occurrences with minor injuries', which was not reported on in 1999-2000 but of which there are nearly 1,500 cases in 2000-01. Is this a new statistic that was not gathered before, or was it recorded somewhere else previously? Is there anybody here who knows that?

Lt Gen. Mueller—I am not in a position to provide you with an answer to that immediately, but I can provide it subsequently.

CHAIR—And you will provide that to the committee in writing?

Lt Gen. Mueller—I will try to provide it orally before the committee rises today.

Mr PRICE—Dr Hawke, we talked about the white paper and how we are now engaged in a war on terrorism. When was the ANZUS Treaty invoked? I understand that the ANZUS Treaty was invoked by America—is that correct?

Dr Hawke—Yes, the treaty has been invoked. I cannot remember the precise date, but I will find out for you. My recollection is that it was shortly after September 11, but I will get you the precise date.

Senator SCHACHT—It was invoked by the Americans?

Dr Hawke—I will get that information.

Mr PRICE—Is it fair to say that we are a nation at war as a result of the war on terrorism?

Dr Hawke—Various people talk about the war on terrorism. I am not sure of the precise legal status but, again, I will get that information for you.

Mr PRICE—Clearly this was a government decision, and I understand that the deployment of troops is also supported by the opposition. Has there been a resolution of the parliament in support of the deployment of troops? How many troops have we deployed in the war on terrorism? It is about 1,500, isn't it?

Lt Gen. Mueller—Yes, it is something of that order.

Mr PRICE—Has there been a resolution of either house supporting the deployment of the 1,500 troops?

Dr Hawke—Not that I am aware of, Mr Price.

Mr PRICE—Let me put my cards on the table: I would have thought that it would have been an important issue for the morale of troops deployed to know not only that the government and the opposition support the deployment but that there are formal resolutions of the house supporting the deployment. I am not trying to set you up, but would you concur with that view?

Dr Hawke—I think that is a matter for the parliament and the government. There is no doubt that the troops know that there is bipartisan support for what they are doing. I think that is crystal clear from statements made by successive leaders of the opposition.

Mr PRICE—So you would be indifferent as to whether a resolution is carried or not carried?

Dr Hawke—I think that is a matter for the parliament.

Mr PRICE—I see.

CHAIR—Thank you, Mr Price. We can always come back to this, but I think we should continue.

Mr PRICE—Could I make one small observation. I would not quibble with what you are saying about the department and the ADF operating at the direction of the government, but in the diagram you use in the annual report I think it would be nice to have the people of Australia somewhere. After all, governments of the day operate by writ of the people of Australia and we are all ultimately responsible to them.

Dr Hawke—Absolutely, and that is precisely reflected in Defence's mission or purpose in life: to defend Australia and its national interests. I accept what you are saying, and we shall make an amendment of that kind to the diagram.

CHAIR—Could you repeat that? I missed the end of that, Dr Hawke.

Dr Hawke—Mr Price was asking us to give some recognition in the diagram that we have which shows this structural issue—to give recognition to the Australian people particularly, as I understood it.

Mr BALDWIN—I am not sure who to ask my question to, because it branches across both the military aspect and the administration aspect. It is to do with the Bushranger project. I understand the project is well in excess of 18 months overdue. I also understand that ADI are trying to sell the project off to other parties. This is a project of significant investment that is not allowed for in forward planning and estimates. It begs the question: were the tender documents not set out with the full detail in initial requirements? Are we trying to reinvent the wheel? Can you just provide me with an update on where that is going?

Dr Hawke—By happy coincidence, the under secretary is at the back of the department. May I ask Mr Mick Roche to come and address that question?

CHAIR—Yes, so agreed.

Mr Roche—I am not sure who it is a happy coincidence for that I happen to be here. Bushranger is a troubled project. The original specification that went out to industry in the first instance was varied following the trials that were conducted. The vehicle was made larger and there were a number of other changes made to it. One of the great difficulties we have with Bushranger is that there is nothing else that meets the requirements that is within our budget.

The requirement is to transport a certain number of troops over some distances at speed then take them to the battlefield. There are simply not a lot of options available worldwide.

I do not know whether ADI are attempting to sell it. Certainly ADI are saying that they are very keen to see this project work, but at this stage—until the reliability and a number of other operational issues with the vehicle are resolved—it would be irresponsible for us to proceed with the project. There are a number of issues with the vehicle, which I think the minister referred to in the estimates hearing earlier this year, but the principal one that concerns us is reliability. It is falling far short of the reliability required of the vehicle. There are some other issues associated with noise and so on, and they have to be fixed before we can go ahead.

We are currently negotiating with ADI to bring this to a decision one way or another. We are proposing—and ADI agree with us—that we set a series of quite definitive tests which we would expect to take place before the end of this year, and the three pre-production vehicles that already exist would be put through those tests. There would be clear indicators of a pass or a fail, and a pass would enable the project then to proceed to the next stage, which would be early stage production. My instinct at this stage is that if ADI are able to get those three vehicles to a state where they can pass that test then the prospects for overall success of the project being able to deliver the capability—albeit considerably late and over budget—will be significantly improved. If it fails that test then we will have no option but to take a different route.

Mr BALDWIN—Are you aware that ADI was looking to break up the manufacturing process that it has down in Bendigo, and part of that was selling off the Bushranger project?

Mr Roche—I am not aware of that.

Mr BALDWIN—Would you check that? I am reliably informed that discussions have been held with a number of other companies and in fact those discussions were only stopped in the last couple of weeks.

Mr Roche—I am aware that there have been ongoing discussions for partnerships and so on, and ADI have sought assistance from Oshkosh trucks in the US to provide an independent view of the engineering difficulties which the vehicle faces. They have also at times had discussions with GM Defence and so on, but I am not aware that there is any formal proposal at this stage to break up that facility.

Mr BALDWIN—I suppose it raises the question: was the correct tenderer chosen at the time? We seem to be a long way overdue and we do not have anything yet that we can go into service with, and yet in a competitive tender environment ADI's predecessor was chosen. It has now been acquired by ADI.

Mr Roche—I guess that is something we can only settle with hindsight.

Mr BALDWIN—We just heard from Mr Edwards about resources being provided to our troops. The expectation was that this project would have been up and operational well and truly before now.

Mr Roche—I agree. It is a most unsatisfactory project and the focus of my organisation is on doing everything we can to bring it to fruition. But I take responsibility for the fact that I have in fact stopped some of the processes occurring because, given the current state of readiness of the vehicle, if we were to proceed to production and put it into operation it would embarrass us and it would not help our soldiers one bit.

Mr BALDWIN—In the discussions that you have had with ADI on this, has there been a cost blow-out in the project?

Mr Roche—Yes, there has been. They are unable to deliver the vehicle for the originally quoted price.

Mr BALDWIN—Don't you think then that it would be fairly pertinent to go back out to tender and see who can provide the project at an affordable and realistic cost, rather than awarding it to people and then going through all this design protocol to find that the project is nothing like the original tender documents and nothing like the original price quoted?

Mr Roche—I do not know that it is nothing like the original tender documents, but as I mentioned earlier we have in fact tested the market. One of the early things I did when I looked at the state of this project and was completely unhappy with it was to have a very hard look at the market. If there was a realistic alternative out there, I would be considering it very seriously. But there is nothing out there that we are aware of, worldwide, that moves the number of troops that we are seeking to move in the parameters that we are looking at, with the mix of cross-country and highway, that is within even the modified price that this project is achieving. So we would be forced into a new developmental project.

Mr BALDWIN—So you have explored the options of going back out to market and doing an investigation of what is available in the current environment?

Mr Roche—I have done an investigation of what is available out there, and our investigation does not show a vehicle that would meet the requirements that Bushranger is meeting in terms of either the number of troops or the type of armour—there is a range of parameters there—and there is nothing that I am aware of that is even close. It would require us to go out and seek a developmental project.

A lot of people are prepared to offer us alternatives. You could go out and look at an ASLAV—a light armoured vehicle—for example, which would come with considerably more complexity and at probably three times the price. So there are alternatives out there but none of them are within the project budget. There are other vehicles out there that will transport a lesser number of soldiers or come with a lesser amount of armour or which have other factors.

Senator SCHACHT—I want to add a question. This seems to me like the classic specification being drawn up within Defence for the all singing, all dancing, all flying, all swimming—including the kitchen sink—flying saucer to Mars and back! It is just classic, because you are saying that no other country in the world has decided to design a similar product that is either available in the marketplace or readily available. What is so unique about our specifications that we need something in Australia that no-one else in America, Canada, NATO, South Africa, North China or anywhere else in the world has needed?

Lt Gen. Mueller—I might acquaint the committee with the background to this project because I happened to work in Headquarters Australian Defence Force, as it was called at the time. I can also claim responsibility for calling it Project Bushranger.

Senator SCHACHT—Are we calling all the individual cars Ned Kelly, Captain Starlight or Captain Moonlite?

Lt Gen. Mueller—I had some better names! The requirement for Bushranger arose out of force structure review 1991, which was a force structure review done during the life of the previous Labor government. During that review, and recognising the strategic guidance which prevailed at the time—namely, that we should be structured to respond to how current and prospective regional capabilities could be applied realistically against Australia in both political and military terms—we clearly had a focus on vital asset protection in Northern Australia and we clearly had a focus on the ability of the land force to detect and defeat incursions. We are talking about a distance, east-west, which is somewhat less than that from London to Baghdad. Infantry on their flat feet have significant difficulties in adequately covering those sorts of areas.

Senator SCHACHT—I appreciate that. A Mack truck might have been able to get them from one end of Australia to the other.

Lt Gen. Mueller—So the decision was made that they would be provided with an appropriate degree of cross-country mobility, with some armoured protection. It was considered that, in the light of the requirement and in the light of the budgetary forecasts at that point in 1991, the solution would ideally be one which, to the extent practical, drew on commercially available components which were modified as appropriate to provide the vehicle with armoured protection and certain other capabilities. It is a measure which has been used by some other defence forces, to my own personal knowledge, particularly some years ago by the South African Defence Force. It is a developmental issue and, I suppose from the point of view of the user, the issue, as Mr Roche has indicated, is one of reliability and maintainability which lead to the level of availability. We do not want to impose upon the combat force a vehicle where the availability, which I could probably express in terms of meantime between failure, is unacceptably low.

Mr BALDWIN—Given that the contract has been going for so long now, is there an opportunity to seek damages or losses from ADI over its performance?

Mr Roche—We have certainly investigated that. The legal advice is, I suppose, at best ambiguous. It has been such a long time that both sides have been involved in so many attempts to get this on the right track that I think, in a practical sense, our chances of getting significant damages out of ADI are limited. But then where do you go? You sue under contract law and it puts you back in precisely the position that I described earlier where we have little in the way of ready-made alternatives and we are going back then into either a much more expensive solution or a developmental solution. So we have to make a judgment at this point.

Mr BALDWIN—If it is a developmental project, given that you are going through so much redevelopment and renegotiation with ADI, perhaps it is feasible to go out into the marketplace, to other people in Australia. What we seem to have here is a project which was tendered, which has not been delivered on and which has been completely renegotiated and redesigned. In your

earlier answers you said that you could not find what you wanted and that nobody else has it, yet at the same time you say that there is no-one there that can develop such a project. I would consider that you are wrong in that.

Mr Roche—No, I did not say that there was no-one who could not develop such a project. My concern is that a development project which started from scratch would take years, and our judgment at this stage is that we are within seven months or so of putting this vehicle to an unambiguous test.

Mr BALDWIN—So we can hold you to seven months—

Mr Roche—If you went back to taws, you would be looking at a development cycle of years before you even got to where we are now. That is the concern.

Mr SNOWDON—Dr Hawke, I was interested in your presentation earlier and the response to the question by Senator Schacht about the relationship between the government and the department. I must say that I am seized by the language in the overview document and the first couple of chapters of the report, including the delivery of the outputs to government. I wonder about how the relationship between the department and the government through the minister governs the way you are able to implement your strategy. I point to a number of issues. Firstly, on page 3 of this report you talk about the renewal agenda and list three points. The report mentions:

- building alignment with Government direction;
- building accountability for performance; and
- building trust within and towards the senior leadership of Defence through the creation of a shared values base.

That all sounds terrific. Then on page 9, dealing with the senior leadership, you talk about a number of unbreakable rules and say:

- Unbreakable rules: never mislead, never abuse power, never leak information, and never condone poor performance.
- Senior leadership values: professionalism, loyalty, innovation, courage, integrity, and teamwork.

Then we go to the year in review and look at the outputs and the communications strategy. It says:

Improve communications, including through producing an overarching communication strategy for Defence, covering both internal and external communications.

The reason I raise those issues is that it would seem to me that there was an absolute dislocation between the objectives outlined in what I have read out and the government in the months of October and November of last year. Would you agree with that?

Dr Hawke—In what sense, Mr Snowden?

Mr SNOWDON—The words you have used here, which I would see as an appropriate direction for you and for the department, seem not to have been agreed to by the government—at least, certainly not by Minister Reith.

Dr Hawke—Mr Chairman, the comments that Mr Snowdon has raised about the three dots points on page 3 are, of course, dealt with under those headings within the rest of that overview document, as Mr Snowdon appreciates. The points that were made on page 9 about the unbreakable rules and the values were actually developed by Defence with senior leadership themselves—250 people or so. They did that through a series of force comparisons against the values that they wanted to be held accountable for. Another aspect of the accountability issue, of course, is the structure and the governance that we have been endeavouring to put in place in the organisation to make that clearer. We are not quite there yet but we are on the way.

In relation to the issue that Mr Snowdon raises about last year, of course that was the caretaker period. The relationship between departments of state and the government of the day was different at that time.

Mr SNOWDON—I do not want to revisit all the other business but I am interested to know whether the government itself has signed up to this document.

Dr Hawke—This is my report to the government.

Mr SNOWDON—I understand that. What if, though, there is a dislocation between the direction you are wanting to head and the way in which the government wants to govern? In this case we are talking about a period which, you rightly point out, was a caretaker period and, despite that, we had a government and a minister who sought, through his office, to direct defence personnel in the way they did their business. It seems to me there is a fundamental dislocation between this document then and what was coming out of the minister's office. Wouldn't you agree?

Dr Hawke—We have here the 2000-01 overview. My understanding is that the ministers concerned then were supportive of this sort of approach in Defence. One of the differences between Defence and other organisations is that each of the ministers in the time that I have been in Defence have actually issued a directive under the relevant sections of the Defence Act to the secretary and the CDF. This is not a new practice, by the way; this has been a practice in Defence for a very long period of time, as some of the members around the table would know. I regard what was happening here as quite consistent with that.

The other issue that you are raising goes to the issue that Senator Schacht also raised with me about the advice that I provided at the time. You will recall me being on the record at the select committee as basically saying that I did not get one part of that right, because the way in which I had understood the relationships between the department and ministerial staff to work was not shared by others.

Mr SNOWDON—I will just explore that point a little bit further. I am a great supporter of the separation of powers, and I am very supportive of the independence of the Public Service, particularly the military and Defence generally. Is there an essential conflict then between the

values which are held by the department and the values which may be held by a minister's office?

Dr Hawke—There can be. As far as the department is concerned, it is required to obey a lawful direction.

Mr SNOWDON—In this case, the lawful direction came from a fairly senior PR person in the minister's office at the time in relation to releasing or not releasing information. Did you see that as coming from the minister and not from that individual?

Dr Hawke—That was my understanding.

CHAIR—One more question.

Mr SNOWDON—What do you mean by 'one more question'? I may have a number of questions. I am interested in exploring this because it is a very important public policy issue.

CHAIR—I understand that.

Mr SNOWDON—It points out to me that, in the Public Service generally—and specifically in this case Defence, which has set a strategic direction for itself based on government policy under the white paper—when we say that we have moved into a caretaker period of government, the inference is that ministers really are not governing the place, the departments are, but we know that the ministers' offices are giving directions to the departments. There seems to me to be a fundamental conflict between the values around the separation of powers, the independence of the Public Service, the importance of advice and the political process. What are your observations about how you might achieve a better relationship between the objectives of government and the Public Service? You have to bear in mind that this direction did not directly come from the minister because, if you assume that it did, you assume that the minister knew what was going on, and of course we have heard the minister say that he did not know what was going on. If you assume that it was a direction from the minister, you assume that the minister must have known what was going on, don't you?

Dr Hawke—It is our duty to provide frank and honest advice to the minister and to the government of the day. I believe we did that. One of the lessons that we have learnt is that, in future, all correspondence that we put should be directed to the minister, not to an adviser, so that it goes direct to the minister. In that case, the future paper trail will be quite clear. The other issue that is not commonly understood about the Senate select committee is that Admiral Barrie, the principal military adviser to the government and the Chief of the Defence Force, held to the view that children were thrown overboard until that press conference of 27 February this year. The fact that other people might have had different views is irrelevant, because he was the principal military adviser, he believed in what he said and he advised the government accordingly. That is a very important issue that I think has been overlooked by a lot of people.

Mr SNOWDON—I understand that. Lieutenant General Mueller might like to respond to this question: do the defence forces themselves sign up to this document?

Lt Gen. Mueller—I think it is jointly signed by the secretary and the CDF.

Mr SNOWDON—I do not want to revisit the whole Senate inquiry but it seems to me, from what Dr Hawke just said and the evidence that was given to the Senate inquiry, that there is clearly a very different interpretation given by some elements of the defence forces and the bureaucracy to what ‘senior leadership’ means. Presumably, if you sign up to these core values, the CDF should have known well before that particular point in time.

Lt Gen. Mueller—I do not know whether that is a value issue or a process issue, quite candidly.

Mr SNOWDON—I understand that. I am not trying to malign you.

Lt Gen. Mueller—The CDF and the secretary jointly signed this. In response to your question as to whether the Defence Force subscribed to it, the answer is yes.

Mr SNOWDON—So, given the processes of the last number of months, presumably you will be revisiting elements of this to ensure that the fracas that occurred will not happen again?

Lt Gen. Mueller—We have learnt lessons from what happened and we are endeavouring to put mechanisms in place to prevent that from happening again. But I repeat the point that the CDF held to his original view until evidence was put before him and he was convinced that he was wrong, which led to that press conference on 27 February this year. I do not see any inconsistency in that. I should also tell you that on 27 and 28 February this year the whole senior leadership met here in the Great Hall. We spent a considerable period of those two days debating these issues within that group: what we had learnt from it and what we will do differently and, hopefully, better in the future.

CHAIR—Can I signal at this point that Lieutenant General Mueller was to give a briefing at 11.15. Because the questions are wide ranging, perhaps we should keep Dr Hawke at the table as well. That will allow others who have not asked questions to ask questions. Mr Thompson, you may ask your questions and then Lieutenant General Mueller can make his presentation.

Mr CAMERON THOMPSON—Dr Hawke, going back to the organisational renewal issue, what steps are being undertaken to ensure that the renewed organisational structure, which has been adopted as a result of the white paper, is still appropriate in the new environment that applies today? I am thinking particularly in terms of commercialisation and those sorts of angles. I represent RAAF Base, Amberley. There has been a lot of commercialisation undertaken there. That was largely done as part of the initiatives proposed under the white paper. I want reassurance, and I think a lot of other people want reassurance, that that structure and that process are still appropriate. What assurance can you give? Is there some external validation that can be given to ensure that that is correct?

Dr Hawke—As I recall, the Commercial Support Program commenced around 1984-85, so it is not related to the December 2000 white paper in any sense. That was an ongoing exercise in order to market test various parts of Defence. In December 1984, when I went there, my recollection is that we had something like 100,000 people in uniform and 40,000 public servants. As you are probably well aware, we are now down to somewhere over 51,000 full-time uniformed and about 20,000 people in the reserves. The civilian side has gone from roughly 40,000 to 17,000. The resources that were harvested from the application of the Commercial Support Pro-

gram were put back in the sharp end of the Defence Force. That was why, over successive years, Defence's budget stayed basically the same in real terms. The concept was zero real growth and, of course, it fell as a share of GDP as Australia's GDP grew over the period.

The organisational structure that we put in place was on 1 July 2000, prior to the white paper. At the same time, we commenced a program of putting all our senior people through the Australian Institute of Company Directors course, so that they come to understand in a better way the financial drivers of the organisation. You will have seen some of the other issues here. With regard to the governance arrangements that we put in place at that time, we also undertook a review in December last year about the appropriateness of all of those arrangements, and the Defence Committee spent a bit more than a day reviewing its performance over the course of 2001 and also the amendments that we would make to the way we do that during 2002.

The Defence Committee, which is chaired by me, meets with CDF and essentially our 10 direct reports on a monthly basis. It looks monthly at various issues and gets a report from the Defence Capability and Investment Committee, which Lieutenant General Mueller chairs, and a report from the People Committee, the Audit Committee and the Information Environment Committee, which are all subcommittees of the Defence Committee. It looks at basically all the aspects of the way in which we do our business and at the amendments and changes that need to be made in relation to that. We think that the top structure arrangements are still appropriate, but there have been and will continue to be some minor rearrangements below that top structure level.

CHAIR—Before we go on, Dr Hawke, I am wondering whether you have other appointments this morning or whether you are able to stay until 12.30 p.m.

Dr Hawke—I do have one appointment that I would prefer not to break at 12.00 p.m., Mr Chairman, as it is an industry person coming from interstate; but I could forgo the other ones.

CHAIR—Thank you. That will help the committee to get through more of the questions. Mr Bevis would like to ask a question. He is also on another committee that is running at the moment. I think all our members would understand that we need to share the time as much as possible.

Mr CAMERON THOMPSON—Dr Hawke, do we have a statement or some sort of definitive direction given as to how the environment has changed, if at all, in the view of the defence forces?

Dr Hawke—The strategic environment?

Mr CAMERON THOMPSON—The environment that affects your organisational structure and your processes for maintaining the specialist defence materiel that you have. Is there some definitive statement that is to be made that says how that has changed, if at all, as a result of the fact that we are fighting a war against terror?

Dr Hawke—In accordance with the white paper, there will be an annual strategic assessment or review of what underlies the white paper, and that will actually commence on 1 July and will be delivered to the government in the September-October time frame. My understanding is that

the minister or the Prime Minister will make a statement about that matter later in the year. Accompanying that, of course, is the Foreign Affairs and Trade white paper.

CHAIR—Thank you, Dr Hawke. Mr Bevis has a question.

Mr BEVIS—Thank you very much. Picking up on the reference earlier to the focus on people, I am concerned that your task is being made too simple by virtue of the reduced number of people left in the organisation. I want to raise a question about that. In the year covered by the annual report, we lost 1,000 more of permanent defence personnel than we were able to recruit and we lost 1,000 more reservists than we were able to recruit. In fact, the only growth area was among civilians, where an extra 700-odd civilians were added. I believe we now have the smallest permanent defence force in more than 30 years—in fact, I think it is something like 35 years. Against that background, with the shortfall that we are now experiencing between targets and recruitment and the increased demands now placed on Defence, as against at the time in which the DER and DRP stuff was done—which I suspect was actually more to do with the causes of Mr Thompson's question than with the commercial support program—what initiatives has Defence in train or under way to deal with what is, I think, a chronic personnel problem?

Dr Hawke—Page 3 of the overview talks about the Defence Reform Program, which was finalised on 30 June 2000. It did deliver the great bulk of the savings that were required under that program. You may know that a National Audit Office report on that issue subsequently emerged, which supports what you are saying—that is, that the program was not handled in the best way it could have been and that it was not communicated well. I think it did do some damage to people in the organisation et cetera; and we have of course put that behind us. At our last committee meeting, in April, the Head of the Defence Personnel Executive, Rear Admiral Russell Shalders, presented information to us which showed that we have actually now turned the corner in terms of net recruitment to each of the three forces.

Mr BEVIS—What period does that cover?

Dr Hawke—That is over the course of this year, and they would be the net figures over the course of this year. So we have actually started to grow now in Navy, Army and Air Force; we think we have hit the bottom of the trough. Over and above that, of course, you will recall that the government set aside \$100 million for Defence personnel initiatives, and that there will be consideration of the review that was conducted by Major General Barry Nunn and his team—a review which is colloquially known as the Nunn report—in the next few months. That goes to issues relating to our recruitment and retention and the like.

Mr BEVIS—I have one quick follow-up question which partly links into an earlier comment, and it is brief. One of the few areas, I recall, that actually did experience an increase in numbers last year was the public relations division, after Mr Reith's appointment to the portfolio.

Dr Hawke—I am not sure that is correct; I would have to get the figures. I think there was actually a reduction in the number of people in that function.

Mr BEVIS—I recall the debate in the House, and I do not think the minister contested the fact. There was a question in the House of Representatives on it and I do not believe he contested it.

Dr Hawke—I am happy to take that on notice, Mr Chairman, and check that for Mr Bevis.

Mr BEVIS—Okay. Maybe we should do that.

Mr EDWARDS—You mentioned the Nunn report: has that gone to government yet?

Dr Hawke—It went to government.

Mr EDWARDS—When did it go to government?

Dr Hawke—It went to government before the parliament was prorogued last year. Mr Reith then asked that the service chiefs consult each of their services and bring a report back to government around this time. We have had one report to Senator Hill on that matter, and I am not sure whether or not the further report has gone forward for his consideration, but it must be imminent.

Mr EDWARDS—Could we be advised, Mr Chairman, of whether that has actually occurred and, if not, when it will actually occur? I am happy to take it on notice.

Dr Hawke—One of the briefings here says that a draft report to the minister is presently awaiting CDF's clearance. He will be back from overseas duty next Monday.

Mr PRICE—I want to follow up Arch Bevis's question on personnel costs as I understand them. In the white paper, I thought the percentage increase provided for personnel costs was below the historical 10-year average. Is that \$100 million in addition then to what was projected in the white paper?

Dr Hawke—My understanding is that it is in addition to it; it is a separate \$100 million.

Mr PRICE—So could you tell me, or take it on notice, what that percentage would be or what the revised percentage as a result of that should be in the white paper?

Dr Hawke—We will. Lieutenant General Mueller tells me that the report has gone to the minister now.

Mr EDWARDS—Is a copy available?

Dr Hawke—That would be advice to the minister. A copy of the Nunn report is available, of course.

Mr EDWARDS—I mean a copy of the response.

Dr Hawke—No, the minister would have to decide to release that. My guess is that, when he has completed his consideration of the matter, the government will put out a response to the Nunn report and the recommendations.

Senator GIBBS—Dr Hawke, under ‘Senior leadership’ you talk about transforming Defence from a bureaucratic culture to a leadership culture. I have a few quick questions on that. How is that progressing? Is it working?

Dr Hawke—That phrase was contained in the white paper, as you may know. The answer is yes and no, I think. I say that because we have had some very good results in some of our staff attitude survey material, if you look at the trend information. There do continue to be some concerns from the people about the senior leadership in the organisation, and we are now endeavouring to try to understand better what those concerns are and how we might address them. As for the senior leadership itself, we have done a range of things in terms of providing 360-degree feedback to the people on how they can improve their performance.

Senator GIBBS—You are talking about the troops?

Dr Hawke—The troops are reflecting this back on the senior leadership. We launched a program in February this year to ensure that the leadership engage more closely with their people over the course of this calendar year, and they are required to report back to CDF and me in December this year about how that is going.

Senator GIBBS—Say a corporal or somebody of a lower rank has a complaint: in the past, it has been said to me by many people in the military—and it has also come up in our inquiries—that if they make a complaint it only goes so far and does not go any further. It never goes to the higher ranking officials. Has that stopped? Is it going further?

Lt Gen. Mueller—It depends on the nature of the complaint and whether or not that complaint is exercised as a formal redress of grievance. I would say, *prima facie*, that it would be quite impractical for every complaint to filter to the higher level of the organisation. Where people are not satisfied with the way in which their complaint is dealt with, that sometimes is due to a leadership failure. In any large organisation, such failures are inevitable. What must be done is to ensure, through leadership development, that those failures are kept to what I would call an acceptable threshold. Members of the Defence Force, however, have legal recourse to redress of grievance. If they pursue that, depending on the way in which they respond to the advice that is given to them, it can indeed get to service chiefs.

Senator GIBBS—I understand that; thank you. Obviously you are still trying to change the culture. Is it actually making a difference?

Dr Hawke—It has made a difference in terms of the results that we are getting against issues like commitment, loyalty, trust and performance in the organisation.

Senator GIBBS—That is from the leadership?

Dr Hawke—It is according to the survey material that we have, which we would regard as relating directly to leadership. We are far from perfect, and we are endeavouring to improve in lots of ways through the programs that we have been putting in place.

Senator GIBBS—You talk about having introduced a joint military-civilian capstone leadership program. What does that mean? Does it mean that you have civilians in the leadership?

Dr Hawke—Yes.

Senator GIBBS—How is that working?

Dr Hawke—The 250 people in the senior leadership group comprise civilians and military. As people come into the leadership team—people new to the organisation or newly promoted to a higher level—we put them through a capstone program so that they understand where we have come from, where we are at and where we are endeavouring to go. They get to explore their part in that and the way in which they can contribute towards the goals of the organisation in whatever job they happen to go to in the period that they are in the senior leadership.

Senator GIBBS—Where do those civilians come from? Who are they?

Dr Hawke—Inside and outside Defence. Some people are promoted from within, some are promoted from without and some are appointed from the private sector, such as Lloyd here, who has a strong background in financial and business management, to help us on that side.

CHAIR—We have to give Senator Calvert a chance to ask a question now, because we are going to run out of time unless we cut this short. I will then ask Lieutenant General Mueller to make a presentation. Dr Hawke will be here until midday. The questions, as you realise, have developed into a broad ranging area requiring Lieutenant General Mueller, but I would like his presentation after Senator Calvert's questions.

Mr SNOWDON—I just need to ask a question some time—I am not sure who I ask it to—about Defence Force conditions and the way in which Defence itself makes decisions. I am not sure if I need to address it to both Dr Hawke and Lieutenant General Mueller.

CHAIR—Dr Hawke is here until midday.

Dr Hawke—Roxy McLennan is probably the best person to ask.

CHAIR—And there will be other people this afternoon.

Dr Hawke—He will be here after I leave.

Senator CALVERT—In the annual report, you make the point that government direction was the most pressing imperative, and you go on to say that Defence began the year with steps to establish a new integrated performance framework. We talk about the balanced scorecard approach as a tool to start communicating this aspect of internal business strategy. Looking

through the internal business processes, I notice that quite a few of your targets are only partially achieved. Has this new approach improved your performance or are things still as bad as pointed out in the editorial of the *Asia-Pacific Defence Reporter* by Julian Kerr? He says that a plethora of projects are running behind schedule. I did notice in here that there are a lot of projects that are 18 months, two years and even three years behind schedule.

Dr Hawke—As part of the balanced scorecard, we get monthly exposure to the top 20 projects and what are called ‘others of significant concern’. I do not think that, internally in Defence or at government level, ministers and senior people have had that level of exposure in the past. So every month we examine those, and we look at what corrective strategies might be employed against them. The under secretary reports to the Defence Committee and then a subsequent report goes from the Defence Committee to the Minister for Defence, the minister assisting and the parliamentary secretary each month. Then we report every three or four months about progress against the government’s platform and policy objectives in addition to that. So there is a level of exposure to these issues that government has not had in the past. I suspect that means there is more attention being brought on the problems that arise. That issue is just part of the balanced scorecard approach, and what you are reading from that magazine basically relates to the projects within the Defence Materiel Organisation.

Senator CALVERT—There is a comment made in here, though, that DMO’s official pronouncement back in 2001 at the defence industry conference in Canberra was that all these delays were the fault of industry. The point is also made that a lot of the problems have arisen by intervention by uniformed officers in the specification of deliverables.

Dr Hawke—We are increasingly getting our own house in order, but we are also providing balanced scorecard feedback to industry about their lack of performance against specification, price and schedule. They have not had that from us in the past, and we have not actually taken their performance into account in how we award successive contracts. If a contractor had failed to perform in the past, we ignored that when they tendered for a further project. No longer will we do that. We are in the process of getting our internal affairs in order there, and a lot of these projects of course have come from the past. So you can certainly judge us—our minister does—on how we are performing against those, but he is taking a slightly different view on the projects that have come to fruition in the time that I have been there and Mr Roche has been there as the under secretary. Would you like Mr Roche to add to this?

Senator CALVERT—I do not know how we are going for time—that is the only problem.

CHAIR—It may come up this afternoon, perhaps.

Dr Hawke—Mr Roche will be here.

CHAIR—I would prefer to hold it off until then.

Senator CALVERT—You can keep that in mind for later.

CHAIR—I know that the questions have been broad ranging this morning. Lieutenant General Meuller was going to give us a presentation on ‘Defence capability and finance: investing in future capability’. I now invite Lieutenant General Meuller to do so.

Dr Hawke—Chair, do you need me to stay?

CHAIR—Yes, until midday, if you could—just in case there are some other questions.

Lt Gen. Mueller—I had been asked to say a few words about the Defence Capability Plan. I might remind the committee that the three chapters in the 2000 white paper which are germane to this issue are chapters 4, 6 and 8. Chapter 4 of the white paper identifies Australia's strategic interests and strategic objectives. There are five strategic objectives. The first is to ensure the defence of Australia and its direct approaches, and that is the principal determinant of force structure—force structure and preparedness together forming what we call 'capability'. The second objective is to foster the security of our immediate neighbourhood. That refers in particular to the archipelagic region to the north and the north-east of Australia and the South-West Pacific. The third is to promote stability and cooperation in South-East Asia. The fourth is to support strategic stability in the wider Asia-Pacific region. The final objective is to support global security in the interests of making an appropriate contribution to international peace and security.

As I mentioned earlier, the objective that principally drives the Defence Capability Plan is to ensure the defence of Australia and its direct approaches. However, the other objectives also impact on the Defence Capability Plan in that there are probably some capabilities that require a degree of enhancement to enable Defence to provide government with an appropriate range of options to foster security in the immediate neighbourhood and with regard to supporting stability and cooperation in South-East Asia and in the wider Asia-Pacific region. In pursuit of commitments that government may wish to make in the interests of global security, there are some capability enhancements which are deemed to be necessary so that Defence can present an appropriate range of options.

Chapter 8 of the white paper is called 'The Defence Capability Plan'. It aggregates defence capabilities into land forces, air combat, strategic strike, maritime and what I would term 'information management'. There are other ways of aggregating capabilities into domains, but that was the aggregation that was chosen for the purposes of the white paper. The Defence Capability Plan itself is a classified document, but an unclassified version, *Defence Capability Plan 2001-2010 Public Version*, has been disseminated to industry and anybody else who is interested in finding out what it is about. It contains a list of all major projects that are contained in the DCP and it also gives cost brackets.

Government foreshadowed that, over the 10-year period following the release of the white paper, it would plan on attributing something in the order of an extra \$27 billion to defence. It would not be unreasonable to say that probably the greater part of that will be absorbed by capital investment and by meeting the net impact of that investment on the operating budget. Certainly, from Defence's point of view, that is a very welcome initiative because, as I think you would appreciate, we are at the moment managing a large number of ageing platforms and combat systems, especially in the maritime and air environments.

The Defence Capability Plan essentially is what I would describe as a 'menu' of capital investment projects. Over time, some of them will attract quite substantial levels of investment. Probably the one which will, given time, attract most interest will be a project called Air 6000, which is the air combat capability. It is intended to replace the fleet of FA18 Hornets, our air

superiority aircraft. At the moment it is planned to withdraw it during the period 2012-15. The same project will also replace the F111s, which, at this point in time, we plan to withdraw during the period 2015-20. The public version of the Defence Capability Plan would foreshadow capital investment in the order of \$12 billion or \$13 billion. It will without a doubt be the biggest single capital investment project that has been pursued in Defence since Federation.

It is a complex project. At the moment a range of options is being developed for consideration by the Defence Capability and Investment Committee which I chair. Consistent with the current planned withdrawal date of the FA18s, we would be looking at this point in time at an in-service date for the first aircraft acquired under Air 6000 of 2012. Having said that, there is the question of the challenges—and there are some—in managing both the FA18s and the F111s through to their planned withdrawal date. There are a number of projects in the Defence Capability Plan which will enable us to progressively update in particular the weapons systems, avionics and sensors of those aircraft so that they can remain in service until that period.

CHAIR—Thank you, Lieutenant General Mueller. May I firstly apologise to Dr Hawke. I thought you could be here until midday, but you have an appointment at midday. That being the case, I thank you for your attendance this morning. You will be sent a copy of the transcript of evidence, to which you can make corrections of grammar and fact.

Dr Hawke—Just before I go, I can answer the question that Mr Price put to me earlier about the ANZUS Treaty. It was covered in a press release by the Prime Minister on 14 September, which said:

The terrorist attacks on the United States were discussed today at a special Cabinet meeting that I convened on my return from the United States.

The Government has decided, in consultation with the United States, that Article IV of the ANZUS Treaty applies to the terrorist attacks on the United States. The decision is based on our belief that the attacks have been initiated and coordinated from outside the United States.

I will read article IV, which simply says:

Each Party recognizes that an armed attack in the Pacific Area on any of the Parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.

Any such armed attack and all measures taken as a result thereof shall be immediately reported to the Security Council of the United Nations. Such measures shall be terminated when the Security Council has taken the measures necessary to restore and maintain international peace and security.

My understanding is that war has not been invoked as a result of that. This was a joint resolution of the Australian government in consultation with the United States which led to us invoking article IV.

CHAIR—Thank you, Dr Hawke, and thank you for your attendance this morning. I am sure committee members appreciated your answers to questions and your presentation as well. Thank you, Lieutenant General Mueller, for your presentation. We will now proceed to questions.

Mr CAMERON THOMPSON—Lieutenant General, you were talking about Air 6000. I am seriously concerned about some of the reports that I get around the traps in Amberley about F111s—the advent of these wing cracks, for example—and, as reported in this annual report, the issues about the deseal-reseal have meant the availability of aircraft has been extremely low. I note that the figures marked in here for flying hours for F111Cs, even in this year, which would have been very early on in the deseal-reseal problem, were about 1,000 less than the 3,600 hours that were specified. I am sure it has got worse than that since then.

The sort of thing that is being talked about around the traps is the need for an interim alternative before Air 6000 comes into place. Is that something that is being seriously considered? These deseal-reseal issues and others are pretty serious and are causing great concern.

Lt Gen. Mueller—Let me make two observations. Firstly, with regard to the F111 and the structural integrity of the airframe in particular—and I offer views giving cognisance of the fact that I am not an aeronautical engineer—my understanding is that the solution to the deseal-reseal issue is now being put firmly put in place. With regard to the cracking of wings, yes, a wing on an F111 has had a problem with structural failure. My understanding is that our F111s are fitted with a long wing. Many of the F111s that were in the United States service were fitted with what is called a short wing. The solution to the cracking in the long wing has been to purchase some short wings from the United States from aircraft that had been mothballed.

In the most recent discussions I have had with the Defence Science and Technology Organisation—and I might make the observation that the Aeronautical and Maritime Research Laboratory at Maribyrnong are world leaders in the management of fatigue in airframes—they are of the opinion that at this point the airframe could be managed through to the period 2015-20. The issue with the F111s between now and the planned withdrawal date is more likely to be a question of avionics, sensors and weapons systems. That is not to say, however—as is often the case with ageing aircraft—that there will not be surprises.

With regard to an interim solution, our initial exploration of interim solutions would indicate that they have the potential to be extremely costly. Indeed, we have had some proposals—one might say unsolicited—which would tend to confirm that conclusion.

Mr PRICE—Let me follow up the question asked by Senator Ferguson about unacceptable behaviour, and I draw your attention to the *Rough justice* report to which there is a response. We were repeatedly briefed that, firstly, individual instances would be examined and then there would be a holistic examination to look at whether there were any command responsibilities.

Lt Gen. Mueller—Is this in the context of 3RAR?

Mr PRICE—Yes. The report is silent about such an investigation and its outcome. Has it been undertaken? Are any charges being laid? Alternatively, has any administrative action been taken and, if so, of what nature?

Lt Gen. Mueller—I am not in a position to provide you with an answer orally at this point in time. I will have to take it on notice.

CHAIR—I understand that the Deputy Chief of Army is prepared to come to the committee and brief us on this issue.

Mr PRICE—This is the last question in relation to unacceptable behaviour. The crossing-of-the-line activities that recently came to light in the Navy were long-standing activities. The TV report indicated—I am unsure of Admiral Shackleton's statement—that it was confined to ratings and did not involve officers. But isn't it the case that officers were involved in that? Who were the 'golliwogs' and the 'bears'? Can you tell the committee whether the Burchett audit was apprised of this event, and how longstanding were these ceremonies?

Lt Gen. Mueller—I will have to take all of those on notice.

Mr EDWARDS—Lieutenant General, I understand that Defence are able to provide detailed costings of their operations. Can you provide us with an up-to-date cost of operations not only of unauthorised boat arrivals but also in the Middle East?

Lt Gen. Mueller—I think that is a question that is best directed to the Acting Chief Finance Officer.

Mr Bennett—I do not have those numbers to hand.

Mr EDWARDS—Would you be able to provide them for us today?

Mr Bennett—I will check to see whether we can provide them.

Mr EDWARDS—I understand that you have already told Senate estimates that you have the capacity to provide detailed costings on these operations. I wanted to ask you what savings were implemented to offset the majority of these costs.

Mr Bennett—A lot of the actions that have taken place have involved either some curtailment of the rates of spend in certain areas for a period of time when we had uncertainty of funding until the allocation of additional funds could be made—

Mr EDWARDS—What sorts of areas?

Mr Bennett—There were some informal controls in place within the administrative expense areas.

Mr EDWARDS—I understand that there has been a curtailment of training activities—for instance, certain exercises have been cancelled. I want to get a clear picture on this. I refer to an earlier answer you gave, Lieutenant General. When I asked you about unauthorised discharges, you said it came down to negligent weapon handling. That may well be the case. Surely that has a lot to do with training and with the realistic nature of training—for instance, live firing. It is fine to point the finger at the digger, but training must have a lot to do with competent weapon handling. If training is being curtailed, why?

Lt Gen. Mueller—The question of weapon handling is an issue of individual training. My understanding is that the training that was reduced was collective training, principally in the context of things like joint exercises. That should in no way be to the detriment of weapon handling skills.

CHAIR—Thank you.

Mr EDWARDS—Chair, I would just like to see whether I can get some answers to those questions. What is the cost of operations in relation to the Middle East commitment and to unauthorised boat entry? What has been the offset in savings which Defence has come up with? Where have those savings come from? I will be happy to get that information later on today.

CHAIR—Mr Bennett, you will look into that?

Mr Bennett—Yes.

Senator SCHACHT—Lieutenant General, the Defence Capability and Investment Committee, which I think you are a member of—

Lt Gen. Mueller—I am the chairman.

Senator SCHACHT—It does not actually say that in the book.

Lt Gen. Mueller—That is probably an oversight on the part of the authors.

Senator SCHACHT—They will be peeling potatoes tomorrow.

Mr PRICE—He also writes the minutes.

Senator SCHACHT—And you are the returning officer when there is a vote! I should have taken your listing as first member of the committee as being chair. There are 15 positions on the committee.

Lt Gen. Mueller—Yes.

Senator SCHACHT—Are they standard positions? It is a rather large committee. To quote Louis from *Casablanca*, it looks like all the usual suspects have been round up and put on the committee to be given a guernsey of having a say or looking like they should have a say. Is a committee of 15 an effective size, or is it broken down into subcommittees that look at specific parts of the work? Do you have different sections to cover the broad nature of the Defence Capability and Investment Committee?

Lt Gen. Mueller—I do have what is called a defence capability and investment subcommittee and, consistent with governance principles, they do work that is similar in nature to the parent committee. It is normally of a preliminary nature such that proposals have had some scrutiny before they come to the DCIC.

With regard to the make-up of the DCIC, what probably needs to be emphasised is that military capability has a number of elements. It is not only a matter of materiel in the form of platforms and combat systems; it also includes a full range of 'through life support'—in other words, materiel logistics. It also includes training, it includes doctrine, it includes organisation, it includes facilities and, most importantly, it includes people; and for any capability system proposal, the relationship between it and the other capability systems also has to be examined. Those people sit on the committee because they all have a role in providing input to capability system considerations. That gets back to a simple construct that we call whole-of-capability consideration.

Senator SCHACHT—In the whole-of-capability, is this the committee that would make a decision to put forward a recommendation to the government that we should purchase a major weapons system—whether it is Anzac frigates, Collins class submarines, Bushranger or whatever? Is this the committee that, when dancing stops, has to put its hand up and take responsibility?

Lt Gen. Mueller—The governance charter of my committee says that we recommend for Defence Committee and government consideration affordable options for investment in future capability to achieve Australia's strategic objectives, taking account of risk.

Senator SCHACHT—So it is the Defence Committee on top that would make—

Lt Gen. Mueller—Yes. The DCIC is a subcommittee of the Defence Committee and at every Defence Committee meeting I table my committee's minutes and I also field questions from committee members.

Senator SCHACHT—Supplementary to that, in either of the committees do you try to reach a unanimous decision or do you have to rely on, whether you like it or not, a vote around the table?

Lt Gen. Mueller—No, I never call for a vote. I generally steer the discussion to the conclusion that I want!

Senator SCHACHT—Thank you for being very honest about that. Can I recommend that we abolish the committee and not worry about paying for all the attendance.

Lt Gen. Mueller—I can assure you that I need the advice of the other committee members.

Senator SCHACHT—It sounds like cabinet and the Prime Minister!

CHAIR—Lieutenant General Mueller, can I ask a question to do with capability. I know that, since 1992, an average of 87 per cent of Navy, Army and Air Force employment categories have been open to women.

Lt Gen. Mueller—Yes.

CHAIR—I also understand from the ‘Women in the military’ section on page 324 of the Defence annual report that:

Physical competencies are being developed for the remaining employment categories not open to women - clearance divers, engineers, artillery, armour and infantry (including airfield defence guards).

Also as part of that, an analysis has begun of the degree of representation that would be necessary to ensure successful integration of women into previously all-male working environments. I also note that the annual report says that this work is due for completion in 2002. Can you tell me what stage the report is at?

Lt Gen. Mueller—I might, if I may, invite Air Commodore McLennan from DPE to comment on that.

Air Cdre McLennan—I am acting at the moment on behalf of the head of the Defence Personnel Executive, Rear Admiral Russ Shalders. As far as employment of women in the ADF goes, currently about 87 per cent of the categories available for employment are open to women. As you correctly pointed out, the remaining categories are those of the combat arms of the Army—which are infantry, artillery, combat engineers and so forth. Within the Navy it is only the clearance divers, and within the Air Force it is only the airfield defence guards.

A project was commenced approximately two years ago which was aimed at opening up employment of women in the other areas of the Defence Force. That project resulted in the completion of a report which was tabled with COSC last year. As a result of that report, the Chiefs of Staff Committee has commissioned a further study which would be the first phase of the logical process of examining whether women may be employed in the other areas of the ADF. That project is called the ADF Physical Competencies Project. Currently it is being put to tender for experts in the field to examine each of the employment categories in terms of the physical competencies required to achieve the tasks. Out of that study will come a scientific basis on which to decide the shape of the individual who may be employed on a particular task. It will further inform various other elements of the process of getting people to that point, including the training processes, the recruiting processes and various other factors that impact upon the employment of an individual in a particular job. At the moment that study is at the stage where a request for tender document has been completed and approved. The minister assisting has agreed to the release of those tender documents. That occurred last week, and now we are waiting on tenders to be returned for selection and for the tender to be let.

I expect that the process of examining the detail and providing the solutions could take us somewhere between 12 and 18 months. However, the first area to be examined will be the infantry. That could take us up to six months. As we get to the point within the infantry where we believe we can successfully proceed with the other combat arms in parallel—gaining from the information that has been gleaned from the first part of the study—we will proceed with those; therefore that time frame may be, hopefully, shortened somewhat.

CHAIR—As each individual area is completed, are you planning that it be brought forward individually or collectively across the whole range of the three services in the competencies that women do not serve in now?

Air Cdre McLennan—As far as the study is concerned, we plan that each of those areas would be brought forward individually. As far as the further ramifications that might come out of that study—the examination of training process, the examination of health and safety issues and the examination of recruiting profiles—we would do those as we saw the opportunities provided. For example, if significant operational health and safety issues were identified as part of the study—and we expect that they may—we would want to address those issues at the earliest opportunity.

As far as the higher question of whether women may be employed in a particular category, the scientific study is not the only factor on which that decision would need to be taken; indeed, that ultimately would be a decision for government. That, I expect, would be further down the track at a stage when we better understand the situation in its entirety. So it would be taken on as a holistic problem rather than as an individual dissected problem.

Mr SNOWDON—I have a couple of quick questions. Firstly, given the nature of the border protection task and the ongoing surveillance requirements of the patrol boats off the Top End, what is the current situation in relation to the replacement of the patrol boats?

Lt Gen. Mueller—I think Mr Roche is probably best placed to answer that question.

Mr Roche—We hope to be able to go to the next stage of that tendering process within a matter of a month or so. There has already been a first stage, which has solicited broad proposals from a number of tenderers and the next stage is to refine that down to a short list of a smaller number and then proceed to a more detailed design and specification.

Mr SNOWDON—So what do you see as the time line for getting these replacement vessels?

Mr Roche—We are talking ‘contract’ around the end of the year or early next year. I would have to check the in-service date and let you know this afternoon, but I think it is approximately 18 months after that to the first boat in the water—something like that.

Mr SNOWDON—Lieutenant General, could you inform us, in relation to the border protection task and the frigates deployed off Christmas Island, how many Army personnel are involved as boarding parties? Where are they from and what would they be doing otherwise if they were not boarding vessels?

Lt Gen. Mueller—I will have to take that question on notice. I do not have that information readily available.

CHAIR—Thank you. Will that be today or will it be put on notice?

Lt Gen. Mueller—We should be able to get an answer to that today.

Mr SNOWDON—In terms of the conditions of service, I notice with Operation Tanager that the bulk of the troops deployed are on war-like service conditions of service.

Lt Gen. Mueller—Are you talking about those in Timor?

Mr SNOWDON—Yes.

Lt Gen. Mueller—Yes.

Mr SNOWDON—That is not the case for the service personnel who were deployed last year to work as the training group for the East Timorese army. Why is it that they are in a theatre of operation which is the same as that of their comrades who are there as part of the normal establishment for our defence forces deployed there and yet they are on different sets of conditions? How do those conditions differ? What will happen after independence to the conditions of service of Australian Defence Force personnel in East Timor, as, presumably, they will not be in a war-like situation?

Lt Gen. Mueller—I will invite Air Commodore McLennan to answer the first part of your question. With regard to what will happen after independence, that is not yet known because the United Nations has not determined at this point—and I understand it will meet on 15 May—whether the UN presence in East Timor will be under a chapter 6 or under a chapter 7 mandate. It is not for me to speculate what advice CDF might offer to government but, recognising that they are currently operating under a chapter 7 mandate, if the mandate remained under that chapter then quite clearly that would lead to a different form of advice than if the United Nations decided it should be under chapter 6.

CHAIR—Air Commodore, did you want to add to that answer?

Air Cdre McLennan—I am happy to add to the first part of the question, if you wish. The determination of conditions of service—and indeed that would follow on to postoperation benefits and also honours and awards—depends on the employment of the individual rather than a geographic location. Geographic location is considered as a factor, but in determining what the service conditions will be it is only one factor. The greater factor is, in fact, the employment arrangements for the individuals.

The people who are employed on Operation Tanager are employed as part of the United Nations and they operate under the United Nations resolution, which is a chapter 7 resolution. Because of that, their service has been classified as a particular style. The training team, on the other hand, is employed completely separately from the United Nations: they are unarmed and they are employed in odd training tasks. The description of their employment separates them quite distinctly from those that are on Operation Tanager and for that reason separate conditions of service have been established.

Mr SNOWDON—But do they—

CHAIR—Thank you.

Mr SNOWDON—Hang on. This is an important issue.

CHAIR—The time has run out.

Senator FERGUSON—A lot of people want to ask questions.

Mr SNOWDON—I have a follow-up question.

CHAIR—There is a time.

Mr SNOWDON—Hang on. I have not sorted this out.

Senator FERGUSON—That means others will not be able to ask questions at all.

Mr EDWARDS—Mr Chair, it is an important issue.

CHAIR—Everyone probably has an important perspective on it.

Mr EDWARDS—The soldiers are deployed over there; their families are back here. This is a very serious budgeting issue for them: they need to know what their allowances are and what their income is going to be.

Mr SNOWDON—And why should they differ?

CHAIR—I guess everyone has a very important question to add, and we still have 20 minutes to go. Perhaps Mr Thompson could ask his question and then we will come back to you because we have two more people who also have important questions to ask. I think we will have to return to this later.

Mr SNOWDON—We might have to come back tonight.

CHAIR—We have a fairly reasonable and comprehensive answer now.

Mr SNOWDON—Work through lunch.

CHAIR—Please.

Mr CAMERON THOMPSON—My question should be fairly simple. I want an update on a couple of points and I want to follow up on my previous question about flying hours in the F111. Do you have information as to what the flying hours were for the F111 in the past year, given that the deseal, reseal and wing cracks have had the biggest impact on their availability? I want updates on two points in relation to the C130J and the military satellite. The satellite is due for launch in the third quarter of 2002, and the C130J is due for clearance for its full strategic and tactical operations by the end of 2002. I want to see if both of those are still on target.

Lt Gen. Mueller—I think Mr Roche can provide an answer on those two projects this afternoon. With regard to F111 flying hours, presumably you are talking about this financial year to date?

Mr CAMERON THOMPSON—Yes.

Lt Gen. Mueller—I will take that on notice and will provide you with an answer.

Senator FERGUSON—Mr Bennett, the statement here is that in 1999-2000 there was \$191 million in salaries and allowances paid overseas, which was at the time of our largest commitment in East Timor, plus our other operations. It seems strange that the overseas salaries and allowances dropped to \$13 million in 2000-01. It seems an enormous drop even allowing for the fact that we had fewer people involved, particularly in East Timor. How can you account for that?

Mr Bennett—I do not have an answer to hand on the specifics of that.

Senator FERGUSON—But you would agree that it is an enormous drop from \$191 million in 1999-2000—

Mr Bennett—That is an order of magnitude.

Senator FERGUSON—to \$13 million in 2000-01, when we still had a significant number of people stationed overseas.

Mr Bennett—I agree that is a difference of an order of magnitude.

CHAIR—Did you want to go any further with that?

Senator FERGUSON—The point is that I cannot until I get an answer.

CHAIR—You will be able to provide an answer.

Lt Gen. Mueller—The answer may partly be with regard to the number of people who were deployed in the respective financial years.

Senator FERGUSON—At that time we know we had a significant number in East Timor in particular but we still had the same numbers in other areas, such as Bougainville.

Lt Gen. Mueller—The numbers in East Timor who would attract those sorts of benefits were, in aggregate, far greater than what we had deployed elsewhere. I have no doubt the CFO's organisation will provide us with an answer.

Senator FERGUSON—It is more than 10 times greater.

Mr PRICE—I did not hear what you said about the numbers in East Timor.

Lt Gen. Mueller—The numbers in East Timor at the outset of the INTERFET operation were very substantial. With the invocation of the UNTAET operation, the numbers reduced significantly. The answers to that can be provided by the CFO's organisation.

Senator CALVERT—In your annual report, one of the problems that is noted is the significant underachievement of allocated flying hours and the reduced aircraft availability. I notice in your performance targets the performances are partially achieved, but it does raise serious questions. Has that been hindered by the fact that, of the 30 training aircraft, their full

functionality is 18 months behind schedule and it says that they 'are operational in at least one of their roles'? Is that role training or is it something else?

Lt Gen. Mueller—Sorry, which aircraft are you referring to?

Senator CALVERT—The Hawk.

Lt Gen. Mueller—I am not across the details of the introduction of the Hawk into service. Again, Mr Roche will provide you with some advice on that this afternoon.

CHAIR—Do you have any more questions on that?

Senator CALVERT—No, we are going to get the answer this afternoon, so I will follow it up then.

CHAIR—Do you have any other questions?

Senator CALVERT—Not on that, no.

Mr PRICE—Could I take you to chapter 8 of the white paper. You would be aware of the committee's reports, which you mention in your annual report as being not responded to: *From phantom to force: towards a more efficient and effective Army* and *A model for a new Army: community comments on the 'From phantom to force' parliamentary report into the Army*. Chapter 8 outlines that Army ought to be able to mount a brigade-level operation and sustain it and, concurrently, a battalion group. Can Army today fulfil that requirement in the white paper?

Lt Gen. Mueller—My response to that, recognising that I am not the output manager for Army, would be yes. It would, of course, have to be given context, because different operations place different demands on the force that is deployed but, in the context of those sorts of contingencies which would be viewed as credible in the shorter term and which, consistent with government policy, would attract a priority for deployment, the answer would be yes.

Mr PRICE—In no deployment by this government has there been an end date nominated—not even for East Timor—so why would you predicate it on a short-term deployment? Surely, if you are saying—

Lt Gen. Mueller—No, I did not say that. I said, 'contingencies which are credible in the shorter term'. In other words, contingencies that could arise in the shorter term. I did not talk about contingencies of short duration.

Mr PRICE—Could I turn to the Reserve element of that. In the annual report, you predicated it by referring to having passed the legislation—and I concede how important it was to pass it—as though that was the end of the reform or change process for reserves. Has there been any change as a result of the white paper to the readiness of any reserves? Are there any current plans by Army to deploy the reservists as formed units as opposed to filling slots in the Regular Army? If so, what are they?

Lt Gen. Mueller—My understanding is that Army—and, indeed, the people responsible for Reserve policy—are at this time doing a substantial amount of work on gradations of readiness for reservists. They are able to do that partly in response to changes in legislation, which have significantly broadened the circumstances under which government can call out and deploy reserves, and also in recognition of what is contained in the white paper, which, I suppose where the Reserve is concerned and particularly for Army, represents a major sea change in that from probably the end of the Second World War until comparatively recently, there was a view that the Army Reserve, in particular, was the basis for expansion for a much larger force which might be needed in response to what would be considered to be longer term and more remote contingencies. It has been clear, as a consequence of the operational tempo in recent years, that probably a more appropriate role for the Reserve was for it to be viewed as an integral part of a total force. Indeed, in Timor and in other operations, we have deployed substantial numbers of reservists—I think the 6th Battalion of the Royal Australian Regiment had a very substantial Reserve component when it deployed in Timor.

This has had a number of very beneficial effects, not the least of which is that the mind-set now throughout the Defence Force in general, and in Army in particular, is one viewing the Reserve as an integral part of the force. The previous construct, to a degree, prevented that from happening. Another, I suppose, is that it has engendered a very significant degree of mutual respect between the permanent force on the one hand and those who are reservists on the other. Whether there will be a deployment of any other Reserve units in the short or longer term is a matter for government, depending on what advice Defence chooses to offer government.

Mr PRICE—So there is no plan being prepared to develop one company out of each reserve brigade for deployment?

Lt Gen. Mueller—I am not across the details but my understanding is that the notion of a high readiness sub-unit is one of the options that is being considered.

Mr PRICE—Firstly, when will we get a response to our two reports? Secondly, when will we get some details on these plans for Reserve?

Lt Gen. Mueller—Which two reports are you referring to?

Mr PRICE—The two reports I am referring to are *From phantom to force: towards a more efficient and effective Army* and *A model for a new Army: community comments on the 'From phantom to force' parliamentary report into the Army*.

Lt Gen. Mueller—Yes. I will take that on notice.

Mr PRICE—My third point goes to when, Lieutenant General Mueller, you anticipate that these works that are being undertaken—

Lt Gen. Mueller—I will take that question on notice as well.

Mr EDWARDS—Lieutenant General, I understand that, after the announcement of our deployment in the war against terrorism, the defence forces were given certain increases in resources to purchase equipment. I understand that the bulk of that resource went in the

purchase of protective equipment against chemical and biological warfare. Is this correct? If so, why did we actually have to wait until after the announcement of the deployment—indeed, after our troops had left Australia—before that protective equipment was acquired? What opportunity did our troops have, prior to actual deployment on the ground, to familiarise themselves with that equipment and become competent in its use?

Lt Gen. Mueller—I am not aware of the nature of the disaggregation of the purchases that were made. They would have been managed by the Defence Materiel Organisation. I presume that you are referring in particular to items that may have been deemed necessary for those force elements that were deployed into the Middle East and Afghanistan. My recollection is that a suite of items required comprised items required for troops to work in cold weather conditions. As you would well appreciate, we do not have a high demand for that in our particular region. There were also some other items of a materiel nature which were purchased in order to provide them with an adequate level of force protection. With regard to the chemical, biological and radiological equipment, I cannot provide you with an answer to that. The advice from Mr Roche is that we would need to get a list from his staff, and that can be provided.

Mr EDWARDS—I would be appreciative if that were taken on notice.

Mr SNOWDON—Air Commodore, could you explain something to us a little further? I understand that individual people do different tasks; but, if they are in an area of operation such as East Timor, why wouldn't they have a deployment allowance, for example, when the other troops did? Why wouldn't they have taxation benefit exemption, as the other troops did? Why would their repatriation, compensation and rehabilitation conditions be different? Why wouldn't they be able to get additional home loan assistance? Why wouldn't they get pre-embarkation leave? Why wouldn't they get relief out of country? In those sorts of things, it seems to me that in aggregate and in real terms their conditions of service are substantially different—not just marginally different but substantially different—from those of their compatriots who are literally serving next door.

Air Cdre McLennan—I can understand the vexation associated with that particular question. If they were deployed doing the same task in any other area of the world, there would not be a question about it—you would happily accept it. The geography, as I said before, is not the major driver of it; it is the actual task and it is the assessment of the risk that they have been subjected to. The assessment by Strategic Command Division was that the risk was relatively low—sufficiently low that they were unarmed. They were also employed in non-combat duties; they were employed in training tasks. If you can divorce the East Timor geographic location from it and have a look at the particular task and, furthermore, the conditions that they were then going to be employed under and living under, then the conditions of service that they have been provided, on balance, are reasonable. If you do happen to have them standing beside somebody who has a blue beret on, it seems unreasonable. Of course one of the reasons a blue beret might be standing there is to ensure that their service conditions are in fact benign and secure, and that they are not subject to the threats that might otherwise attract different service conditions.

Mr SNOWDON—But of course you would appreciate that that is not how it was perceived by those training personnel.

Air Cdre McLennan—Absolutely, I understand that. Having been there, I understand it even more graphically. Nevertheless, that is the case and, if we deployed those people to Indonesia just across the sea, they would not have any complaint.

Mr SNOWDON—It would be different.

Air Cdre McLennan—I should add, I suppose, that they went there knowing what the service conditions were. Nobody was deployed not having understood—or at least having been told and we assumed that they would understand—what their service conditions would be in the country.

Mr SNOWDON—I have to cover the posting thing, so I understand what they were told. In relation to people operating the border protection area, have they got any additional conditions?

Air Cdre McLennan—They operate under the same conditions as all the UNTAET personnel. If you are in UNTAET or if you are wearing a blue beret—

Mr SNOWDON—Sorry, I am talking about our border protection—the frigates, the naval personnel and 5/7RAR.

Air Cdre McLennan—Sorry, Operation Relex. They are under different conditions of service, yes. I personally do not know what those conditions are. We would have to take that on notice if you wanted those provided.

Mr SNOWDON—I will just come back to the patrol boats: the patrol boat personnel do not have those conditions of service of Operation Relex, do they?

Air Cdre McLennan—I understand they are different, yes. I do not know exactly what their conditions of service are.

Mr SNOWDON—Could you provide us with a list of conditions of service for different categories of people serving in the area?

Air Cdre McLennan—Certainly.

Mr SNOWDON—Because it is clearly anomalous that people who work on these patrol boats, who do regular service through the area under quite difficult conditions, get no additional recognition and no additional resources.

Air Cdre McLennan—We will provide that to you this afternoon.

CHAIR—Thank you very much, Air Commodore. I will wrap up this morning's session. Thank you for appearing before us to give evidence, Lieutenant General Mueller and Mr Bennett. If you are able to provide additional material, would you please forward that to the secretary. Lieutenant General Mueller, did you have something you were going to say?

Lt Gen. Mueller—Yes, I have an extract from a Defence document which defines and discusses the issue of unacceptable behaviour. With your indulgence, as a result of the question from Senator Ferguson, I would table it.

CHAIR—Thank you.

Lt Gen. Mueller—With regard to the 3RAR report which was raised earlier by the deputy chair, I am advised that the Defence Liaison Officer, Lieutenant Colonel Cosson, has already arranged with the Deputy Chief of Army for an officer from legal services in the army operations staff to meet with this committee in June.

CHAIR—Once again, thank you for appearing before the committee.

Proceedings suspended from 12.29 p.m. to 2.04 p.m.

CARMODY, Mr Shane Patrick, Deputy Secretary, Corporate Services, Department of Defence

ROCHE, Mr Michael John, Under Secretary, Defence Materiel Organisation

CHAIR—On behalf of this subcommittee, I welcome Mr Roche and Mr Carmody. Given our experience this morning, perhaps it would be best if we had presentations from both of you and then we will go to questions.

I must advise you that these proceedings are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the subcommittee may be regarded as a contempt of parliament. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request. I now invite Mr Roche to make an opening statement.

Mr Roche—Mr Chair, given that there are obviously a lot of questions, I will be quite brief. I took a few questions on notice this morning, and I can respond to those at the start if you like.

CHAIR—Perhaps you can go through your presentation first.

Mr Roche—I think it needs to be pointed out that the DMO is a new organisation. It was created in July 2000. It was set up to get a whole of life focus on Defence acquisition—intended to cover Defence acquisition from womb to tomb, I suppose—to ensure that decisions that were taken about acquisition through life support and development and finally disposal were taken in the one place so that all of the concerns were taken into account. There were, at the same time, a number of underlying acquisition reform objectives which had been set for us by government, which included speeding up processes; adopting a more strategic approach in our relationship with industry; and clearly achieving more projects on time, on budget and to the required capability.

In the 23 months or so that the organisation has been formed, quite a bit has been done. The reform plan has covered three major areas: structural reform, reform of the way in which we deal with our people and process reform. Structural reform has involved, firstly, the bringing together of the single organisation from three fairly large component parts and, secondly, the development of the so-called system project officers, SPOs, which are responsible for the complete service of an area of capability. We have SPOs set up to deal with the F111s, F18s, Anzacs, FFGs and so on. These are generally located alongside the customer that they are supporting. So the F111 SPO is located at Amberley, and the F18 SPO is located at Williamstown and so on. These are largely in place. There is a significant number of them, but the key ones are pretty much all in place at this stage. We have put in place, also as part of our structural reforms, a corporate governance framework and business rules. We have introduced a range of project boards that now look after governance of individual projects and so on.

On people reform, there has been considerable progress made towards the development of materiel career streams. We have done a lot of work to enhance the leadership skills of our executive levels 1 and 2, which are key people in the organisation, and we are doing a lot of work to maintain our specialist skills, particularly in engineering. For example, with the 2002 intake, graduate engineers are participating in the Institution of Engineers, Australia Graduate Development Program.

Process reform has been ongoing. There has been much done there in terms of our approach to calling for tenders, our evaluation approaches and the approval of evaluation selections. Our contracts have been updated. There was considerable criticism of some of our old contractual forms and there has been a new range of contractual documents put out. We have done a fair bit of work on setting out basic statements of work formats for complex acquisitions. We have done a lot of work on standard acquisition management systems and on the acquisition of software reforms.

It is the case, as was mentioned this morning, that we still have a significant number of projects that are running late. Schedule is our major issue. Budget is not quite the same issue because most of our projects are fixed price. That has to be considered in the context that many of these projects have been running for a significant number of years and bringing them back onto schedule is going to take some considerable time. Some will never come back onto schedule.

As for the projects that have been put out to tender or to contract since we have been undertaking these reforms, it is still very much early days but one of the very big ones, the airborne early warning and control project is under contract. That project is running on time. Considerable effort is being put into managing risk in that project and to actually project managing it. AIR 87, the Army's armed reconnaissance helicopters, did go from RFT to contract in less than 12 months, as we predicted. We managed to cut industries' costs as well as our own in doing that and that project is also proceeding well. So I think the signs are positive for those projects that have been undertaken under the reformed processes.

This morning I was asked about a number of projects, for example, the C130J. I was asked about its achieving full capability. That particular project has reached full contractual capability and the Air Force is now working it up in terms of its operational capability. That is due at the end of this year and I know of no reason why that should not happen. The full contractual capability was delivered at the end of last year. It was finalised in December 2001. There was a question whether MILSATCOM was still on target. There is some delay with the launch of that. The launch is currently scheduled for December 2002 and the satellite is planned to enter into service in March 2003. The schedule for the satellite slipped about seven months due to the late delivery of the UHF payload system.

We were asked about equipment that was bought for Operation Slipper. I think that the interest there particularly was in CBR equipment. The individuals that were deployed on Operation Slipper were deployed with protective suits and masks as part of their equipment. There was some equipment obviously delivered in theatre but they were deployed with suits and masks, I am advised.

The final question I took on notice was in relation to the lead-in fighter. All 33 of the Hawk aircraft have been delivered but are subject to a series of ongoing upgrades to provide full contracted functionality. We have had some difficulties with inservice availability—it has been lower than required—but we are confident that the contractor, BAE Systems, is actively working to increase the number of aircraft available for operational training. I think that the delivery of full aircraft functionality is likely to be at least 18 months behind schedule but in the meantime training on the aircraft is proceeding—they are being used.

CHAIR—Thank you, Mr Roche. We will now go to a presentation from Mr Carmody.

Mr Carmody—Mr Chairman, ladies and gentlemen, members of the committee: when the 2000-01 annual report was published, the Corporate Services and Infrastructure Group was just being formed. The Corporate Services and Infrastructure Group, for which I am responsible, was the coming together of three groups: the Defence Corporate Support organisation, Defence Information Systems and the Defence Estate Organisation. The corporate services organisation, CSIG, employs approximately 5,500 people, service and civilian, across 60 bases, and it was responsible for approximately 20 per cent of Defence budget in 2000-01. Since CSIG was established, we have been working to better align our service delivery with Australian Defence Force capability requirements. Each of the three former groups still has a critical role in supporting Defence capability, and more recently we are recognising ways in which our products and services can be delivered to create an environment and a culture of service which assists Defence capability and allows us to attract and retain good people.

In the last 12 months, we have been placing particular emphasis on the quality and consistency of our products and services in recognition of the impact that they have on operations and on the living conditions of Defence people. A critical key initiative is the restructure and improvement of service delivery in the regions and on bases, where most of our products and services are delivered.

In February of this year, we commenced an internal project called Next Steps. It came from a recognition that just pushing those three groups together—Defence Corporate Support, Information Systems and the Defence Estate Organisation—was not enough. We need to consolidate these functions because we have not tapped many of the synergies that exist between the functions in the regions and on the bases. Next Steps will develop structures and consolidate processes at the regional and base levels, at the service delivery end of our business, and make it easier for our customers to access our services at single points of contact. We are standing up two trial regions in south Queensland and southern Victoria in a matter of weeks, and lessons learned from that implementation will play across to the other 10 existing regions over the next six to eight months.

We are very active in business reform. Our service delivery organisations are conducting business process reviews, looking at opportunities offered by corporate systems in Defence, particularly financial systems, and others to review how we are doing business on things like accounts processing and debt management. We are involved in foundation education and training particularly for our very junior staff, who are often placed in key customer service positions, interfacing with contractors, members of the Defence Force and others. We are making sure that they have the skills and training necessary to do these things.

We are conducting joint reviews with other parts of Defence on overlaps, to coordinate our business processes. For example, we are looking at the provision of clothing and vehicles within the Defence organisation to make those services as synergistic as possible. We have reviewed personnel administration areas, field case management and benchmarking of transactional costs of payroll per employee. Within the Infrastructure Division, we are looking at our business practices with a whole-of-life approach to our business. The review of processes is being supported by, or is looking at, whole-of-life business tools, and what underpins those will be an appropriate training regime. We are very aware of the need to try to bring these three disparate organisations together.

The same occurs within the Information Systems Division. For example, we are working with ANAO on our asset management guidelines to reflect the scope and materiality of the Defence environment. Within the Information Systems Division, I have more than 80,000 desktop PCs to manage.

The environmental area has become a very big area of focus, and it was mentioned in the 2000-01 annual report. We are seeking to become a leader in environmental management. We are developing an environmental management system that will be consistent with ISO 14001 standards, the world's best practice. As the largest user of the Commonwealth's energy—approximately 48 per cent—we are committed to reducing our energy usage to meet government reduction targets. In fact, in 2000-01 we achieved a visible reduction in energy usage at a time when our operational tempo was the highest it has been for a very long time.

We established the Defence Energy Efficiency Program in October 2000, a targeted program to improve our energy efficiency, and we joined the Greenhouse Challenge in March 2001. As part of the Greenhouse Challenge, we agreed with the Greenhouse Office to reduce to particular gas emission reduction targets, which we exceeded in the first year of the agreement. We are also reviewing our approach to building and construction to incorporate ecologically sustainable development principles to provide a better working environment and a more efficient working environment while managing the environment effectively.

To conclude, over the last few months we have concluded our first performance reviews of our customer supplier agreements, as foreshadowed in the annual report. We have undertaken customer supplier agreements across the output organisations within Defence. The first review was very successful. It went very well, but we know we have a lot further to go. We are moving ahead as an organisation and we will continue to try to improve our service standards. I welcome your questions.

CHAIR—Thank you, Mr Carmody. Mr Roche, is there anything else you want to add?

Mr Roche—I took a question on notice about the replacement patrol boats. I think I said that we expected to go to contract around the end of this year or early next year and that the first boat would be available in 18 months; that is correct. We expect the remainder to be delivered over the period 04 to 07, I think. It is in accordance with the white paper; it has not changed.

Mr CAMERON THOMPSON—Mr Roche, I am looking at F111s again. With regard to your external consultants, four separate contracts were issued to study the sprayable fuel tank sealant research. I understand that how to replace the sprayable sealant on an ongoing basis is a

problem that is not resolved yet. Is that issue resolved yet? Do we have a conclusion to that process?

Mr Roche—I would need to check on that. My understanding is that there is at least a solution to the problem. What is going on is that we are looking at even more cost-effective solutions. We know that there are ways in which it can be done; it is simply a matter of trying to improve that process. I can give you a readout on that. I do not see it as an ongoing problem. Actually, perhaps I need to correct that: we will continue to have to do it, but the methodology for doing it safely so that there is no risk to the staff doing it and so on is pretty much set.

Senator SANDY MACDONALD—Mr Roche, you mentioned that the C130Js had met full contractual capability. What were the contractual problems with the C130Js? Were they with the manufacturer, Lockheed Martin, or were they with some of the other contractors to that project?

Mr Roche—I would need to check my notes on that, but the major problem I was aware of was to do with the avionic systems.

Senator SANDY MACDONALD—You mentioned that the 33 lead-in fighters were not meeting their contractual arrangements on the basis that, when you let the contract to BAE, you said, ‘This is what we require,’ and they told you how many aircraft were needed to fly the hours that were necessary to do the job. How long does that requirement, that contractual obligation, rest with BAE?

Mr Roche—I would need to check that, but my instinct is to say 10 years. I will check that and come back to you.

Senator SANDY MACDONALD—For the life of it?

Mr Roche—Yes.

Mr BALDWIN—I want to continue on from this morning when we were speaking about the Bushranger project. I asked you whether you were aware that ADI had put the project up for sale, and you said no. You must be very ill-informed because the *Financial Review*, in a Defence special supplement in November or December last year, had a great outline on this project. Are you aware now that for two years they have been trying to sell the Bendigo facility and the Bushranger project and that Tenix had gone through due diligence to purchase the project and then withdrew at the last minute? What also concerns me is the report that in order to save money the number of vehicles has been reduced from 341 vehicles to 290 vehicles. Having refreshed your memory, could you expand on your answer this morning?

Mr Roche—I am aware that there have been discussions in the past. If I recall correctly, I think my answer this morning was about any firm, current proposals that ADI has. I am aware that there has been interest; I am aware that there has been speculation. I am aware that companies have looked at it in the past, but I am not aware that ADI is actively trying to sell it at the moment. I can read the speculation but I have no knowledge of what the company is doing internally. It is true that to get the project down to something approaching budget we will have to reduce the number of vehicles.

Mr BALDWIN—Is that because there is no longer a need for 341 vehicles or have you had to reduce the project size because the tender specifications were not accurate enough with so many variations?

Mr Roche—There have been a variety of ways in which that saving has been made—I do not have the details with me. For example, there were a number of vehicles put down for Airfield Defence for the Air Force. It could be that we could look at other ways of skinning that particular cat, for instance, by reducing the number of vehicles that are spare and so on. I can provide the details of how we have reduced the number from 341 to 299.

Mr BALDWIN—I very much look forward to a report on the whole contractual arrangement, including a chronology of events, the financial implications and how outcomes have been derived.

Mr Roche—Is the committee asking me to prepare that, Mr Chairman? Is that something that would be better dealt with by questioning? I am not quite sure what is being sought here in terms of detail.

Mr BALDWIN—I would like a report on the project. When the contract was originally awarded, it was awarded to a company that purported to have the ability and the design technology to build the vehicle. As I understand it, there were three prototypes to be tested for the contract for the 341 vehicles. With all the variations, it has had a blow-out in costs. To date, as I am led to believe, the project is still not compliant with the performance requirements needed.

Mr Roche—I think we said that this morning.

Mr BALDWIN—You asked me what sorts of answers I am looking for. The point I am getting to is: is it contract mismanagement or is it the fact that the tender specifications were never developed up properly in the first place or is it that ADI has misled the government in its ability to perform as per the contract awarded to it?

Senator FERGUSON—Mr Chairman, it is proper to ask for questions to be put on notice. If Mr Baldwin were to put his concerns in the form of specific questions on notice rather than asking for a report—I do not think it is in the province of the committee to ask for a report—Mr Roche would have a chance to respond to those questions to the committee. You have to ask specific questions, and then Mr Roche can answer those specific questions.

Mr BALDWIN—Mr Chairman, I will ask specific questions and forward them through you.

CHAIR—And that will come through the secretary.

Mr Roche—Thank you.

Mr EDWARDS—Mr Roche, thank you for the additional information about the masks et cetera. However, it went well beyond just masks. I was talking about the biological and chemical equipment, which includes the nuclear, biological and chemical detection equipment for all deployed ships. I understand that was in the vicinity of \$134 million. Why did personnel

have to wait until post-deployment to acquire that equipment, and what proficiency and what training did our sailors, in particular, have in the use of that equipment? If you could have another look at that, I would appreciate it.

Mr Roche—I misunderstood the question. I thought it was in relation to the troops that have been deployed. I will certainly look at it in relation to the ships and provide you with an answer on that.

Mr EDWARDS—Mr Chairman, I want to ask some questions about compensation. Would it be better to leave that until the next session?

CHAIR—Yes. Try to keep questions within the reference of performing business practices. Are you happy with that?

Mr EDWARDS—Yes. It is better for those questions to come up in the next session. I also requested some information about the full cost of our deployment to the Middle East and our operations to defer unauthorised boat arrivals. Mr Roche, will you or someone else be providing that information this afternoon?

Mr Roche—That is a question that has to be responded to by the Chief Finance Officer.

CHAIR—I think that is Mr Bennett.

Mr EDWARDS—Thank you.

Mr PRICE—In the general reporting on staffing numbers in the annual report, you refer to the category of budget estimates staffing. Could you explain that to me? I would have thought that each unit has a certain staffing establishment, which is a number. How does budget estimates differ from the establishment number?

Mr Roche—Whereabouts are you?

Mr PRICE—It is around page 309. You talk about staffing as budget estimate staffing. Does that coincide with the actual establishment? Have you factored in what is a realistic level, given current levels? You do not actually explain in the report how you derive budget estimate.

Mr Roche—I think this is something that should have been asked of the CFO or the Vice Chief of the Defence Force.

Mr PRICE—Could you take that question on notice for the Vice CDF please.

Mr Roche—Sorry, your question is: what is the difference between the budget estimate and the revised estimate?

Mr PRICE—No, I am sorry. There is no explanation of this term in the report. If there is a ship's company of 150, is the budget estimate 130 or 139 on the basis that you have not been

able to recruit those 10 so this is a realistic figure? How do you derive these staffing levels called 'budget estimates'?

Mr Roche—This is not strictly my territory—

Mr PRICE—It's Mr Carmody's, is it?

Mr Roche—It is the number of staff that we estimate we will be able to get on board during the year. It is not a figure like the old staff ceilings or anything, which is some theoretical number which is not going to be achieved. It is the number that we believe that we will employ and pay during the year.

Mr PRICE—That it is realistic is to be commended; that is fair enough. But how do we get a handle on what it ought to be, as opposed to what it is, and then, as you say, the actual estimate? How do we gauge the difference? It doesn't tell us what are understrength ship's companies or reserve units or whatever.

Mr Roche—Indeed; but I guess that, equally, it is difficult to add up all the expectations. The expectations will invariably be—

Mr PRICE—All right. If you could take that on notice, I would be grateful. Could I ask Mr Carmody: in your estimates for this year, are you budgeting for every position to be filled? The Vice CDF talked about the fact that we are in a positive recruiting period. Are we going to be filling up the gaps? For example, in Army are we going to have 26,000 reservists?

Mr Carmody—I am not actually in a position to answer the entire question. For merely my group, we have certainly made estimates on how many positions out of my corporate services and information group will be filled, and that is how we do our budget estimates; but possibly a representative from the Defence Personnel Executive, when we get to the next session, might be able to bring a bit more focus to the question.

CHAIR—Could I say also say to committee members: it is not possible for each member to answer every question and give the answer this afternoon. I am sure that, as we are working through today, there are questions that will be basically on notice. So if you have some questions that require more detail and are not able to be answered today, I am sure we could get them on notice and answer the question for which you are seeking information.

Could I move on to a question arising from page 224 of the annual report. Obviously there is a constituent issue about the Jindalee over-the-horizon radar at Longreach. It does indicate that 'operational release will occur in mid-2002 and final acceptance towards the end of 2002'. Is that still the situation? It has been plagued with technical difficulties throughout its life to date, and this report is last year's report. Where are we at with that, and does that assessment still hold?

Mr Roche—While it is true that this project certainly had a rocky beginning, the work that has been going on in recent years since the project was taken over by RLM in Melbourne has been much more satisfactory. It is running a bit behind the revised estimate, but not in the way

that would give us any serious concerns. I am not aware of any reason why that date that we have there has changed. I will check it and advise if anything different is happening.

CHAIR—The report also says on page 224:

The possibility of connecting the Longreach radar sites to the Queensland power grid is being evaluated.

Do you know what stage that is at?

Mr Roche—I will have to take that question on notice.

CHAIR—A written reply to the committee will be fine. I was involved in it a little bit. I know that it is being evaluated. I think there were technical difficulties with the surge and the draw down of the power.

Mr SNOWDON—Turn your TV off!

CHAIR—It was more to do with other consumers in Longreach.

Mr SNOWDON—It was not you!

CHAIR—Technical research that has been going on has perhaps eliminated that. It was the technical side of the evaluation, particularly to do with the surge, that was creating the biggest problem.

Mr Roche—Yes. I have just had a look at my notes here, and I see that we are currently estimating the completion of the project in the first quarter of 2003, so it has slipped. We believe that final delivery date is possibly a little optimistic, and that final delivery might not happen until mid-2003, with operational release occurring in early 2003. So there is some further slippage in relation to that.

CHAIR—Will you come back to me on the power issue and, technically, is it possible or otherwise?

Mr Roche—I will come back to you on the power issue.

Mr SNOWDON—My question is in relation to the FA18 Hornet upgrade, referred to on page 222 of the annual report. The report indicates that you are expecting the first phase production to be completed by June 2002. This is for the upgrading of the computer and software. Is that likely to happen?

Mr Roche—That project did suffer from some initial delays, but it is now coming back on track. On 2 April this year, we had 62 modified aircraft from Boeing—that is HUG phase 1—against the original schedule requirement for 71 aircraft. We have accepted a revised production schedule, and I will let you know the date of that.

Mr SNOWDON—Thank you. The other related FA18 issue is avionics. I note that you are expecting a contract signature for the integration design work for this by the end of 2001. Did that occur?

Mr Roche—I think the contract signature happened for the integration design work. It is a longer-term upgrade and phase 2.2 of that is scheduled for completion in December 2006. It coincides with the major airframe structural refurbishment under phase 3.2. That is likely to commence in 2007. We are currently on schedule to meet that December 2006 completion date.

Mr SNOWDON—I am not sure who I ask about this. I understand that 1 Brigade was seeking an exercise area in Central Australia. I know they identified some land at one point. Can you tell me where that is at?

Mr Carmody—That would be the Bradshaw training—

Mr SNOWDON—No, it is not Bradshaw. Bradshaw is at the Top End. This is a site they were seeking around Alice Springs.

Mr Carmody—I am afraid I do not actually know. I can check for you. I will take it on notice if I may.

CHAIR—The Bradshaw one is quite separate.

Mr Carmody—Bradshaw is a big issue. I know there was one in South Australia called Cultana, but I am not really certain—

Mr SNOWDON—No, they were seeking a block in the Western MacDonnell area, west of Alice Springs, as I understood it. They had had some preliminary discussions and negotiations with a property owner and then there were issues which arose which prevented them from pursuing it, but they were seeking an exercise area in Central Australia because of the difficult climatic conditions and the different topography.

Mr Carmody—I am very happy to take it on notice.

Mr Roche—Mr Chairman, I would like to return to that Hornet upgrade phase 1. At this stage it has slipped six months, as is recognised in the annual report, to June 2002, but we do not believe that it is likely to slip any further.

Mr SNOWDON—Without wanting to reflect upon anyone in particular, it appears that a lot of these contracts seem to slip, presumably at some cost. Firstly, why do they slip so consistently? Secondly, who bears the cost?

Mr Roche—Most of our contracts, as I mentioned this morning, are fixed price contracts. The impact of slippage for us is a delay in getting capability into service; that is our biggest concern in most cases. I should have mentioned that this morning it was put to us that at the Defence and industry conference in June 2001 we had suggested that industry was totally responsible for these delays. That has not been the position we have taken. I think we said at

that conference—and I have said subsequently—that with Defence purchasing it seems that the onus of proof or the adage that the customer is always right is reversed and that there is a general acceptance that it is the purchasing organisation that has got it wrong.

Industry has to accept the blame for a significant number of delays but we accept also that we have caused some delays by changing specifications and by interfering in the production process. One of the reforms that we have undertaken is that we are now making sure that our requirements are much more specific at the outset and we are saying to industry that we will not change these as the project gets under way. So there might be some delays in the project getting under way, but we will not give industry any excuse for slippage from hereon in.

Mr SNOWDON—I have one further question. I think it was the year before last, at a similar hearing to this, that I asked the question about ADF uniforms, particularly Army uniforms. I asked a question about the fact that there was a mixture of polyester and cotton and that there were some elements of the defence forces who had cotton and some who had polyester and cotton. We were assured that that issue had been addressed. Subsequently, we visited 3RAR in East Timor and had a meeting with the troops and were told very clearly that the uniform issue had not been finally addressed. Not only were they dissatisfied with the nature of the uniform material; they were actually purchasing their own webbing, and many had purchased their own boots because of the unsatisfactory nature of the equipment which had been supplied. Subsequently, we were advised that that issue had been similarly further addressed.

Recently, I had the opportunity to talk to some Defence Force personnel who assured me that from their point of view the issue had not been finally addressed. What is the situation with uniform acquisition? Is the question of providing appropriate uniforms for people in theatres such as East Timor or indeed anywhere across the Top End being finalised? Polyester is bloody awful.

Mr Roche—I would prefer it if the Chief of Defence Force (Logistics) answered that because it is a highly complicated question. I would prefer a military person to provide some of the answer because I know that some of the answer is related to the degree of difficulty in getting agreement across the force on what does actually constitute an acceptable boot—I am told that it is a work of some art.

Senator CALVERT—Mr Roche, thank you; you have basically answered the question I asked this morning about comments made in an editorial of the *Asia Reporter*. You have talked about changing specifications; was that the reason for the delay in the Seasprite helicopter project?

Mr Roche—No, it was not. That is an example of where industry has to accept virtually all of the responsibility. A major subcontractor, the software subcontractor—then Litton Industries, now bought out by Northrop Grumman—basically walked from the contract with Kaman Helicopters to produce the mission control system. There was a dispute between the two companies. I think our view is that Litton seriously underestimated the complexity of what it was they contracted to Kaman to deliver, and they simply were unable to do it. There was virtually no change in the specification that I am aware of.

Senator CALVERT—In questions this morning I raised matters that had been highlighted by you and, in particular, ‘delays’ under output 4, Air Force capabilities. I asked a question about the performance targets for combat support of air operations having been delayed somewhat; the capability of airlift having been delayed because of delays with the C130s; and the Hawk trainer aircraft, which are 18 months behind schedule. Would you care to comment on those delays and what effect they are having on our capabilities?

Mr Roche—The C130s are now delivered as per the contract. There is an outstanding issue in relation to vibration; but that is not affecting our ability to use them, and the Air Force is working them up to operational status. That one, I understand, could be laid pretty much at the feet of Lockheed Martin for the delays in relation to avionics and avionics systems. In relation to the Hawk, I would need to have a closer look at whether there had been any variation of the requirement. But, again, the aircraft now have all been delivered and are being used, and there is a program in place for delivering the full capability.

Senator CALVERT—Yes; but the report states, ‘Full functionality is 18 months behind schedule, although all aircraft are operational in at least one of their roles.’ I do not know which role; it does not say which role that is. Then, going on further and looking at performance targets, it says that the reason these targets have not been achieved is because of personnel and equipment shortfalls and limited exercise opportunities. Does that mean that it is lack of training and that it gets back to the fact that the training aircraft are not yet up to scratch and able to be used as intended?

Mr Roche—I cannot speak for Air Force here, but there is always going to be an effect that flows through if you do not deliver the capability on time. That is why we are putting so much emphasis on it. I am not sure what capability it is that they are referring to there. There is a delay, for example, in delivery of the inflight refuelling capacity until the later part of this year. But that has been due to the unavailability of air-to-air refuelling tankers to develop that—and that, of course, is not going to get any better with the deployment to Afghanistan.

Senator CALVERT—If you would not mind, perhaps you could take this question on notice: what effect is the 18-month delay in the Hawk trainer aircraft having on capabilities further down the track?

Mr Roche—Yes, I will certainly do that.

Mr PRICE—Is it true that, in relation to the C130 planes, a current study is being undertaken to determine whether or not we have adequate lift capability? I find it interesting in that we are getting new replacement aircraft—which is terrific—but that we are not in a position to know whether we have enough of them.

Mr Roche—My job is to acquire the capability that has been identified.

Mr PRICE—It must be a bit of a worry for you, though.

Mr Roche—You are not questioning the ability to lift?

Mr PRICE—No; this is about whether there is sufficient—

Mr Roche—About the numbers of aircraft?

Mr PRICE—Yes.

Mr Roche—I am not aware of a particular study that is under way at the moment on that. But, again, I will take that on notice for you.

Mr PRICE—Thank you. In terms of the 10-year plan, is it correct that some capital items, as announced in the white paper, have been deferred? Have any acquisitions been temporarily deferred or pushed out?

Mr Roche—I am not aware of any that have been deferred. We certainly will review how that process is going. But this annual report, I think, accurately reflects progress against that white paper program, and that is the one we are working on.

Mr PRICE—Has any of your capital budget been diverted to recurrent expenditure?

Mr Roche—Yes. There has been a small reduction programmed for next year; I think it is of the order of \$100 million, but I can check that for you.

Mr PRICE—That is for next year, but what about the current year? When did the process start of taking money out of the capital budget for recurrent expenditure?

Mr Roche—I think there have been adjustments made to the capital budget over a number of years.

Mr PRICE—Would you be able to take that on notice and give me a picture—

CHAIR—What is the actual question?

Mr PRICE—That is, taking money out of the capital budget and utilising it for recurrent expenditure.

Mr Roche—Perhaps I could clarify what I was saying. It is more a matter of adjustment year on year. Sometimes, for our own financial programming reasons, we require more or less funds in one year than have been programmed for, and that sort of adjustment process goes on. Any final decisions in relation to next year, of course, will depend on what happens in the budget. But are you looking for a specific year in relation to budget outcomes? Again, that is something that is reflected in the annual report and in the program budget statements, in which the allocation to capital expenditure is identified at the start of the year and the actual outcome is identified. Then we can go back and show actual versus budget. I do not know how many years you want to go over.

Mr PRICE—What happens if you have an underspend? We are bringing down a budget, so let us talk about the last budget.

Mr Roche—In a normal year, we are talking in the order of \$2½ billion for capital acquisition. What happens if I have an underspend?

Mr PRICE—I thought you could carry it forward.

Mr Roche—Under accrual budgeting arrangements, that rolls forward. I am expected to deliver something that is pretty close in terms of cash outcomes, if possible.

Mr EDWARDS—Mr Roche, could you advise, for instance, whether you might have taken money out of the capital acquisition program to put into another operational program—perhaps our operations in the war against terrorism?

Mr Roche—I could really only tell you in the broad what had happened to the capital budget program in terms of budget estimate and budget outcome. As for tracing any dollars that were different, any dollars that moved, that would be very difficult to do.

Mr EDWARDS—This might be a difficult question, but specifically what I am asking is: are you aware of whether or not money has come out of the capital acquisition budget to be put into an operational budget that might be used in the war against terrorism?

Mr Roche—No. I guess the point I am making is that, if the capital budget is reduced or I underspend, it is not possible to tag each dollar and say where that goes: whether it is rolled over to the following year or whether it is diverted to an operational expenditure.

Mr EDWARDS—You cannot trace that money?

Mr Roche—The dollars are pretty much anonymous, I suppose.

Mr EDWARDS—But the nominal amounts would not be, surely.

Mr Roche—You can certainly identify—this is what we have done with the program budget statements, and it is what is done in the additional estimates process and the full estimates process—all of the areas of projected expenditure or budgeted expenditure and performance against that budget estimate, whether it is up or down. You could make your own judgments as to where the money has gone. Ideally, you would need to ask the Chief Finance Officer about that.

Mr PRICE—The Library produced a research paper, which I thought was pretty good, about block obsolescence and its impact. To what extent are you confident that the 10-year program will be able to overcome that problem of block obsolescence, identified in that Library research paper? Have you seen it?

Mr Roche—Yes, I have seen it. That is one of the outcomes of the formation of the DMO. One of the things we were set up to look at was to start making more judgments about the correct balance between repair and replace—to life-of-type extend or replace. One of the things I am looking at very seriously is the economic life of all of our platforms and whether we need to take different approaches to measuring the effective economic life as much as we do the fatigue

life. I am pretty confident that we have this under very close notice. Certainly I am looking very hard at not just the block obsolescence problem but also the cost of supporting some of these ageing platforms versus the cost of replacing them.

Mr CAMERON THOMPSON—I have a question on the airborne early warning and control aircraft and the decision to purchase four of those rather than seven and to maintain an option for a further two or three. When is the deadline to exercise that option or to decide whether to pursue that; and is there a view whether, in the new environment, the four that are currently on order will be sufficient or whether we will be progressing to six or seven? I could not find anything about AEW4C in this and I thought it would have been mentioned. I might have been just a little slack.

Mr Roche—I would seriously hope that it was there.

Mr CAMERON THOMPSON—It is not in the new capital or major capital equipment and it is not in the index anywhere.

Mr Roche—Now I am looking at it, I think that is possibly a fault in the way we put this table together. The table is 'Significant projects by forecast 2000-01 expenditure', and so it is actually the expenditure in this year. This is on page 217. Internally, I work on total project expenditure, although even that has some problems because, as you get to the tail of a project like 'Anzac ship', its significance in this sort of table drops off. But no, there has not been a judgment taken on whether to exercise the additional aircraft on AEW4C. I would need to check the date, but I think it is April 2004, but I will give you the date by which the option has to be exercised. The option can be exercised at any stage to acquire additional aircraft. That is the date on which there is a firm price for two of the additional aircraft and a 'not to exceed' price for the third aircraft in that option.

Mr CAMERON THOMPSON—The question was: is there a view being formed about whether, in the current environment—the changing environment since that was initially entered into—there is a need for four or more?

Mr Roche—No, we have not put anything to government on that at this stage.

Mr CAMERON THOMPSON—Is there anything in here about AEW4C?

Mr Roche—I think there may not be. My instinct is that we should actually revise that table so it lists the most significant projects by total expenditure to run—something better than single-year expenditure. It is probably something we would have to take up with other committees as well.

Mr CAMERON THOMPSON—But you spent some money on that project?

Mr Roche—We certainly spent money on it, but there is a series of projects here that are spending \$130 million, \$199 million and so on in this year. It is obviously spending less than that.

Senator FERGUSON—Mr Roche, I may have been out and missed this question being asked: have the hull and propeller modifications that were expected to be tested on HMAS *Collins* early this year been done?

Mr Roche—HMAS *Collins* is undergoing a full-cycle docking; it is actually up in the shed at Osborne right now.

Senator FERGUSON—Weren't there meant to be hull modifications?

Mr Roche—The full-cycle docking is late. More work has emerged in that docking than had been anticipated and it will take longer than expected. When it comes out of that docking, it will have the hull modifications completed.

Senator FERGUSON—What about the propeller modifications?

Mr Roche—I am not sure of the exact status of propeller modifications because there are still some issues there on how we deal with the propellers.

Senator FERGUSON—So you do not know when the tests are likely to take place on the modifications?

Mr Roche—Certainly the hull modifications—and I assume the propeller modifications—will be tested when it is relaunched after the completion of the full-cycle docking.

Senator FERGUSON—Later this year?

Mr Roche—Late in 2003. I will see if I have a date for it; I will have to get that information.

Senator FERGUSON—So the *Dechaineaux* and the *Sheean* are the only two that are actually in service?

Mr Roche—They are the modified submarines. It is not so much a matter of trialing them now, because I think we are fairly confident of where the hull modifications take us. We are fairly satisfied with the propeller modifications that have been undertaken in the US. So that is probably as much as we are going to do with the current propellers. I do not think that we still have any issues that we are experimenting with there; it is simply a matter of applying the hull and propeller modifications which are known.

Mr BALDWIN—What about the appeal on the reports from Kockums?

Mr Roche—The judgment has not been handed down on that appeal. It is possible that it might not be handed down, because we are in the process of agreeing a settlement with Kockums and the Australian Submarine Corporation that will enable us to take this project forward and deal with all outstanding issues of liability, intellectual property and so on. As part and parcel of that, I imagine that if a judgment has not been received by then it will not proceed to judgment.

CHAIR—One last question from Mr Snowden and a very quick and short explanation.

Mr SNOWDON—This is not even a constituency based issue, although it used to be: the M113 upgrade. What has happened about the contract for acquisition? The report, on page 225, says that it will be done at the end of 2001-02. Where are we with that project? The second part of that question is in relation to servicing the equipment from 1 Brigade. As I understand it, if tanks require major overhaul, a lot of them are sent to Victoria. If that is the case, is there any proposal to forward-deploy servicing arrangements so that they do not have to undertake that journey?

Mr Roche—The M113 project is about due to go back to government for final approval. It needs to go through its final approval process. We are within a matter of weeks of getting firm final prices from Tenix that will enable this project to go forward. I would expect that to go to government certainly within the next two months, and the project could get under way virtually straightaway. There is some work being done now, as you would be aware. Developmental work has been continuing on this. There have been a number of reasons for delays, but the major reason had to do with the growth in weight. With the things that Army wanted on it in terms of armour and so on, the vehicle exceeded the manufacturer's recommended all up weight by a considerable margin. The only way to deal with this, if you are to have the increased armour that Army needs, is to in fact lengthen the vehicle and insert another set of road wheels in it, which is quite a task. That is what is taking the time to develop it.

Mr BEVIS—I know that we are running out of time, but can I just follow that up with one question?

CHAIR—Yes.

Mr BEVIS—Given all of that and that we are now talking about using the M113s to 2020, what consideration is being given to a replacement? I ask that because either this is one of the best value things ever bought in Australian Defence Force history or we are really stretching the usability, and with that placing capability on the line, not to mention the lives of the people who are in them.

Mr Roche—These vehicles will effectively be rebuilt. The hulls will be completely refurbished and stretched. All the tracks, road wheels and so on will be refurbished. They will receive completely new engines and transmissions, which will be significantly safer than the old ones because they will not have a single point of failure for breaking and steering. They will come with internal spore liners, which, if they are penetrated, will stop any aluminium spraying around inside, and they will come with detachable armour. You are going to have virtually a rebuilt vehicle which will operate to higher protection standards and, basically, its engine transmission will have a new lease of life. We have seriously looked at whether there is any alternative to doing this, and the short answer is that there is nothing that does what the M113 does at anything like its price.

Mr BEVIS—It is a fairly standard capability for armies around the world.

Mr Roche—Indeed. You will find that a large number of armies are refurbishing these. Certainly, I know that the Danes, the Germans and the Koreans have been doing it. There has

been a lot of refurbishing of M113s going on. I have confidence that, as these are rebuilt, they will actually see the distance out, even though they are fairly historic vehicles.

CHAIR—Thank you, Mr Roche and Mr Carmody, for your attendance. If you are to provide additional material, would you please forward that through the secretary of the committee.

Mr Roche—Thank you.

[3.11 p.m.]

ANDERSON, Mr David Charles, Acting Director General, Resources Management, Defence Personnel Executive, Department of Defence

BORNHOLT, Colonel Mark, Director, Defence Force Recruiting, Department of Defence

McLENNAN, Air Commodore Roxley Kenneth, Director General, Career Management Policy, Department of Defence

PEARCE, Mr Mal, Director General, Australian Defence Force Remuneration Reform Team, Defence Personnel Executive, Department of Defence

RAGO, Commodore Louis, Director General, Personnel Plans, Department of Defence

SHARP, Mr Peter Kenneth, Head, Strategic Workforce Planning Review, Department of Defence

ACTING CHAIR (Mr Price)—You are aware that the proceedings today are legal proceedings of the parliament and warrant the same respect as the proceedings which the respective houses of parliament demand. Although the subcommittee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the subcommittee may be regarded as contempt of the parliament. Do you wish to make a short opening statement before we proceed to questions? If so, please proceed.

Air Cdre McLennan—With your indulgence, I will read the statement. I will probably save time that way.

ACTING CHAIR—Yes. No problems.

Air Cdre McLennan—I, and those representing the head of the Defence Personnel Executive, are here to answer questions that you may have on the issue of ‘People Matter’ which comprises chapter 5 of the Defence annual report 2000-01. The white paper states that the key to maintaining the ADF as a first-class military force is having the right people with the right skills and experience that they need to succeed in complex military operations. As a direct result of the white paper, the Defence plan was created. It states that getting things right for people, creating the climate where people can do their best, is critical to Defence’s success. Defence acknowledges this and is developing processes and procedures to meet the goals set out in the white paper and the Defence plan. These opening remarks, in addition to the answers to your following questions, will highlight that Defence understands that people are the key to capability.

The Defence annual report 2000-01 identified five strategic themes. They are: attract, recruit, develop, retain and transition. These themes have been incorporated into the Defence plan and will be depicted pictorially in the graphic presentation of Defence’s strategic journey. They

provide a very useful construct for considering future Defence personnel plans and policy initiatives. However, rather than follow the strategic themes closely today, I shall address the issues arising from the annual report in roughly the same order as they are treated in the report.

Starting with recruiting and retention initiatives, the annual report notes that Defence has developed and introduced a number of recruitment and retention initiatives that will assist in it becoming an employer of choice. These initiatives include streamlining the recruiting process, the introduction of a family support fund, enhancing the Defence employer sponsored child-care program and the commencement of the inaugural Australian Command and Staff course at the new Weston Creek facility. These are but a small sample of the personnel initiatives noted in the annual report.

Recruitment and retention remain the most pressing issues facing Defence Personnel Executive. Incidentally, these issues also happen to be critical for many other Western volunteer defence organisations. However, I am pleased to report that since the annual report a significant improvement in our position has been achieved. The three services have produced a real recruiting achievement. Between August 2001 and March 2002, personnel numbers in Navy have increased by 2.7 per cent, Army by 1.5 per cent and Air Force by 1.2 per cent. The Navy's actual figures are from 12,341 to 12,676; Army, from 24,404 to 24,760; and Air Force, from 13,192 to 13,350. Similarly, the news regarding separations is much more positive than it has been for several years. Notwithstanding data difficulties attendant on the introduction of the PMKEYS personnel information management system, the three services are now reporting separation rates between 11.5 and 11.9 per cent.

Irrespective of this small but very important progress, the Defence Force is continuing to develop and promote recruitment and retention strategies that will ensure that it remains an organisation that values its people. In particular, the newly formed Action Plan for People Team branch of the Defence Personnel Executive has developed a comprehensive package of recruitment and retention initiatives. These are to be progressed through the Defence People Council as expeditiously as is sensible. Similarly, the Defence Force Recruiting Organisation, working in parallel with the Action Plan for People Team, has produced nationally focused marketing media campaigns to realise economies in advertising costs and consistency of information.

Finally, on the issue of retention, Defence acknowledges that neither people nor finances are in abundant supply and that greater effectiveness and efficiencies in the management of people and resources are necessary. To achieve these goals and government expectations, the Defence Personnel Executive has developed the Defence people plan, a document that provides the most comprehensive strategic guidance on personnel issues and priorities to date. It stresses the importance of including people in the decision making process and will prioritise personnel initiatives—ADF and APS—across Defence. I emphasise again that the aim of this plan is to ensure that Defence utilises its people capability efficiently and effectively.

Regarding workplace relations, the annual report noted that Defence has continued to implement the Defence employee certified agreement, or the DECA, and the ADF enterprise productivity arrangements. The 2002-03 DECA was approved in April 2002. This latest certified agreement has moved towards a more principles based approach, where managers and staff are encouraged to apply principles to develop mutually acceptable working arrangements

rather than just apply prescriptive rules that can limit flexibility. The shift to a principles based environment for working arrangements and conditions is a long-term aim of Defence. It is also consistent with the department's intention to develop a results focused, values based culture.

The Defence Force response to the ADF remuneration review 2001, commonly known as the Nunn review, was completed in February 2002. It is hoped that the review, once approved by government, will produce outcomes that will support the ADF enterprise productivity arrangements, which subsequently should have a positive impact on ADF personnel. The submission is currently with the Minister for Defence, which I think answers a question on notice that was issued earlier.

With respect to workplace equity and diversity, Defence recognises that people are the key to capability. Defence is committed to implementing world's best practice equity and diversity policies to enhance operational capability and effectiveness. This in turn will enhance Defence's ability to achieve its mission. The Defence Equity Organisation, or the DEO, under the outstanding stewardship of Ms Bronwen Grey, continue to lead the way in corporate equity and diversity management and initiatives. Their efforts and enthusiastic support throughout Defence were recognised by Defence recently winning the Australian Public Sector Diversity Award for 2001 in the open category.

The initiatives that DEO has implemented and improved upon—including online equity and diversity training, the free call equity advice lines and the continued training program of a very large number of equity advisers throughout Defence—have greatly contributed to equity and diversity awareness. In addition, a review of extant equity and diversity policy is ongoing to ensure that Defence meets its mandate and progresses with the expectations and culture of the Australian community.

Although instances of unacceptable behaviour still occur, the level of awareness of what is considered acceptable and knowledge of reporting procedures in Defence have improved remarkably since DEO was formed in 1997. Our people have never been more educated on what is acceptable and what is not, and this will continue with the requirement for all Defence personnel to undertake annual equity and diversity training sessions. This is a command requirement which must be reported on regularly, so the onus to comply is high.

The Equity and Diversity Plan 2001-03 continues to be the source document for policy information within Defence. The 'fair go' principle, a common theme within this document, has been implemented throughout all recent Defence strategies, in particular the defence plan. The Equity and Diversity Plan 2000-03, a 'people first' plan, has therefore been instrumental in shaping current Defence policy and strategies, and will do so in the future.

Finally, under the heading 'Women in the Military' the annual report noted that the majority of ADF employment categories—nearly 90 per cent—have been open to women since 1992. It also noted that physical competencies are being developed for the remaining employment categories as a necessary step to enable government to consider, if it wishes, the further employment of women in these areas. The next phase of work has been authorised by the Chiefs of Service Committee as the ADF physical employment standards project. The project involves engaging with industry to develop specific physical employment standards for each combat arms category. Outcomes of this project will be targeted injury prevention strategies and more

direct linkage of training programs to actual tasks. These outcomes should reduce compensation premiums, but, more importantly, they will enable Defence to care more for its people through increased occupational health and safety awareness within individual categories.

In conclusion, the issues brought forward in this opening statement are but a few of the personnel initiatives, programs and processes currently being implemented by Defence that commenced with the Defence white paper and have been highlighted in the *Defence Annual Report 2000-01*. In Defence, we acknowledge that we still have a long way to go to realising the personnel goals of the people plan and the defence plan; however, the journey towards meeting these goals has been mapped out to a degree not seen before in Defence. Moreover, the resources allocated and the commitment of our senior leadership team to this journey highlights that people do matter in Defence. Getting things right for people by creating the climate where people can do their best is critical to Defence's success. In closing, I note that Defence has been proactive in working towards the personnel goals as stated in the Defence white paper and has since implemented or improved upon the initiatives stated in the *Defence Annual Report 2000-01*.

CHAIR—Air Commodore, thank you very much for that. We will now proceed to questions.

Senator SANDY MACDONALD—The Senate recruitment and retention inquiry which you had in October last year made 34 recommendations, many of which I consider to be valuable. When will you be responding to those?

Air Cdre McLennan—I am sorry; I do not know off the top of my head. We will take that on notice and return a formal answer.

Senator SANDY MACDONALD—I have some questions that concern both operational and personnel matters with the Army Reserve. I am going to place some of them on notice, but I might ask some of them now.

Air Cdre McLennan—Sure.

Senator SANDY MACDONALD—The first concerns the intention to deploy a general reserve infantry company in Timor. How has that progressed, and is it intended that that occur?

Air Cdre McLennan—Unfortunately, that is one that you probably should have asked Vice CDF.

Senator SANDY MACDONALD—It is operational.

Air Cdre McLennan—It is operational; I will get back to you with that as well.

Senator SANDY MACDONALD—Are any overseas postings designated to be filled as a first priority by reserve officers?

Air Cdre McLennan—No, as far as I know there are no overseas postings which are designated reserve office by priority. However, we are moving as quickly as we can towards an ar-

rangement whereby reservists are seen as an integral part of the force and therefore certain postings should be equally open to reservists or permanent officers, based on the principle of the best person for the job.

Senator SANDY MACDONALD—Do you see that it could be possible for some overseas postings to be designated as first priority for reserve officers?

Air Cdre McLennan—I can see it as being possible. I am not yet convinced that that is logical but rather that the best person for the job should be the overriding principle.

Senator SANDY MACDONALD—Is the Army actively identifying regular personnel who have not been deployed overseas and facilitating deployment of them so that a large proportion of the regular Army now has had at least the opportunity to serve overseas?

Air Cdre McLennan—Sorry, I cannot answer for the Army career managers.

Senator SANDY MACDONALD—Would you consider that the process of having the chance to serve overseas is a valuable retention tool?

Air Cdre McLennan—The opportunity to serve overseas, by and large, is valuable from the organisation's perspective. Individuals have their own personal requirements. For some it is a retention tool. For some it may be an imposition on their personal arrangements that they would find detrimental. I cannot therefore answer in a general sense, but certainly from the organisation's point of view the breadth of experience that is achieved by overseas postings or overseas service is useful.

Senator SANDY MACDONALD—Thank you, Air Commodore. I have some more questions. They are technical.

CHAIR—Will you put them on notice?

Senator SANDY MACDONALD—I will. They are both personnel and operational questions. Air Commodore, I would very much like to know when you will respond to the Senate references committee inquiry because it was, I think, of considerable value and I would be interested in the response of the government concerning it. I will put these other questions on notice.

Air Cdre McLennan—I will try to get the answer to the last question back this afternoon.

Mr BEVIS—What new recruitment techniques has the ADF been using since last July?

Air Cdre McLennan—I will ask Colonel Mark Bornholt to answer that. He is the specialist officer.

Col. Bornholt—We have not used any new techniques. We have examined the recruitment problem, and in that examination we looked at how many people were making inquiries. Our emphasis has been on trying to improve the conversion rate from inquiry to enlistment. We have

had a very successful advertising campaign that has run over the last two years. We conducted research two years ago that indicated that Defence and the three ADF brands, Navy, Army and Air Force, had lost brand presence in the market place. That was what the advertising was designed to arrest. It has worked; our inquiry rates have almost doubled. At the time they doubled, we were unable to handle the amount of inquiries because the telephones were literally running off the hooks. Defence has introduced the call centre located at Cooma, and that now—

Mr BEVIS—When was that?

Col. Bornholt—It became functional in September 2000.

Mr SNOWDON—Why Cooma?

Air Cdre McLennan—It was not our decision.

Mr SNOWDON—Why not Mars?

Air Cdre McLennan—It was a government decision.

CHAIR—Mr Bevis, you have the floor.

Mr BEVIS—I interrupted the answer because my question was related to time lines. I wanted to get the answer in the context of the question.

Col. Bornholt—The call centre, from September 2000, enabled us to handle the applicants more efficiently. As a result of that, from that period forward our overall numbers have increased from about 5,700 up to a total of 7,700 recruited in the last financial year. That recovery is consistent. We anticipate that we will recruit about the same amount this year.

Mr BEVIS—The reason behind asking the question is that this afternoon and earlier today mention was made of the improved recruitment rates. I would be interested to know whether or not that also reflects an improved retention figure. Maybe that is a question that you are able to answer: has there been an adjustment in retention over the same period?

Air Cdre McLennan—It does.

Mr BEVIS—So there are improved retention rates as against the same period last year?

Air Cdre McLennan—Absolutely.

Mr BEVIS—Is that a product of some new initiatives and some ways of operating that came into being during the last eight to 12 months, let's say; is it just a happy coincidence of events; or is it the product of external things, such as a different world environment which makes people more inclined either to make the inquiry or to do more than make the inquiry: to sign up? Is there anything you can offer to the committee to explain this, telling us not just, 'Yes, there's been an increase; aren't we fortunate there has been,' but what has produced the increase?

Air Cdre McLennan—I think you missed one of the options available—that is, all of the above.

Mr BEVIS—Sure.

Air Cdre McLennan—I think that is the case. There has been a concerted effort in the recruiting campaign. There has been an improvement, I think, in brand image, and to some extent that is the result of the activities that we have been involved in. There has certainly been an increase in public awareness of Defence—Defence is now a topic for debate in some areas, which I perceive it was not before—and there have been a number of retention initiatives as well. Putting it altogether as a package, I think we have achieved improved retention and improved recruitment. Over the top of all that, of course, is the more general economic environment which I think has always had a significant impact on our recruiting and retention. It is hard to differentiate which are the more important of those factors. We are attempting to study that but, regardless of how we study it, getting an absolutely certain definitive answer is extremely difficult.

Mr BEVIS—As an interested observer, I cannot perceive a difference in the way Defence is marketing. There may be a difference in the way people coming through the door are treated. This morning I raised concerns about staffing levels because, when you look at the numbers of people in the permanent force, they are at quite historically low levels. Although I did not take down the numbers, I think the figures that you referred to, even with the adjustments—I think it was in Army, which is the largest number of folk—are less than last year's budget target.

Air Cdre McLennan—I think there is a danger in drawing a parallel between the budget and the figures. We have a target of numbers of people. That target is our dream, if you like—that is what we aim our recruiting at—and then the recruiting needs to be adjusted for future forecasts, which is forecasts of people leaving, forecasts of future requirements and so forth. When you translate that into a budgetary sense—and the CFO is the responsible authority to present this—it is not simply a case of taking that target number and multiplying it by a certain number of dollars and finishing up with a budget figure because we have to have, laid over the top of that, an assessment of what we are likely to achieve in a realistic sense against that target. There is no point in programming \$4 billion for personnel salaries if you are really only going to have enough people on board in a particular year to spend \$3.9 billion or if you are going to spend \$4.1 billion. What is important is that we understand the process of work force planning—and that is something that Mr Peter Sharp will talk about shortly if you wish—and refine that process so that we can then translate that into better budgetary processes.

Mr BEVIS—That actually creates a deeper concern because, given that the budgetary figures are not intended to be, as it were, what Defence would want to have for a fully fleshed out unit, we do not even reach the lesser figure. Can I move on to another issue that has not been raised—cadets.

Mr PRICE—Can I ask a question about those figures?

Mr BEVIS—Sure.

Mr PRICE—You were asked a question earlier about the difference between establishment, budget estimate and actual achievement. Can you explain that? And why don't we have establishment figures in this report, or anything to indicate the state of—

Air Cdre McLennan—I cannot answer why we do not have establishment figures in this report, but, if the committee decided that is what they would like in the report, that could be arranged.

Mr PRICE—Don't you think it is fair that we should know whether the three services have an establishment of 60,000—just plucking a number—when your budget estimate is 50,000? I would have thought it is not only important to Defence and government but also ultimately to the public.

Air Cdre McLennan—The establishment figure is based on what we believe we need to do the job; that is, from the work force planning system, an assessment of the tasks that need to be undertaken, how many people need to be available to do it and, furthermore, the actual shape of those people—their skills, qualifications and so forth. Translating those establishment figures into actual bodies is not a simple, straightforward process, and you only pay for the bodies that you actually have. So there are three separate processes involved. Furthermore, translating an establishment figure into an actual body is a time process. If I wanted to recruit an aeronautical engineer and put him in a job tomorrow, I would need to have started five or six years ago.

So, with appropriate time delays, getting the right people in the right jobs at the right time is probably more of an art than a science in some respects. The budgetary figures are our best estimate, at the start of the budget year, of what we are actually going to have in place that year, bearing in mind that a significantly large number of those people are not going to join the force until some time during the year.

Mr PRICE—I accept that; but isn't it the point that we ought to know that the budget estimate for aeronautical engineers was 30 when the establishment is 40, and you are running at a deficit of 10?

Air Cdre McLennan—Yes. I agree.

Mr PRICE—How do you get that out of this report?

Air Cdre McLennan—We have those figures. If they are not included in the report—and that is what you would like to see—we should put them there, and we can do that.

Mr BEVIS—My separate question was on cadets. Can you provide us with any research to identify the role that cadets play in increasing the likelihood that those who participate will elect to join the services after they have been in cadets?

Air Cdre McLennan—I do not have the figures off the top of my head. Anecdotally, I can assure you that the cadets play a very significant role.

Col. Bornholt—I can get you the figures on notice. My information is that roughly 35 per cent of people who are serving have served in the cadets.

Mr BEVIS—That is the wrong question. I have had that answer given to me in the past as well. I do not want to know how many people are at Duntroon or in the service now who were in the cadets. If they had never joined the cadets, they may well have still gone to Duntroon or wherever, because they wanted to do that. What I am looking for is some research to say that people who were not predisposed to join, or who had an ambivalent view on joining, the services participated in cadets and, as a result of that participation, went on or want to go on to take a role in the defence forces. I must say, having asked this question before, that the only information I have ever got back is precisely the sort of information you are referring to, which is to tell me how many people who are currently in a uniform used to be in cadets. That does not demonstrate that cadets did anything.

Air Cdre McLennan—I understand the question. I do not know that we have done the research. I am one of those people, so there is at least one. I will get back to you on notice as to, firstly, whether that research has been done and, secondly, whether we can do it. I believe we should, because it is a good point.

Mr BEVIS—We are spending money on it. It would be nice to know that it is producing an outcome.

Mr EDWARDS—Turning to the question of compensation, page 8 of the report refers to occupational health. It states:

The cost and consequences of poor performance in this area continue to be unacceptable to both Defence and the community.

I think that is an important statement. It must be unacceptable to Defence because it is certainly unacceptable to the broader community. In table 5.20, titled 'Incident Reporting', on page 329 there are two figures that I would like some more information on. The figure for 1999-2000 on incidents resulting in incapacity was 453; it dropped to 52 in 2000-01. That is a significant drop. What is the reason for that decrease? Is there a change of definition or were there some 401 fewer accidents resulting in incapacity? I would be happy to take that on notice.

Air Cdre McLennan—I would prefer to answer it now, if I can find my sheet of paper.

CHAIR—They are very good figures.

Mr EDWARDS—On the face of it, they are good figures and that is why I think we should pursue it.

Air Cdre McLennan—If you will bear with me, I will read this document because it is probably the best way to get clarity of an answer which I am not personally familiar with. It reads:

The difference in reporting between the two financial years is a combination of two interacting issues—better reporting of incidents across the Defence Organisation and a definitional requirement of the reporting database.

A dangerous occurrence under the *Occupational Health and Safety Commonwealth Employment Act 1991 s75 (a) Regulations (Reg 3)*, is one which results from an operation conducted by an employer which has the *potential*, but does not, cause death, serious personal injury or incapacity.

Senator FERGUSON—This is the question I asked this morning.

Air Cdre McLennan—Yes. It is effectively, I hope, the same question.

Senator FERGUSON—This is the line above the one that—if I could just explain—

Mr EDWARDS—I was not going to get to that because I was more interested in the figures on the lower two lines.

Senator FERGUSON—The question I asked this morning was: why were there none in 1999-2000 and 1,465 in 2000-01, which is the question you are answering now? Mr Edwards's question was about the figures on the next line—453 back to 52.

Air Cdre McLennan—That is right. By the time I get to the end of this answer, hopefully I will have answered both of your questions. We will see how we go. With the way the OH&S accident, injury and compensation management system—the DefCare system—is currently configured, 'Dangerous occurrences' denotes those incidents where personnel were witnesses to such an occurrence. 'Dangerous occurrences with minor injuries' allows the system to note personnel as casualties rather than witnesses. The latter results in entries being placed on personal files for possible compensation inquiries in the future.

The database has been developed over the past five years to record incident and casualty data and to provide more relevant information from management of OH&S issues within Defence. Over the past several years, there has been a problem with underreporting across the Defence organisation. The Defence Safety Management Agency has initiated a program to increase reporting—the effectiveness of which is now being reflected in higher casualty figures. That does not explain the reduction. I would like to think that it is because we are keeping better records and those figures are now more accurate, but I cannot explain directly why we have gone from 453 down to 52, which is a quantum change, an order of magnitude change.

Mr EDWARDS—I would like you to take that question on notice because I would like to know the answer. The second part of the question is about 'Incidents resulting in serious personal injury'. It went from 1,665 in 1999-2000 to 1,425 in 2000-01, so there is a reduction there. I hope that is a real reduction.

Air Cdre McLennan—So do I.

Mr EDWARDS—Of those 1,425 injuries, how many resulted in medical discharge?

Air Cdre McLennan—I would have to take that on notice, I am sorry.

Mr EDWARDS—Moving from that then to the broader question of compensation—

Senator FERGUSON—Mr Edwards, before you move on, I do not think the question has been answered, as to why it has gone from zero to 1,465 under the 'Dangerous occurrences with minor injuries'. You have said there is a change in reporting, but it has gone from zero.

Air Cdre McLennan—Yes, my understanding was that was a change in the reporting base, so in fact that figure was not reported at all in that form.

Senator FERGUSON—It was not captured anywhere before?

Air Cdre McLennan—That is the suggestion that I have been given. Personally, I think that means that there is an even greater discrepancy in the figures.

Senator FERGUSON—I just wonder what you could describe as a minor injury, though. That is what really counts. What is a minor injury?

Mr EDWARDS—I would like to come back and visit this with the committee at some stage, because I think these are very important questions.

Air Cdre McLennan—I think we should take that on notice; there is a comprehensive explanation for that.

Senator FERGUSON—Thank you.

Mr EDWARDS—The second question relates to the broader review of compensation. I understand that a new military compensation scheme will be introduced later on this year. Can you tell me when that will be introduced, because the parliament has been waiting on it now since about 1999.

Air Cdre McLennan—No, I am sorry. I would have to take that on notice.

Mr EDWARDS—I would appreciate advice on that, and I want to emphasise the importance of this. I am not sure whether you are aware but, under the current compensation scheme, Australia's most recent war widow will be offered an amount of \$37,000. She will receive an additional \$55,000 in relation to one child and an ongoing pension of some \$504 a fortnight. This is an appallingly low amount for any person. I think we need to address the imbalance between military compensation and civilian compensation because, given the fact that we have troops involved in the war against terrorism, the sooner we can get this new legislation in and review it, the better. I want to emphasise that that should be coming in as a matter of urgency. We have waited now for some period of time, and I think it is appropriate that we get it into the parliament urgently.

Air Cdre McLennan—I have a planned implementation table for the military compensation scheme. It says that the preparation of the exposure draft bill will be from April to June 2002; from July to September 2002, there will be consultation on the exposure draft bill with the opposition, ex-service organisations and other interested parties; and in October the new Military Compensation Scheme Bill will be introduced into the spring sittings of parliament.

Senator SCHACHT—Could I ask a follow-up question on this particular point. Twelve months ago, Minister Reith froze discussion of the bill. That has now been reversed by the new minister, Senator Hill. Is that correct?

Mr EDWARDS—It was reversed by his secretary.

Air Cdre McLennan—I cannot comment on that except to say that the bill, from the department's point of view, is being progressed.

Senator SCHACHT—But it is true that for 12 months of last year, from when Minister Reith came in and through most of last year until he retired, no progress was made on the bill at all, despite an assurance from the opposition that in principle we supported the new military compensation bill. That is correct, isn't it?

Air Cdre McLennan—I do not know.

Senator SCHACHT—Goodness me! Go back and read the transcripts from the Senate estimates committee for Veterans' Affairs last year.

Senator FERGUSON—It is not for them to answer.

Senator SCHACHT—Why not?

Senator FERGUSON—You are talking about a matter of government policy.

Senator SCHACHT—No, I am just trying to find out why we are now back in the process. That is correct: there was a delay for 12 months and nothing happened?

Air Cdre McLennan—I do not know.

Senator SCHACHT—Isn't someone in the department aware of the drafting of the bill?

Air Cdre McLennan—Certainly, but not me.

Senator SCHACHT—And, fortunately, you have no-one behind you who can answer the question!

Senator FERGUSON—It is not these fellows' fault.

Air Cdre McLennan—I can tell you what is happening right now, but I cannot tell you the background. If you would like a briefing on that, I can take it on notice.

Senator SCHACHT—I just make the point that the reason Mr Edwards has raised this issue about the widow—the latest war widow, unfortunately—is that this bill was unnecessarily delayed for 12 months because Minister Reith thought it was too generous to the service people and did not like it. He stopped it.

Senator FERGUSON—It is not these guys' fault. You cannot ask these fellows to comment on that.

Senator SCHACHT—I got what happened on the record. I feel better about it, but the problem is that the latest war widow is going to suffer.

CHAIR—Senators and members, we are going to run out of time.

Mr EDWARDS—Mr Chairman, can I just reiterate the urgency of this issue.

Mr BEVIS—If my memory serves me correctly, the scheme was a commitment undertaken after the Black Hawk disaster, so it has been some years in gestation.

Mr SNOWDON—I have a number of questions. I asked a question this morning about Army personnel serving in Operation Relex as boarding parties. I asked how many of them there are and where they are from. I know that they are from 5/7. What would they otherwise be doing if they were not deployed boarding vessels off frigates? That question was taken on notice; I assume that I am going to get an answer sometime—today, I hoped. I wanted to repeat that question to make sure that I do get an answer.

I am interested in a number of other things. Firstly, in terms of recruitment, where are we with fast jet fighter pilot recruitment and other specialist recruitment in the Air Force? Do you have a view on that?

Col. Bornholt—I can give you figures on how many Air Force officers have entered in the 2000-01 period and in the current year to date against target.

Mr SNOWDON—Yes, that would be good.

Col. Bornholt—For the Air Force year to date, against a target of 115 ADFA officer entrants, we enlisted 102. For direct entry officers—and that encompasses everybody else, basically—we have brought in 101 against a target of 262. Against a target of 74 undergraduates, we have brought in 51. So, for officer totals for the Air Force this year, we think we will bring in, given that there are a few weeks to go, about 270 against a target of 450.

Mr SNOWDON—Can you take on notice the precise question, though, and give me figures on the shortages we have in fast jet fighter pilots and tell me how we are going in recruiting them—and for other specialist areas like that.

Air Cdre McLennan—We need to clarify that; exactly which other specialist areas?

Mr SNOWDON—Navigators.

CHAIR—Do you want to put the question on notice, in writing?

Mr SNOWDON—No, not particularly.

Air Cdre McLennan—In that case, we are restricted to fighter pilots; otherwise we will be—

Mr SNOWDON—Aeronautical engineers, navigators—you know what it takes to fly an aircraft. Presumably I can get the answer.

I have a specific question in relation to NORFORCE. There was a proposal put to the Defence Personnel Executive, as I understand it, for the establishment of a six-month full-time training regime for NORFORCE personnel. Where has that proposal got to? Is it going to be funded and if not, why not?

Air Cdre McLennan—Sorry, that is a question for Army. I do not have that. I will get that to you.

Mr SNOWDON—Okay. On the question of morale, what would you say morale was like generally in the Defence Force at the moment?

CHAIR—That is a very subjective question.

Mr SNOWDON—It might well be, but nevertheless it is a question I want answered.

Air Cdre McLennan—That is a pretty broad question. Rather than give you my anecdotal impression—and I could do that—I would prefer to do this. We have an organisation that does research and periodically does surveys of defence personnel. Some of the answers that we get out of that give you an indication—there is no direct measure of morale—of what concerns people, what they think about service and what their intentions are with respect to continued service. I think a synopsis of that would give you a better feel than anything I could give you.

Mr SNOWDON—The reason I ask the question is that there are a range of issues which I have raised continually over last couple of years. One is remote locality leave travel, which I raised before this inquiry and, in fact, which I wrote to the chairman about when he was minister. I have a copy of a signal which the Chief of Air Force sent where he lambasted the proposal to change the normal departmental liability from full economy less five per cent to a figure of 38 per cent of a full air fare. The net result has been a cost to families—depending on the size of the family—of about \$1,000 to \$1,500. That has been an enormous cause of concern for Defence Force personnel in the Top End. I am wondering if the Nunn report addresses it. Does it revisit it? If it does, in what way?

The other issue which relates to that is the question of calculating district allowance and whether or not there has been a proposal to look at changing the methodology for calculating district allowance. I am advised that the Defence Personnel Executive put out a discussion paper on this issue which effectively said that the status of Darwin should change, that it was not uncomfortable because of prices et cetera—which, of course, is news to the Defence Force personnel in Darwin.

I raise those questions not only because I want material answers to them, but because there is now, I am sure you are aware, ongoing discussion about the relocation of Army in the north, APIN, and the impact it is having on families. One of the issues that is a cause of concern is that, because we now have people needing to do back-to-back postings if they want a career—six or eight years or even longer, depending on what unit they are in—families are finding it increasingly difficult. Of course, remote locality leave travel and issues such as district

allowance are germane to the way they feel. They might not separate—that is, they might not separate from the defence forces—but they might have separations in their families, which I understand is a cause of some concern. Firstly, have those issues been addressed in the Nunn report?

Air Cdre McLennan—Your description of the issues is very accurate. Defence is very well aware of those particular issues and they are being addressed. They are not all being addressed in the context of Nunn, but they are being addressed within the DPE. Work is in progress, presently on paper, to address in particular remote locality leave travel as being a burning issue. The same aspects are associated with district allowance and there a number of other things like airconditioning allowance and so forth.

Mr SNOWDON—I do not really expect you to know the answer to this question, because you probably were not in the area at the time, but how is it, given that the defence forces did a survey of Defence Force personnel prior to this RLLT proposal and Defence Force personnel made it very clear they did not want to change RLLT, and that the chiefs of the services say—indeed, I have a copy, as I have said, of at least one signal from the Chief of Air Force—that they opposed the idea of changing RLLT, that the RLLT would have been changed? Who would have made the decision?

Air Cdre McLennan—Mr Mal Pearce was associated with the area at the time.

Mr Pearce—As I am sure the chairman will remember, we did not change the policy for remote locality leave travel until we were left with little choice because of the change in the contract with Qantas, our airline carrier. Qantas had given us, as I think you would recall, extensive discounts in the new contract, thereby reducing the cost of an economy fare to the department. As you already indicated, there was a longstanding convention whereby the member got 95 per cent of what an economy air fare was worth to the department. Following the introduction of the new Qantas contract, an airline ticket was worth less to the department, therefore remote locality leave travel was worth less. The only other option would have been to find more money to top it up, and we simply did not have the money to do that.

Mr SNOWDON—Tell me the answer to this question: what are the effective dollar savings that have been accrued as a result of the changed RLLT allowance? There must have been some because you have reduced it from the price of the air fare less five per cent to the air fare less 38 per cent plus the GST.

Mr Pearce—There certainly would have been savings that we would have been able to harvest by virtue of the Qantas contract. I am not the right person, I am afraid, to ask where those savings have been distributed.

Mr SNOWDON—I am not trying to be antagonistic towards you but I have to say that this has been a cause of much frustration, concern and anger for Defence Force personnel in the Top End.

Mr Pearce—Yes, I have been at the receiving end of some of that anger.

Mr SNOWDON—I understand what the Qantas contract means. What I am concerned about is that it is okay, if you are not flying to Brisbane but are driving to Brisbane and are trying to cash it out, that you can actually do what you would have done previously. It has enormous impact on the family.

Mr Pearce—I understand that but the entitlement is to an air fare out of the remote locality. People still have the entitlement to the air fare out of a remote locality.

Mr SNOWDON—But it is not the same entitlement.

Mr Pearce—That is what the entitlement is. The entitlement is to the air fare out of the remote locality to give the person relief. They still have that entitlement. It is just that it concerns the people who decide to take an alternative means of travel or who choose to go to places like Bali or wherever for their holiday instead of Adelaide. We made a conscious decision that we could not pay out any more money for that. That is, we were simply going to continue to give them what the cost of the air fare now was. They still have a right, however, to the air fare out of the remote locality.

Mr SNOWDON—Their Public Service equivalents retain the right to get the full economy air fare.

Mr Pearce—In fact they do not. I know, as I negotiated an agreement back in the nineties whereby I got the unions to accept that remote locality leave travel no longer applied to public servants who joined the department in those remote localities after a certain date. So in due course there will be no public servants with that entitlement.

CHAIR—Mr Snowdon, we have three minutes to run to four o'clock. People are on time schedules to hop a plane to go to Adelaide. I know it is an important question to ask but—

Mr SNOWDON—I just want to follow it up.

CHAIR—Just keep it very short.

Mr BEVIS—It is a really important point that has just been made. I think the record should be clear. Is it a precursor to what is expected to occur to Defence personnel?

Mr Pearce—No, I do not believe it is, because what we were saying to the unions, which they agreed to, was that there were people who lived in Darwin, Townsville or Cairns and were recruited there. Why would we be paying them a remote locality leave travel payment to leave the destination that they have probably lived in all their life? It is quite different with military personnel who are posted into these remote localities every two or three years. So I do not see a comparison between the two.

Mr SNOWDON—There is a comparison. I have lived in the Northern Territory for a bloody long time and my family still lives outside of the Territory. I know a lot of people who were not born in the Territory and whose families live elsewhere. They may have stayed in the Territory because they were recruited into the defence forces. That was the only reason they may have stayed—let us be very clear about it. But the bottom line is—and I want to make this point very

strongly—that there is a reason why I asked that question about morale. Morale is not what you might think it is, because people are very concerned about the way they are being treated by the Defence Force in relation to their allowance and their conditions of service. Whatever you might say in terms of excuses and validation of your positions, you need to understand—if you do not already—that people are angry about it.

Mr EDWARDS—Mr Chairman, I asked this morning a couple of questions on notice. One related to the full cost of the deployment to the Middle East and the operation to deter unauthorised boat arrivals. Can I ascertain whether that information is available?

Air Cdre McLennan—Yes, that question has been taken on notice. I have not been able to get the figures for you in such a short time, but they will be forwarded.

Mr EDWARDS—Mr Chairman, I want to protest this, because this information is available. We have a fairly serious situation. We have troops on the ground who are being shot at. We have sailors on the water who are in vulnerable positions, as are our Air Force personnel. We know that there is an additional cost for the fight against terrorism. We know that there is additional cost in relation to unauthorised boat arrivals. What we do not know is the total cost of those things. We know that the government has funded an additional \$320 million to offset that cost. What we do not know, however, is where the Defence Force has got the rest of its resource to fund those operations. We know they have taken the money from somewhere. All we want to know is, what is the total cost of those operations? Where has that extra resource come from? How can we possibly make any sort of a judgment about the priorities and about the operations of the ADF if we do not have that simple information? I want it recorded that I think that it is totally inappropriate. That information is available; we should have had it here today.

Senator FERGUSON—In response to that, Mr Chairman, can I say that any officer who appears before a hearing or a public inquiry has a right to take a question on notice if they do not have the exact information with them, and the undertaking that the officers have given is that they will provide the information to the committee as soon as possible. Mr Edwards, I understand you were hoping that they would have the information back this afternoon, but it is standard procedure that, if an officer does not have the correct information, they are entitled to take any question on notice.

Mr EDWARDS—Except the implications were that the information would be back here this afternoon.

Senator FERGUSON—No, they said they would if they could.

CHAIR—Senator Schacht, you wanted one question to be put on notice on the public record, and that will have to be evident.

Senator SCHACHT—My question is about DSTO staffing, and I will put it on notice. Could you provide us with the present staffing numbers for DSTO for the financial year of this report and the previous year, firstly, according to the various locations where DSTO operates, and, secondly, according to the various descriptions of the work, whether it is the divisions and the research units et cetera. The final one, if it is not too difficult, is an indication, in general numbers, of how many staff of DSTO have PhD, masters and degree level qualifications.

CHAIR—That is a question on notice, that is why I accepted it. Can I just thank you all for giving evidence to the subcommittee. If you are to provide additional material, would you please forward that to the secretary. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact.

Resolved (on motion by **Senator Ferguson**, seconded by **Mr Price**):

That the document which is on unacceptable behaviour be incorporated into the Defence subcommittee's records as an exhibit of the review of the annual report of Defence.

Resolved (on motion by **Mr Snowdon**, seconded by **Mr Bevis**):

That, pursuant to the power conferred by paragraph 16 of the committee's resolution of appointment, this subcommittee authorises publication of the evidence given before it at public hearing this day.

CHAIR—In conclusion, I thank you all once again. All those supporters who are there at the back with other material as well, thank you for your perseverance. I also thank Hansard, and those up behind us in the recording area: thank you very much for your patience in keeping the words going out there on the air. I would like to thank my colleagues here this afternoon and this morning for their questions. I look forward to seeing them tomorrow in Adelaide as we go out to Edinburgh.

Subcommittee adjourned at 4.04 p.m.