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JOINT STANDING COMMITTEE ON

FOREIGN AFFAIRS, DEFENCE AND TRADE

Defence

Friday, 11 March 2005

Members: Senator Ferguson (*Chair*), Mr Edwards (*Deputy Chair*), Senators Bolkus, Cook, Eggleston, Harradine, Hutchins, Johnston, Kirk, Lundy, Sandy Macdonald, Payne and Stott Despoja and Mr Baird, Mr Baldwin, Mr Barresi, Mr Danby, Mrs Draper, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Scott, Mr Sercombe, Mr Snowdon, Mr Turnbull, Ms Vamvakinou, Mr Wakeli and Mr Wilkie

Defence Subcommittee members: Mr Bruce Scott *(Chair)*, Mr Hatton *(Deputy Chair)*, Senators Ferguson *(ex officio)*, Hutchins, Johnston, Sandy Macdonald and Payne and Mr Baldwin, Mrs Draper, Mr Edwards *(ex officio)*, Mrs Gash, Mr Gibbons, Mr Haase, Mr Snowdon, Mr Wakelin and Mr Wilkie

Members in attendance: Senators Ferguson, Johnston and Payne and Mr Hatton, Mr Scott, Mr Snowdon, Mr Wakelin and Mr Wilkie

Terms of reference for the inquiry:

To inquire into and report on:

Review of Defence Annual Report 2003-04

WITNESSES

Subcommittee met at 9.01 a.m.

CHAIR—I declare open this public hearing on the review of the Department of Defence Annual Report 2003-04 by the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. Commencing shortly, the committee will scrutinise the following four areas of Defence operations: the implementation of the Defence procurement reforms; Australia's future amphibious requirements; Defence's qualified financial statements; and, after lunch this afternoon, the Australian Defence Force contribution to humanitarian relief.

During the period July 2003 to June 2004, Defence was subject to a range of external and internal challenges. Defence has embarked on an ambitious program of reform of its procurement procedures, arising from the Kinnaird report. The Defence Materiel Organisation will become a separate prescribed authority, headed by Dr Stephen Gumley. In addition, the Capability Development Group was formed within Defence, with the purpose of defining capability requirements and advising DMO of specific capability needs. The committee will examine the reforms to the DMO and, in particular, DMO's relationship with the Capability Development Group.

The new Defence Capability Plan provides detailed information on the capabilities that Defence will acquire during the next 10 years. The plan has confirmed that two large amphibious ships will be purchased to replace Australia's current amphibious capability. Some groups, such as the Australian Strategic Policy Institute, suggest that it may be more effective to purchase four smaller amphibious vessels. This issue will be examined as part of this topic.

Defence, like other government agencies, must demonstrate transparency and accountability to the parliament. Defence's qualified financial statements, and the steps that Defence is taking to improve the situation, will also be examined by the committee.

The last topic concerns Defence's preparation for and contribution to a range of humanitarian relief operations, such as the 2004 Boxing Day tsunami relief. This topic will examine the extent of Defence's humanitarian relief capabilities and their relationship to Defence's key war-fighting objectives. The Chief of the Defence Force and the Secretary of the Department of Defence will appear at the end of the hearing to respond to a range of more general issues.

Before introducing the witnesses, I will refer members of the media who may be present at this hearing to the need to report the proceedings of the committee fairly and accurately. I now welcome the representatives from the Department of Defence who are giving evidence on the implementation of Defence's procurement reforms.

[9.04 a.m.]

GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation

WILLIAMS, Dr Ian Sidney, Chief Finance Officer, Defence Materiel Organisation, Department of Defence

HURLEY, Lieutenant General David, Chief, Capability Development Group, Department of Defence

CHAIR—Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Would you like to make an opening statement to the committee?

Dr Gumley—Yes, please. The Kinnaird reforms are a whole-of-Defence initiative; they are not restricted to the DMO. The total capability cycle, from strategic intent right through to sustainment and to disposal of the assets after many years, is a continuum. We have been given the job of delivering projects and sustainment on time, on budget and to the required quality, capability and safety. One of the main thrusts of the Kinnaird reforms, at least from my end of the DMO, was to make us more businesslike, accountable and outcome driven. I can report to the committee that the implementation of the Kinnaird reforms is going well. It is on track and we fully expect to have prescription on 1 July.

Lt Gen. Hurley—I would like to re-emphasise the fact that the reforms do cover the whole spectrum of the capability development and procurement process. It is the two organisations working towards it. In that sense, we have established the Capability Development Group, which formally stood up on 1 July 2004. In accordance with what we were required to achieve, we have completed the first version of the defence capability strategy. We have developed and agreed with the central agencies and confirmed in the cabinet handbook the two-class process. We have introduced new cost estimation processes. We have moved through to the integration of simulation and test and evaluation in the pre second-class process. We are now developing materiel acquisition agreements with the Defence Materiel Organisation for each project. We have established a rapid prototype and development entity with industry to help us in the development process. We are on track in regard to the recommendations in the Kinnaird review that we are responsible for.

CHAIR—Has the DMO's relationship with industry improved as a result of improvements to the organisation's approach to contracting?

Dr Gumley—I think we are getting more realistic in our approach with industry on contracting. The data showed that about half the problems for the schedule delays were actually caused by industry, and half by Defence. Industry had problems with having enough skilled people. There were problems in contracting formats. We have had a long negotiation with industry; it took six months between the DMO and the Australian Industry Group. The chief executives of most of the major defence companies and the division heads from DMO worked

collaboratively for six months to come up with the new contracting templates. As in any negotiation, both parties missed out on about 20 per cent of what they wanted, but we ended up with between 60 and 80 per cent in common. That agreed position has now ended up in the DMO contracting templates, AUSDEFCON. They were released on the web on 25 February this year. I guess the message is that we are all just going to get on with it now.

CHAIR—Could you give the committee some idea of the policies, initiatives and some outcomes in relation to maximising the opportunities for small and medium sized businesses to participate in the contracting.

Dr Gumley—The industry sector plans emphasise a strong and innovative Australian industry base. The SMEs are a very strong source of innovation in the defence community. The SMEs do not always have the wherewithal to do the major contracts, so what we are trying to establish is that you have the prime contractors at tier 1 program-managing the entire contract, but they have to put in an SME industry plan when they submit their tenders and to show how they are going to work with the smaller companies in the economy. We in Defence feel that it is important to get a balance of work between the SMEs and the primes. We would not want the primes doing all the work. On the other hand, the SMEs have to have the project management experience to do the big projects. So it becomes a balance. We are very concerned to see Australian SMEs in particular do very well in the defence market.

CHAIR—As part of this process, have you done an audit on the number or percentage of small to medium sized businesses that are successful? It is one thing to have a policy, but does it work in practice?

Dr Gumley—We look at each of our contracts in turn to see that the prime contractors are measuring up against the obligations they made at the time of tender, but that is just a routine part of contract administration. I cannot offer you an outright figure right now on what percentage of the business is given to SMEs.

CHAIR—Obviously, when you sign a contract it requires a percentage of small to medium sized business participation.

Dr Gumley—We do not go for prescribed percentages. It is a matter of assessing the plan that they put up at the time of tender to see that they are not attempting to monopolise all the work themselves. We want to ensure that the work is spread around fairly.

CHAIR—You mentioned in your opening remarks that Australian small to medium sized businesses were given some focus—I would not necessarily call it a ‘preference’. How do you manage that when competing technologies from overseas may be available?

Dr Gumley—There is always a trade-off: Australian capability versus international capability. The financial management act says that every decision we make must be on a value-for-money basis. In assessing value for money, we look at long-term, whole-of-life sustainment. One of the advantages of working with the Australian SME community is that they are here on the ground in Australia. When you have to look after equipment throughout its life, Australian SMEs are in a far better position. When you buy on the international spot market, there may not be a

commitment from the foreign supplier. Using the value-for-money criterion, we find that Australian companies stand pretty well competitively.

Mr HATTON—The report into current practices was pretty damning, and it was only in August 2003 that that report came down. You have indicated that there has been a fair bit of improvement since then, but it is pretty difficult to change a particular culture that has been embedded over a long period of time. How far do you think you have gone, and how far do you think you have to go?

Dr Gumley—An embedded culture is always difficult to change, and we are moving on that quite proactively. We have six themes: professionalising, reprioritising, standardising, benchmarking, improving industry relationships and leading reform in Defence. We keep running those six themes, and we have built them out into 25 or 26 different programs. For example, on 'professionalising', we think it is good that engineers in the DMO become chartered professional engineers, where they have an obligation for continuing professional development. About 180 of our engineers are embarking on a program at the moment. On 'standardising', when I first got to DMO, I found that there were 240 different major projects being done approximately 240 different ways. Of course, that is not efficient in anyone's language. So we are now standardising how we deliver the projects. We are implementing software tools through DMO—project management tools—which schedule and report on the projects. We are trying to improve the amount of standardisation, which, of course, removes a lot of the administrative overheads from running lots of different projects.

On 'benchmarking', it is a bit harder. There is no single organisation in the country with the size, scale and complexity of DMO. When it comes to project management, we are benchmarking against companies such as Leighton or Thiess, the major project management companies. When we are doing logistics, we benchmark against Coles or Woolworths. In each part of the business, we are benchmarking against the nearest equivalent private sector company and measuring our efficiency ratios. Where there is a gap, we put a program in place to try to close it. So benchmarking is proving very useful for identifying areas where we can improve.

We are also benchmarking ourselves against the equivalent defence procurement organisations in the United States, Britain, France and Canada. I think our results are not too bad. I think we are batting quite well, compared to our equivalents overseas.

On 'improving industry relationships', the real issue is something I call 'level loading'. One of the hardest things for the defence industry to handle is peaks and troughs. I have run several companies on the other side, so I understand this reasonably well. Companies gear up for the minimum amount of work they expect to see in coming years. You do not invest in extra training, people, infrastructure and facilities for much more than that minimum—you go to the spot market to get the resources for the peaks.

One of the most important things we can do for the defence industry in this country is to reach longer-term contracts with them so that they can afford to invest higher, or further, in their people and their infrastructure. That will lead to a much more robust industry in the future. In other words, giving more certainty is very important to ensuring that we have long-term capability.

In the 'leading reform in Defence' area, we are coming up with ways of benchmarking, measuring ourselves and so on. I am working closely with the secretary, and we are looking at whether some of the systems that work can be rolled out into other parts of Defence as well.

One of the real advantages we have at the moment is the DMO advisory board, which is working particularly well. It must be a very rare body that has four leading private sector people, three departmental secretaries and a Chief of the Defence Force all on the same board. There is a wonderful yin and yang between the private and public sectors in that. I think we are steering that middle road very nicely at the moment. The board is very useful to me. It is an advisory board to me, and I am finding it very useful.

Mr HATTON—Directly connected to that: where there is an intersection between academia, industry and entities like the CSIRO and people doing practical research work in the scientific area, one of the biggest problems is that there are not enough interlocutors—people who can stand in the middle with experience from a range of areas and get people to speak the same language and really understand it. Do we need more interlocutors in the relationship between defence and industry?

Dr Gumley—I am finding that the consultation sessions with the chief executives are very important. General Hurley and I have also taken on to meet privately and individually with each of the chief executives. We have our next session coming up this month, with 20 or 30 of the biggest defence companies. We get down and we shut the door and we chew out what the real issues are. So we are listening very carefully to their concerns, and I hope that in return they will listen to some of ours. We are finding that that personal relationship is very important to getting the job done.

Senator FERGUSON—Lieutenant General Hurley, can you elaborate on the role of your group? You are an amalgamation of previously dispersed capability groups; how many of you are there? Who do you now represent that were previously in other parts of the organisation?

Lt Gen. Hurley—My group is 257 strong. About 96 of those are civilians, and the remainder are uniformed personnel. We are essentially responsible for the needs and requirements phase of the life cycle that we look at in procurement. In conjunction with the Deputy Secretary of Strategy for this organisation, we look at the future capability requirements of the ADF. In the requirements phase, we determine what the solution set might look like and, in that, then develop the decision documentation, the business case, to go to government for approval. We take it from that sort of fluffy white cloud of the future to approval documentation to government at second pass in the new system.

Senator FERGUSON—What groups have you amalgamated?

Lt Gen. Hurley—To do that, I have got two key divisions within my organisation. One is the Capability Systems division, which has four branches within it. It is primarily uniformed personnel led by a two-star. It does aerospace development, land development, maritime development and information and communications development. That is the engine room; they are the project drivers. They do the requirements and determinations, they speak to the users and they sponsor the project through its development. That division originally sat under the Vice Chief of the Defence Force Group, pre the creation of my group.

The other major division is the Capability Investment and Resources division—again led by a two-star civilian equivalent—which is primarily a civilian organisation. It is really the internal contestability element in the whole process. It reviews the work of the Capability Systems division, prepares the agenda to raise the issues for senior committee consideration and, once we have been through the decision-making process, prepares the cabinet submissions and so forth to go to government.

In addition to those, I have a small branch, primarily military, that writes the defence capability strategy and looks to our future capability requirements. I have branches that deal with test and evaluation policy and the implementation of test and evaluation practices in the capability-of-element cycle. I have a branch that is responsible for defence simulation—that is, for policy and the practical implementation of simulation policies in the department. I have a branch that is responsible for interoperability between Australia and the United States; it looks at the implementation of over 100 recommendations from reports that have been conducted in recent years about how to improve interoperability with the US. Those groups have come from quite different areas. The simulation branch comes from DSTO; T&E, the test and evaluation branch, from DMO. The interoperability branch was only created last year, and the branch that looks to the future capability came from the DEPSEC Strategy's group. I have about 30 scientists from DSTO embedded in my organisation, who support with operation analysis, operational research and our access to the various divisions of DSTO. I think that is about the range of it.

Senator FERGUSON—For proposed major acquisitions, like the Joint Strike Fighter or air warfare destroyers, are the recommendations or the initial requirements dealt with by your group and no other?

Lt Gen. Hurley—That is correct—in conjunction, obviously, with the services and the decision making through the committee process. But we drive the development of the argument: the decision support documentation that supports moving that to a final decision.

Senator FERGUSON—Do you use consultants?

Lt Gen. Hurley—Yes, we do.

Senator FERGUSON—So I presume you are part of the over 6,000-strong numbers that comprise the DMO—or are you separate?

Lt Gen. Hurley—No, we are a separate group entirely.

Senator FERGUSON—So, Dr Gumley, you have nearly 4½ thousand public servants and 1,700 Defence Force personnel, I think it is. What is the size of that organisation now compared to when you took it over? Is it the same?

Dr Gumley—When I took over—and I think I have been in the job for just a touch over a year—we had 8,000 people. Fifteen hundred of those—the Joint Logistics Command—were transferred back to the Vice Chief, so we are running about 6,500 now. That, if you like, is our establishment. I think our actual numbers are around 6,300.

Mr SNOWDON—General Hurley, can you describe what is in a materiel acquisition agreement?

Lt Gen. Hurley—In general terms, it is a 'contract' between DMO and my organisation, essentially defining what we are trying to deliver in a project, the aim of the project; the path we are going to take to get to a decision by government; and the services and support I need from DMO to help me bring that to fruition. So that could be anything from cost estimation support to going out and discussing with industry what is available out there, helping us to put the package together.

Dr Gumley—It is like a very big purchase order.

Mr SNOWDON—But can it be varied?

Lt Gen. Hurley—The structure is similar, but it varies for each project because they are all quite different.

Mr SNOWDON—Yes, but can it be varied within a project? For example, you make an agreement and then six months down the track you decide that—

Lt Gen. Hurley—It can evolve in response to the feedback we get in the work we are doing, yes.

Mr SNOWDON—What relationship is there between your responsibility and what is currently happening on the ground? For example, in the new deployment to the Middle East, what if any relationship do you have to what they might take with them and what if any processes are you involved in to audit how that equipment works whilst they are there, to inform you of what the future requirements might be?

Lt Gen. Hurley—Prior to forces being deployed, if there is a requirement to upgrade a particular kit or bring in something new, we go through a rapid acquisition process, where we really just shorten the whole procedure to look at what might be on the market or what needs to be done for a solution. We develop that, seek government approval and then hand over to DMO to deliver. A lot of that will be done in parallel with DMO to short-circuit the system. In terms of looking to lessons learnt, we go through the documentation that comes back from every activity. That is primarily done through those branches—maritime, land, aerospace and so forth—to see what is out there and get the feedback from the operations.

Mr SNOWDON—So, in a sense, you can only base your judgments on the judgments made by others about the equipment they are using.

Lt Gen. Hurley—Yes. We get feedback about whether it has performed successfully or not and what the issues are that need to be addressed. Then we take that to DSTO, say, to test what may have occurred and why, and what we should do differently. We also go to the market to see if there is anything that might do it better.

Senator JOHNSTON—With respect to that question from Mr Snowdon, how long have the acquisition agreements been current in terms of generating the relationship between DMO and the Capability Development Group?

Lt Gen. Hurley—They were only introduced late last year. As my group evolved and developed and DMO changed the way it was doing business, we saw that we needed to get a bit more formality in the relationship and an understanding of what we were asking from each other so as to have—particularly when DMO goes to a prescribed agency—a clear understanding of what the relationship in the projects would be. So we started working on those last year. About 65 per cent or so are completed now. The aim is to have all the projects with an acquisition agreement by 1 July this year.

Senator JOHNSTON—So I take it we sought to create a paper trail that was a reference point at the beginning of the acquisition project to see what it was we wanted. How many of those have we done?

Lt Gen. Hurley—We have done about 150 at the moment. There are 200-odd to do.

Senator JOHNSTON—I take it these cover each project, varying in size from the smallest projects to the largest projects?

Lt Gen. Hurley—Some might be grouped. If they are of like or similar size, we will group them together just to save on the bureaucracy of having one for the sake of it. But on the whole most projects will have one.

Senator JOHNSTON—You have called it a 'contract'. Dr Gumley, in trying to assist the committee understand what it is, has suggested it is like a purchase order. Why do you refer to it as a contract?

Lt Gen. Hurley—It is an agreement on what I require to deliver a project and the services I am asking DMO to provide for me, and I will give them money to provide those services. So, when I go forward in either the first pass or the second pass for government approval and seek funding, I look at what DMO need to assist me in delivering the project and how much that is going to cost DMO. Then I seek that funding from government and transfer it across to them. In that sense, it is a contract in that there is money moving around.

Dr Gumley—Legally it is not a contract, because we are both part of Defence and we cannot contract with ourselves.

Senator JOHNSTON—That was my next point.

Dr Gumley—That is why it is more like a definition. With the products and services that Capability want, we are like the supplier and he is like the customer and we have to know what he wants and we have to supply that.

Senator JOHNSTON—Does it deal with the reasoning behind the capability sought?

Lt Gen. Hurley—No. This is about delivering services to help us get to the end point. So, in going back to your comment about whether this is an audit document saying how we got to this point, it is not. It is about the delivery of services to get there; it is not part of the chain of documents that talk about justification. It is not like the operational concept document, for example, that drives the justification for each project.

Senator JOHNSTON—Is it like a brief to secure assistance with the pre-feasibility?

Lt Gen. Hurley—No, it does not necessarily go that far.

Dr Gumley—It does not go that far back.

Senator JOHNSTON—Have we walked through the process to see how these documents have shaped up with the end product? That is, have we at the finality of a project looked back to see whether what was envisaged in the acquisition agreement—what you asked for assistance for—has been lived up to or whether it has changed? Are we benchmarking whether those acquisition agreements are assisting in the process?

Lt Gen. Hurley—It is a bit too early in the process to do that because most of these projects are pre-approval, so we have not started delivering them or seen a final product.

Senator JOHNSTON—Does this document address the issue of scope creep in any shape or form?

Lt Gen. Hurley—No.

Senator JOHNSTON—It does not do that?

Lt Gen. Hurley—This is about services delivery between two organisations.

Senator JOHNSTON—Okay.

Dr Gumley—I think I know where you are going. In future, if there is to be scope creep it would be an amendment to the MAA, which means that we are going to know there has been scope creep—it would be transparent and people will be able to audit the fact that there has been scope creep and the knock-on consequences to schedule and cost.

Lt Gen. Hurley—But it is not the key document that describes why that might have occurred.

Senator JOHNSTON—I understand now. I have a couple of questions regarding the audit of the Armidale class patrol boat contract. I thought the audit was very good for DMO, given there were only, principally, three recommendations. One of them dealt with the old chestnut of intellectual property security. It observed that in the eventuality of a corporate failure there was no capacity for us to do, or we had not been doing, audits to monitor the delivery of intellectual property across. We had an experience many years ago with the F111s wherein a valve in a wing threatened the air-worthiness of the whole fleet. Lockheed Martin refused to transfer a capability for us to build the part—it was a very small part—because the contract was inefficient. What are

we doing about maintaining security of intellectual property in the nature of our dealings with corporations so that we can secure the right to repair and maintain in the future?

Dr Gumley—I have a lot of empathy with your question because we had exactly the same thing with Kockums with regard to the submarines just recently, where I had a lot of personal experience. We are trying to ensure we have the rights to repair, maintain and upgrade the assets through life, and we write that into every contract. It is also true that the companies have a vested interest in ensuring we do not get those rights so that they can exercise price leverage over us during the whole-of-life phase. Therefore, there is a tension in contract negotiation. The only time we have commercial leverage is at the time of acquiring the asset. So, increasingly, we are ensuring that the whole-of-life sustainment contract or at least the intellectual property clauses are negotiated and that we have contractual leverage at the time of that initial acquisition. An example at the moment is the Eurocopter MRH-90 helicopters, where I have refused to sign an acquisition agreement with the company until I get the back-to-back sustainment agreement so that this sort of issue with intellectual property does not occur.

Senator JOHNSTON—Good. That is what we want to hear. How are we going with our top 10 projects? This is the obvious question to ask DMO. I know you go through estimates. I have the wont, as your predecessor knew, to ask you about the top 10 projects—how they are travelling in terms of being on time and on budget, and the surveillance thereof.

Dr Gumley—I will go to the surveillance first before I go to the detail of the projects. Every month, DMO provides to the Defence committee a list of the top 30 projects—we monitor intensity—and any other project of interest which may not yet be a top-30 in terms of size. For example, at the moment the air warfare destroyer is a project of interest, even though we have spent virtually no money on it. We track the top 30 projects. That report goes through to the minister from the Defence committee. There is full accounting. We have a traffic lights system. We have a risk score, which measures how well the project is going against a benchmark. In other words, as a project continues through, it retires risk continually. When you finally hand over a bit of kit that is fully working to the Army, Navy or Air Force, its risk should be down to virtually zero. So we are measuring the risk as the project goes through and how well we retire it. We measure that against industry benchmarks to see if we are doing better or worse than typical projects in industry. A lot of the metrics are coming together. I have got a whole book of metrics here about the different projects, and that tells me what is going on in the organisation.

How the best 10 are going is another question. We still have a number of very difficult legacy projects from a number of years ago but, frankly, they are going to take a long time to sort out. For example, with regard to the FFG upgrades—the ship upgrades—it is going to take a lot more time before we finally get the FFGs fully operational and working. But that, for example, was an issue of a job of high technical complexity with probably the wrong contractual framework. So we have to recover those sorts of legacy projects.

On the other hand, some projects are going extremely well. The airborne surveillance aircraft are going very well. The Tiger helicopters were delivered on time. So we have some successes coming through but it would be wrong to mislead the committee by saying that we do not have quite a few problems with some of the legacy projects. The ones we have the most difficulty with are those that require high degrees of systems integration, such as communications projects and computing projects. They are nearly always overoptimistic at the time of contract formation

and a lot of them lead to schedule delay. We are doing quite well with ASLAVs and Bushrangers and products like that.

Senator JOHNSTON—So there is still a high correlation between lines of code and delay and expense?

Dr Gumley—Yes, absolutely.

Mr SNOWDON—In terms of the Bushranger, how has the contract evolved? The specifications have changed, have they not, over time?

Dr Gumley—Yes. If you like, there was a contractual reset a couple of years ago which cleaned up the mess from the past. Since the contractual reset it has flowed pretty well.

Mr SNOWDON—How did that change that? What were the attributes that changed on the vehicle?

Dr Gumley—We tightened up the technical specification, got the costs nailed down and got schedule outcomes. Some of the weaknesses in the original contracting were fixed at the contract reset.

Mr SNOWDON—But what I am getting at is: what were the changes in the vehicle? What specs were changed?

Dr Gumley—Dr Williams was head of land division at the time that was happening. Perhaps you can help us, Ian.

Dr Williams—At the time we renewed the contract, there were concerns with the budget and also with schedules. As Dr Gumley said, we reset the schedule to make it realistic. We also had some discussions with ADI on costing and they reduced profit margins. We also met some of the costs on what we thought was a fair basis. In essence, the final product in terms of capability was not significantly dissimilar from where we started. It was largely the same vehicle. Indeed, it was a little more in the sense that we added an extra seat, which gave us a bit more flexibility. On the other side, because of the cost pressures, there was a slight reduction in numbers. Originally numbers varied—between about 340 and 370 was the target. The final figure was around 299 or 300. So the offset essentially was in numbers to achieve a balance.

Mr SNOWDON—I guess what I am getting at is: from the original contract, have we got an improved vehicle?

Dr Williams—We have a vehicle in capability terms which matches in all respects what we originally set out to get. There is very high-level performance in mine blast protection because of the design and very good general protection against small arms et cetera. As I said, it has an extra seat. It now carries 10 rather than the original concept of nine. So it has slightly more capacity. In broad terms, the capability is all that was originally thought was wanted but the numbers have been offset slightly to balance the cost.

Mr SNOWDON—So how far away are we from the contract being finalised?

Dr Williams—My understanding is that tests have been done. Original trials were accepted and the vehicle has entered into production. I understand there are still some tests going on at the moment of the production vehicles and there are a few issues to be resolved, as normally happens when you get the first production vehicles.

Mr SNOWDON—My next question is on the LAV upgrades. Of the LAVs that are being deployed currently in Iraq, are the upgrades or the new LAVs in place?

Lt Gen. Hurley—Do you mean the current ones in Baghdad or the ones with the security detachment?

Mr SNOWDON—The ones that go with the 450—the new deployment.

Dr Gumley—Of the new deployment, there are going to be 20 initially fitted out with spall liners. We have a rapid acquisition process for the turrets. Industry is being fantastic in helping us get these vehicles up to scratch by the end of March.

Mr SNOWDON—So they will be ready when the deployment takes place.

Dr Gumley—It will be gradual. We cannot do them all at once.

Mr SNOWDON—I appreciate that. But we will not have anyone at risk as a result of the equipment not being up to scratch, will we?

Dr Gumley—I am probably not the best person to answer that because my job is to get the vehicles up to date and I have a set of orders. Those questions might be better directed elsewhere.

Lt Gen. Hurley—I am not involved in current operations, but my understanding is that a proportion of the vehicles will have the spall liners and everything inside them. Some will have spall curtains. But they will have much greater protection than they have at the present time and will be sufficient for the job.

Dr Gumley—I think it would be fair to say that it is going to be a gradual build-up. Some of the vehicles will be fully equipped and then, as the others get done—and people are working really hard on this—they will gradually be swapped out and we will build up the full capability.

Mr WILKIE—Just on specific projects, I am just wondering how we are going with the AGM142s for the F111s.

Dr Gumley—We might have to go on to another question. I will find the data and come back you.

Mr WILKIE—While you are looking at that, General Hurley, you mentioned that you had a number of consultants who work with the group. Do you have any idea how many consultants you have?

Lt Gen. Hurley—No, not on hand. It varies quite considerably. We are looking at people to help us produce documentation or studies depending on what we require at the time. They are normally quite short-term and specific—they deliver a product and then go.

Mr WILKIE—What sort of budget do you have for consultants?

Lt Gen. Hurley—I do not have a specific budget. Each of the projects will request funding for study support, or PSP support, as it goes through. I do not get money allocated specifically to go and hire them.

Mr WILKIE—You obviously identify needs for a procurement and then go through the whole process of getting those particular items, and that could take many years. How flexible is the process? What happens if you are going along and you find that it is not the capability you want? Have you got mechanisms in place to identify that?

Lt Gen. Hurley—We have an internal review process through the branches in Capability Systems Division and within the Capability Systems Division we review the projects as they go on, testing the original precepts for why we were going there and asking whether it is still heading in the right direction, whether the option set is right and so forth. If it gets through those loops then it moves into the official committee process within the department—the capability committees—to determine whether we are on the right track and have the right option sets.

Mr WILKIE—We have gone now from having a particular style of defence to one being targeted more towards terrorist type activities. Are there any examples of projects that had been started and that did not go through to completion because we decided that they were not what we wanted?

Lt Gen. Hurley—Not in the time I have been doing the job, no.

Mr WILKIE—Thank you.

Mr WAKELIN—Following on from the chair's initial comments about SMEs, what are the main impediments to involvement? I can think of a few. Could you just take us through the challenges of dealing with SMEs, in particular in relation to fostering this total Australian industry capability?

Dr Gumley—The risk in us dealing with SMEs is that they might be here today and gone tomorrow and therefore not there to support the equipment. The SMEs in my view need to get to a certain scale or a certain commitment to the industry to lower the risk so that we can deal with them. That often means that we have to find other ways of working with SMEs and direct contractors—which is where we are talking about the tier 2 and tier 3 suppliers. But, as I mentioned earlier, the innovation is pretty crucial, because they are the fount of a lot of really good ideas. So it is a matter of how you nurture those ideas. We have capability demonstrator programs where they can get help from us in developing some of their ideas. The CTD program has been under way for a number of years now and it seems to be reasonably successful in getting some of the ideas through into the capability cycle.

It becomes an overhead. If you have a major project, say, with 200 or 300 suppliers, it becomes almost impossible for the department to purchase from 200 to 300 suppliers. Effectively then we would be becoming the systems integrator for every single project, and we have at any one time $20 billion or $30 billion worth of projects contemplated, under way or in design. You would not have a DMO of 6,500 people; you would have 70,000 or 80,000 people. It just would not be practical.

It does come down to finding pragmatic business ways to work with them. That is why we usually work through the primes and have the primes do the systems integration and the project-managing that bring the SMEs in. The way we can get some reasonable competition in the market and a balanced playing field is to insist that the primes put up an SME plan at time of tender so that they show what work they are subcontracting.

Mr WAKELIN—It seems that it is a real challenge for the SMEs to organise themselves in a way that they can deal with the requirements that you have when, as you say, you are dealing with potentially hundreds of SMEs. It is the way that they organise themselves to relate to you as well.

Dr Gumley—Yes. It is also important to note that there is an obligation for the SMEs to organise themselves to work with us. It cannot be a one-way thing. We have national security considerations that overwhelm everything else. We need the company to make a long-term commitment to defence and not just be on the spot market. We have got to look after the equipment once it is out in the field. So we are looking for SMEs who are stable, have a decent capital base and are prepared when we do enter into direct contracts to have some security at stake so they have that long-term commitment. It is all part of the two-way arrangements needed with them.

Mr WAKELIN—But part of this is that the challenge for them is to get on the radar screen, in relation to developing the relationship. Can you offer a little bit of reassurance—going back to the first part of your answer—that you do make the endeavour to connect? The challenge for them is just with the first part—getting on the radar screen. It is commonsense.

Dr Gumley—We have done something about that. The SME portal has now been set up. When Minister Brough was minister assisting we spent a lot of time working with him on how better to get the SMEs into the defence market. We set up an SME portal in the industry division of DMO, which is like a first-stop shop. When someone has a good idea or they want to introduce their company, they can come in through the portal and they will get assistance on where to go next and how to go about it. We cannot do their business for them, but we can help and guide them in directions where they might be able to do business themselves.

Senator PAYNE—This morning's discussion has been quite illuminating considering some of the hearings that we have had on this subject before. What we have is a picture of a very happy marriage so far between the CDG and the DMO. But the inevitable question arises, are there any hiccups, challenges or little issues that might still need to be ironed out? I wonder if there is anything you would like to comment on in relation to that. Is everything perfect?

Dr Gumley—The way it works is that across any organisational boundary there will always be the occasional disagreement—of course there will be; that is what the world is like. But the

way we have it running at the moment is that it trickles up to me and General Hurley. We get on the phone, we talk virtually every day of the week on the phone or in person, and we get things ironed out. I have come from the private sector. I have been here for about a year and have been absolutely amazed at how well it actually works at the top of Defence. I had heard from the outside that it was full of tribes and all that. I have found that that has not been the case at all. At senior levels people get together and sort out their problems. I have been quite surprised.

Lt Gen. Hurley—Again, at the senior, divisional or head level across the two organisations, what we are trying to achieve has well and truly taken root. It is working its way down. At the bottom level, where people are talking day to day and discussing projects with each other, you do get rubs because sometimes people think that somebody in DMO might have overstepped the boundary and started making capability related decisions, which are properly the purview of my people. You will get that sort of rubbing. But the processes and the systems are in place to allow that to be addressed at the appropriate levels. As Dr Gumley has said, if we get major disagreements on issues then we resolve them, or we take them to the committee table and say, 'Look, we've got two views on this.' I ask frankly that for every project that comes to my committee, the Defence Capability Committee, or to the Capability and Investment Committee we get DMO sign-off, DSTO sign-off and so forth—that they agree with what we have achieved and what we are presenting on the table. So there is a formal sign-off process now that says, 'Yes, we agree with the cost estimations, the scheduled estimation and so forth. If you make a decision based on this data it is an accepted set of data.'

Dr Gumley—There is only so much money to go around—

Senator PAYNE—Don't we know it.

Dr Gumley—and capability needs could be as much as you want them to be, so there will always—and it is actually a good thing—be friction and a bit of competition in deciding between projects about which capabilities get up.

Senator PAYNE—Creative tension, do you mean?

Dr Gumley—Creative tension is good and it makes people justify why that capability is needed and what is the best procurement method for getting it. That is creative tension and we find that quite good. We have had a couple of examples where, to get everybody on board and understanding that we are all going in the same direction, it has been not only General Hurley and me but we have also worked with the chief of the armed forces and the chief of DSTO, and we have had documents approved at the top with three or four signatures on them which commit the organisation to a certain direction.

Senator PAYNE—Dr Gumley, in the relationship building process, you have about 1,700 ADF personnel within DMO. Are you happy with that number and with the quality of the staff—the training and the experience that they have—to fit with what you need?

Dr Gumley—The military people are extremely important in DMO because they have the domain knowledge. If I could have more, I would. They are rationed. I find that the military add an enormous amount to the DMO. It would be a much weaker organisation if we did not have them. The only problem has been the very short posting cycle—that is, the two-year posting

cycle. Under the new military staffing plan, which was signed off by the DMO advisory board, the Chief of Defence Force, the secretary and the minister, we are now moving to four-year posting cycles in the DMO for the senior positions—major and above. We think that is going to fix the one remaining defect of having the military working in DMO. That policy started taking hold last November, and it will be fully in place for the next posting cycle decisions in September-October.

Senator JOHNSTON—I have two further questions. General Hurley, there are issues arising in other sections of this ADF annual report. One of the knock-on effects is this question: how much of our capability acquisition and design is affected by the limitation in our ability to get sufficient ADF personnel? I note that our submarines, patrol boats and a number of the FFGs are controlled or inhibited by the number of personnel that we get. The report does not mention that aspect in terms of the development of capability, but I note that, by comparison, with most FFGs—for instance, the air warfare destroyers—we are going for a smaller, more lightly manned vessel. How much does this affect our capability, design and acquisition?

Lt Gen. Hurley—When we look at capability development, we are looking not merely at a platform solution but at a whole-of-capability solution. As part of that we have what we call the 'fundamental inputs of capability'. That would be the weapons system, doctrine, training, infrastructure, support and people. As we are designing future capabilities to bring into service, we are looking at what the people requirements are broadly in terms of numbers, training, years to the development, when we will require them, what the transition from one current system to the new system will be and so forth. We work pretty much hand in glove with the service that is going to receive that capability to say: 'Okay. Let's develop the transition plan. What's the cost for the people if you need additional people?' We put that plan in place and then transfer it to the defence personnel establishment to say, 'Right, here's our future work force planning input over this time frame.'

Senator JOHNSTON—So there is a document? Is there a document or a paper trail that you are generating that says, 'Given these new additional capabilities coming on stream, in three years, four years or 10 years time there will be a requirement for an increase of X in the number of personnel'?

Lt Gen. Hurley—Yes, we put in our funding bid. In the defence capability plan, there is a new personnel and operating cost funding line, MPOC, which is used to fund those increases.

Mr SNOWDON—How responsive is that process to changes in government policy? Presumably, you are defining capability as per the white paper 2000 and subsequent policy directions. If the policy were to change rapidly as a result of, say, some actions away from Australia, how quickly could you respond in terms of capability—and bearing in mind the question Kim Wilkie asked previously about existing contracts that might need to be terminated or changed as a result of a new direction?

Lt Gen. Hurley—The system responds best when the change is gradual and measured. If we were going to make a radical change because of a discontinuity through technology or something like that, we would have to make a major pause and rethink the whole issue. If there were a change in terms of strategic guidance of great significance, we would have to pause again and review the whole program, rebuild the whole program, reset it all and try to work through it.

There are going to be periods of disruption with that, naturally. We would have the data to know what we are moving from and the guidance to say where we are going to. We would have to fill that void in the middle and put the plans in place to do it.

Senator JOHNSTON—I have a last question, Dr Gumley. As a Western Australian, I note that the first-of-class ship has been delivered with respect to the Armidale class patrol boat project. We undertook some very innovative tender process measures in that contract. My impression is that that contract initially looks like being a very successful one: on time, on budget. The feedback I am getting from both personnel and contractors is that everything has gone very smoothly and very successfully. Could you confirm that? Also, what lessons can we take from that project—from that new approach, that different style of tender process—into the acquisition of, firstly, air warfare destroyers and, secondly, amphibious landing ships?

Dr Gumley—Firstly, I can confirm that the project is going very well. The company is on track in money, schedule and capability, and we are very pleased with it. One difference between that project and air warfare destroyers, of course, is that there are not a lot of lines of code in a patrol boat. It is very much a traditional shipbuilding contract for a very well-defined product, so the technical risk profile of the project is relatively low. The air warfare destroyer, on the other hand, is going to be one of the most complex things we have ever done in this country, and we will have to use a different approach for that. It would not be possible, looking at the industry base in Australia—in fact, probably almost anywhere in the world—for one company to do it on that sort of basis, because the requirements are so difficult. The lesson is that there is no one contracting approach that works. We have 240 projects, and there are probably six or eight different classes of contracts that you need for the different types of projects, ranging from very simple acquisition right through to the most complex things, like the destroyer.

Lt Gen. Hurley—I have received a note about the armoured vehicles in the new deployment to Iraq. All ASLAVs deploying will have bar armour—that is the external armour around them—spall liners or spall curtains, and upgraded turrets. There is a note here that the UK forces are using Land Rover**s** in the AO, the area of operations, and the US light armoured vehicles have no spall liners. So we will have a higher degree of protection than the coalition forces over there.

Mr SNOWDON—General Hurley, I am interested in exploring, just briefly, what your role or your organisation's role is once a contract is filled. In other words, once these Armidales are delivered, do you wash your hands and say, 'That's done; I've gone,' or do you then have some sort of feedback or auditing process about how well the contract is performing?

Lt Gen. Hurley—In terms of the transition from DMO to the introduction into the service, at the moment we do not have what we are now calling a closing business case. But I am developing one so that, at the end of the procurement process to the handover, we will have an audit trail that says, 'This is what we delivered against what we agreed to at committee or what the government agreed to at such-and-such a time,' and, if anything changed, why that was so. So we will document the whole life of that decision. We are introducing that this year.

Mr SNOWDON—Will that then become a live document for reporting on later?

Lt Gen. Hurley—Yes. A lot of these capabilities have long lifetimes, so they have to go through upgrades and so forth, so you will have an audit trail of what you have been doing to that capability.

Dr Gumley—And we face an interesting challenge on the procurement side too, because sometimes we have to keep the contracts open virtually for whole-of-life because of the IP clauses, so you maintain access to the intellectual property. It would be easy to say that once a contract is over you just shut it down, but it is not always quite as easy as that.

Mr SNOWDON—Does that mean, General Hurley, that ultimately your organisation will have to grow? Presumably, in the brief period you have been operating, you have been feeling your way. Once you start this audit process, with all the contracts that are out there and the capabilities that you need to continually assess, does that mean you will feel pressure internally in terms of your structure?

Lt Gen. Hurley—My staff still keep involved with the project teams, post government approval and into the acquisition stage, so those people are already in place. We are members of the project management steering groups and so forth that manage the projects through. We keep the sponsor view that what we ask for is being delivered, so we are in play in that process.

Dr Gumley—You would have noticed that we have set ourselves up organisationally. We have four main domain divisions: land, sea, air and electronic communications. General Hurley has four branches with the same effective titles. They map into each other, so there is constant interplay to make sure the capability issues have been looked at.

CHAIR—Are there any further questions?

Mr WILKIE—I want to go back to the AGM142. I do not know whether you have managed to find the info on it.

Dr Gumley—We are getting the project manager to come over, if that is suitable with you, chair. He might be a few minutes. He might be able to give direct answers to your questions.

Mr WILKIE—That would be great.

CHAIR—Is he coming over from Russell?

Dr Gumley—Yes.

CHAIR—You might take the question on notice.

Mr WILKIE—I will mention some of the things I am looking for, so that they can look into it. My understanding is that the AGM142 can only be fitted to the F111 and, at the moment, we have a prototype aircraft that may be getting the system to talk to the aircraft. What plans do you have in place to deal with the retirement of the F111s whilst retaining the capability of the missile? Given that they have cost us over a quarter of a billion dollars, we would hate to see that type of capability lost if the aircraft were retired. What are we going to do with them after that happens?

Lt Gen. Hurley—There is a project called the 'follow-on stand-off weapon', which is a fitting of weapons of similar capability to the AGM142 to the FA18. So that is looking at—

Mr WILKIE—But the FA18 cannot carry the 142.

Lt Gen. Hurley—I believe not.

Dr Gumley—So your question goes to the obsolescence of the AGM142?

Mr WILKIE—Yes. When is it going to be operational, and for how long, and what do we plan to do with them once the aircraft becomes obsolete? My understanding is that it cannot be fitted to any other aircraft in our fleet.

CHAIR—Can you take that question on notice?

Dr Gumley—Yes.

Mr WAKELIN—I have a quick question on the SMEs. Do you have any measure of the involvement of SMEs, from the industry perspective, over, say a five-year period—was there a reduction or an increase? Do we have any way of measuring the involvement? Is that part of the analysis of the audit?

Dr Gumley—We are not doing that analysis directly. At this stage, we do not have that extent of visibility into the prime contractors as to exactly how much is there. Groups like AIDN keep some figures. I am not right across them at the moment but, if it is any help to the committee, I would be pleased to get any data we have and present it later. That would probably not be this morning, but can we do that in writing within a week or so?

CHAIR—Yes. Is there anything you would like to add to any of the questions? You have some questions on notice, which you will respond to.

Dr Gumley—We are moving ahead to prescription on 1 July. I think you are going to cover later on the financial statements. I will say now that going into prescription on 1 July is a bit messy, with the financial statements the way they are, but it is not fatal. It is something we will work around, and we are confident that we can move on with it.

Lt Gen. Hurley—We have produced what we call the defence capability manual, which explains our business. We are happy to leave copies of it here.

CHAIR—That would be good. If you have been asked to provide additional material, would you please forward it to the secretary. You will be sent a copy of the transcript of evidence, to which you can make corrections of grammar and fact. Thank you for your attendance today.

Proceedings suspended from 10.04 a.m. to 10.22 a.m.

CLARKE, Air Vice Marshal Kerry Francis, AO, Head, Capability Systems Division, Department of Defence

GILLIS, Mr Kim Rogers, Program Manager, Amphibious Deployment and Sustainment Program, Department of Defence

GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation

HURLEY, Lieutenant General David, Chief, Capability Development Group, Department of Defence

SHALDERS, Vice Admiral Russell Edward, Vice Chief of the Defence Force and Chief of Joint Operations, Department of Defence

CHAIR—I welcome this new group of representatives from the Department of Defence, who are giving evidence on Australia's future amphibious requirements. Although the subcommittee does not require you to give evidence on oath, I advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Would you like to make an opening statement?

Mr Gillis—Not at this stage.

Lt Gen. Hurley—I do. The planned enhancement of Australia's amphibious capability is drawn from strategic guidance and will enable the ADF to meet the operational requirements derived from our strategic task. The defence white paper of 2000 stated:

> ... the deployment of land forces needs to reflect a new balance between the demands of operations on Australian territory and the demands of deployments offshore, especially in our immediate neighbourhood.

A defence update in 2003 reinforced the requirement to undertake offshore deployments when it stated:

> The changed global strategic environment, and the likelihood that Australian national interests could be affected by events outside of Australia's immediate neighbourhood mean that ADF involvement in coalition operations further afield is somewhat more likely than in the recent past.
>
> … … …
>
> These new circumstances indicate a need for some rebalancing of capabilities ... changes which will ensure a more flexible and mobile force, with sufficient levels of readiness and sustainability ...

The capability to move combat power over a sea gap, deliver that combat power ashore to the point where it is needed and sustain that combat power is an important part of providing a flexible, mobile and sustained force. In its deliberations on Australia's maritime strategy in June 2004, this committee echoed that sentiment when it stated:

Evidence to the inquiry supported the need for the ADF to have greater reach, sustainability, flexibility and real combat power.

An amphibious force has the following characteristics. It is joint, responsive, versatile across the spectrum of operations, capable of a sustained operational tempo and able to sustain operations in an austere environment without host nation support. It should be capable of conducting decisive actions or facilitating the arrival and passage of larger forces. Its objectives will normally be the securing of entry points into an area of operations. An amphibious capability consists of a number of components: the embark force; the amphibious vessels; force protection, such as major surface vessels, combat aircraft and submarines; a command and control element; and sustainment forces. The ADF force to be delivered by the current DCP will have all of these elements.

I now intend to concentrate on the most topical of these components—the replacement of the current amphibious vessels, which will be undertaken by Joint Project 2048. Joint Project 2048 seeks to replace and enhance the capability of the current range of ADF amphibious vessels. In summary, the landing ship (heavy) *Tobruk* and the two landing platform amphibious ships *Manoora* and *Kanimbla* will be replaced by two amphibious vessels and a force sustainment vessel. The small craft that support the amphibious ships will also be replaced. The Joint Project 2048 project team has released a request for quotes for the two amphibious vessels for which responses close on 15 March next week. Mr Gillis can answer any questions that you may ask in relation to that. The key drivers of the amphibious ship designs are the size and the nature of the force that needs to be carried and the means by which it is to be put ashore—by air or watercraft or both. While the amphibious ships could be used to support a wide range of humanitarian and peacekeeping operations, combat operations would impose the greatest demands. Furthermore, many of the capabilities required for combat operations are inherently adaptable to most alternative scenarios. For example, helicopters and watercraft can be ideal vehicles for evacuation operations and humanitarian aid.

Operations likely to be performed under Defence's four strategic tasks range from humanitarian assistance and disaster relief through to evacuation operations and peace enforcement to support the coalition operations. The ADF will task-organise for each operation but for larger scale operations—for example, evacuation and peace enforcement—the land force will be based on a combined arms—armour, artillery, engineers, infantry and aviation—battle group. Lifting this force drives the size and the characteristics of the amphibious lift capability. The amphibious capability sought in the two ships under the current project is to provide the desired effect as follows: firstly, carriage in addition to the amphibious ships' crew of approximately 1,200 personnel in the landing force with a further 800 personnel providing helicopter operations support, logistics command, intelligence and other support—a total of about 2,000 personnel—space and a deck strength sufficient to carry about 100 armoured vehicles, including M1A1 tanks, and 260 other vehicles and of approximately 2,400 lane metres; hangarage for at least 12 helicopters and an equal number of landing spots to allow a company group to be simultaneously lodged to provide sustainment, medical, rotary air and operational maintenance and repair support to the forces while ashore for 10 days; command and control of the land, sea and air elements of a joint task force; and the conduct of simultaneous helicopter and watercraft operations in conditions up to and including sea state 4.

The key to the success of an amphibious operation is the speed at which the land force can be deployed from ship to objective. The speed of the build-up reduces the risk to the force elements that are first deployed by rapidly increasing their combat power. Within the combined arms battalion group, the smallest force element that can manoeuvre and protect itself is a company group. A company group can range from 150 to 200-plus personnel depending on its task. A company group will be the first land force element deployed in an amphibious landing, preferably by helicopter at night and from over the horizon. The simultaneous insertion of a company group requires at least a 12-helicopter lift if medium sized helicopters are employed. This requirement drives the number of helicopter spots required in the amphibious fleet. Furthermore, having this number of spots increases the speed at which the remainder of the land force can be deployed. The combination of the requirement to deliver a battalion group strength force and to have 12 medium helicopter spots dictates that the only viable options are either two six-spot LHDs or combinations of these ships and/or smaller ships. In its preference for two six-spot LHDs, Defence has considered the capability drivers I have already mentioned as well as the associated acquisition and whole of life costs.

As an example of the utility of this type of ship, if we refer to the recent Operation Sumatra Assist, following the tsunami, one ship in position could have provided at least 12 helicopters; a 19- to 28-bed hospital, with four to six surgeries and intensive care unit facilities; security and health protection for our troops, enabling the majority of them to remain on shore, thus reducing the footprint on the devastated area; and a full range of engineering and other equipment that may have assisted. The amphibious capability we are looking forward to delivering in 2010-15 meets our need to insert a battalion group at a low cycle rate. Thank you.

CHAIR—Thank you. The Australian Strategic Policy Institute believes that there has been insufficient analysis in evidence in the consideration of the future troop-lift helicopter and the number of helicopter spots needed to meet defence needs. I noted your comments in your presentation, but did Defence link the decision regarding the additional troop-lift helicopter and the type and size of the future amphibious platform? Is there a linkage between those two things? It is something ASPI have raised. How do you respond to that?

Lt Gen. Hurley—There is a linkage, but I think we need to be clear on a few issues. When people look at our employment of helicopters they should not confuse what they might see overseas from, for example, the US Marine Corps: those helicopters are an embedded part of the fleet. The helicopters we are looking at are multirole helicopters that will support land operations or be deployed to operate from a ship for a specific operation. So they are not part and parcel of the full-time component of a ship. When we were looking at the characteristics of the helicopters we require, we had to take both of those things into account. We were not locking ourselves into one helicopter type to do only amphibious operations; it had to support a range of other tasks. So, yes, that was an important part of the consideration, but it did not solely define the outcome.

CHAIR—Would you say that there was a compromise?

Lt Gen. Hurley—There is a compromise with all the capabilities that we have to bring out.

Senator JOHNSTON—But we are not seeking to copy the class—such as Whitby Island class or American class. We are looking to do something completely different.

Lt Gen. Hurley—We are looking to meet our capability requirement. They range from amphibious operations to air mobile operations on land.

Mr WILKIE—One of the other arguments that ASPI used in their proposal to have smaller ships was greater flexibility in being able to access a wider range of regional ports. How realistic is that? Would the larger ships still be able to access most of the ports in our region?

Lt Gen. Hurley—If we look at it purely by the draught of the ships, the two classes of ships we are looking at, the Spanish and the French, have about a seven-metre draught. Our current LPAs are about 5.86 metres and the *Tobruk* is about four metres, but they are designed to be beached. So we are looking at a one-metre difference in draught between the types of ships, so entry to ports is not going to be a problem.

Mr WILKIE—Did Defence consider the 12,000-tonne landing platform dock amphibious ships or were they discounted?

Lt Gen. Hurley—The LPD type ships were looked at, but if you go back to our requirement to do a simultaneous company lift of at least 12 helicopters, you need 12 spots. If you do not get those on two ships you need to buy a lot of smaller ships. When you look at the acquisition and through-life support cost simply to put that together, it is more efficient to go the way we have gone.

CHAIR—What is the expected availability of the proposed replacement ships? In other words, can we expect that only one would be available at short notice, given that as they are made and launched one of them is usually undergoing maintenance?

Mr Gillis—One of the fundamentals that we are looking at in the acquisition of these is to follow very closely commercial principles in the construction of the vessels. Both the recently renamed Novantia, which was previously the Izar, and the Amaris, which is a French ship, are designed very much around commercial principles with a component of militarisation. Commercial vessels of this size have an operational availability of 345 days a year at sea. Because we are looking at commercial vessels and that style of operation, we are expecting that the operational availability will be extraordinarily high, as opposed to a military vessel, which has a much lower operational availability because of the nature of the design and the construction.

Mr SNOWDON—If there are only two, if something unexpected were to go wrong, you are up the proverbial creek, aren't you?

Mr Gillis—What we are saying—and it is probably more a capability question—is that, realistically, there will always be one of these vessels available, and it will give that capability. There will be times when one of those vessels will be under repair and refit. We understand that; but, with a very high operational availability of this type of class of vessel, that period is very much limited.

Lt Gen. Hurley—With the two LPAs we have operating at the present time, we have not had an operation yet where we have had a vessel in repair that we have not been able to pull out fairly quickly and put back to sea and get the job done. To follow on from Mr Gillis's comments,

I think the French are looking at five to seven years at sea before you have to slip these ships. We are pretty sure we are going to get a high rate of utility out of them, and the flexibility that they offer in terms of capability is just enormous.

Mr WILKIE—Will they both be delivered around the same time?

Mr Gillis—No, the construction differential is still to be determined. We are at the moment seeking that information from the Australian shipbuilders. Their information will come back on 15 March. My estimation would be that there would be somewhere between a two- and three-year period between the delivery of the first and the delivery of the second. We are trying to match the workload to the Australian industry's capability. One of the things we do not want to do is build the first ship, have a gap, lay a large number of people off and then start the construction of the second ship. We are trying to develop a schedule so that we can level-load the work force across the Australian industry.

Dr Gumley—That applies to linking it into the air warfare destroyer as well, because we have two competing programs that will be using resources over a similar time span. In terms of how the industry situation plays out between the two projects, we have to go for level loading, as Mr Gillies says.

Mr SNOWDON—What is your response to the argument that having a large number of ships increases operational flexibility?

Lt Gen. Hurley—It is an interesting argument. It depends on your definition of flexibility. If you look at the strategic guidance that we are designing the ADF against, our concurrent requirement is to be able to do only two simultaneous operations—sustain a brigade group offshore and be prepared to deploy and support a battalion group. You have to draw a line. Where are we going after four ships? Four ships to do how many operations? You are really looking for a redesign of the ADF if you are going down that route. Take the recent tsunami. Yes, you had four ships. You could have gone to four different countries. When you conduct military operations, you are not looking to do operations that way. You are looking to concentrate force. Internationally, the countries got together and said, 'Who can best help in which particular areas? Put your assets there.' You do not need four ships to do that.

If we got into a war-fighting situation or a high-tempo situation where we were looking at four simultaneous operations that needed amphibious support, the ADF would be inadequate, not just the number of ships. We move right away from that argument. These two ships give us a high utility.

CHAIR—If the Joint Strike Fighter were signed up and if as part of that acquisition one of the variants is a jump jet capability, would the Joint Strike Fighter be able to take off and land on one of these ships?

Lt Gen. Hurley—The French ship cannot without significant work to strengthen the deck and the workings within the ship. The Spanish ship is capable, but it would need some more modifications.

Mr Gillis—The Spanish variant is designed with a ski jump on the front of it and is capable of the STOVL, but the French ship is not. That is not a part of my consideration between the two at the moment.

CHAIR—It is not part of your consideration?

Lt Gen. Hurley—No, we are not looking to put the STOVL onto these ships.

CHAIR—Are you saying that, if the Joint Strike Fighter were the chosen aircraft, the jump jet or the STOVL variant would not be considered because this would rule it out?

Lt Gen. Hurley—We are primarily concentrating on the conventional takeoff and landing version of the JSF. That is what we are looking to field.

CHAIR—You do not see any need for that sort of a capability in the foreseeable future?

Lt Gen. Hurley—There are some basing flexibilities that the STOVL—short takeoff and vertical landing—aircraft might give you, but, in terms of its performance in comparison with the conventional takeoff and landing aircraft, they are realms apart and we think we can meet all our essential criteria with the conventional takeoff and landing aircraft.

Senator JOHNSTON—When I hear that we are doing something that no-one else is doing and we have a broad range of capability on two quite large ships—and I see that 24,000 and 27,000 tonnes are the design options confronting us—I get a bit nervous. When I look at what we have done in terms of power plants and look at the success with two what I think are called Pielwick French 15-cylinder diesel motors—

Lt Gen. Hurley—Pielsticks.

Senator JOHNSTON—That is what is on the *Westralia*, but the French design has this other type of motor which I have not heard of before. Can you reassure me that, in terms of interoperability—and I notice that we have MTU diesels, we have GE gas turbines and the Americans have got similar configurations—with these exotic European designs, we are not going to end up with something that no-one knows anything about, and that we have never seen before and that people will look at and laugh at?

Mr Gillis—If you look at the history of both the Spanish and French navies, they have very similar operating characteristics to the Australian Defence Force in that the Spanish navy is a similar size and is operating an Aegis system on their air warfare destroyers, but, when it comes down to it, with the actual engine selection we have to weigh up a risk. If we start redesigning the engines and the propulsion systems and put them on to these ships, we will end up in a multiyear design phase and we will not get a capability for many years. One of the things that have happened historically is that we have tried to modify vessels to suit all of our requirements and to make them totally interoperable. What we end up with is that traditionally we spend three or four years in a design phase before we start construction and then we have a capability.

In regard to these ones, because of the commercial heritage of these things, there are probably going to be more ships in service with these types of configurations than with a military

configuration of an engine. So there are going to be more people, more ports and more places that the ship will go to where we will find service, repair and support for these engines than we would find with some of the specific engines that we have currently got. We are going to be doing some trade studies in the early part of next year on the capability and the tradeoffs between whether it is worth changing an engine and making it totally compatible to the Australian instances of what we have got here, or whether is it worth keeping that and looking at its serviceability internationally.

Senator JOHNSTON—What sort of engine do we get with the French PCS?

Mr Gillis—I am not sure.

Senator JOHNSTON—I am sure it will not be anything that I have ever heard of before.

Mr SNOWDON—It might be good, though.

Mr WILKIE—It might be like a Ferrari.

Senator JOHNSTON—When I see the substantial difference between a diesel compromised gas turbine in an Anzac class frigate and the two gas turbines in an Adelaide class frigate, there is no comparison. Notwithstanding that we have a maximum speed that still does not keep us up with any task force the Americans are running, these things worry me when I see that the Navy cannot keep up in terms of interoperability. With these vessels, I know that interoperability is not such an important aspect because I would anticipate that we have got specific regional requirements for this particular type of vessel that would not be as necessarily interoperable with the Americans. But the point I want to make is that I am very concerned when I hear that we have these unique capability aspirations. I was privileged to see an LSD class next to our supply ship *Success* being refurbished along with a Tarawa class at RIMPAC last year. I was very impressed that our vessel was able to do that. It is a complicated process. Correct me if I am wrong, but we have not got any other French designs in the Navy, apart from *Success*.

Mr Gillis—No.

Senator JOHNSTON—You are saying that you have considered all that and you are going to get everything right.

Mr Gillis—We have considered it, and a part of the process between the selection of the design and going out to the shipbuilders and seeking their bids to build the vessel is that we are going to undertake trade studies. We are going to analyse the equipment on board. We are going to look at what component of Australian industry involvement we can put into the vessels, and what commonality issues there are. That is part of the studies that we will be undertaking in the first part of next year.

Mr HATTON—What is the situation in terms of range? The LPAs have 14,000 nautical miles, the French 11,000 and the Spanish 9,000. What is the practical effect of that when you are looking at replacing existing capacity with newer capacity with a lower range?

Lt Gen. Hurley—It is within the regional range of operation. For example, with the air warfare destroyer we are targeting about 6,000 nautical miles, so the 9,000 and 11,000 are well within our requirements to operate the ships.

Mr HATTON—How far is it going to get us, given that we have ships going to the Middle East and so on? What is the total?

Lt Gen. Hurley—We can get to the Middle East without refuelling.

CHAIR—From the east coast or the west coast?

Lt Gen. Hurley—Both. You can get there without refuelling.

Mr SNOWDON—It would make a difference wouldn't it, having to refuel on the way there?

CHAIR—It would. There is a time factor in it.

Mr WILKIE—The new oiler would be able to refuel on the seas, wouldn't it?

Mr Gillis—Yes.

Mr HATTON—As Senator Johnston was asking, what are the speed differentials between these vessels and the existing capacity?

Mr Gillis—The French vessels are designed around 18.5 knots and the Spanish approximately 20 to 21 knots, so there is a difference in speeds and that is part of the cost capability trade-offs we are going to be analysing in the selection of the vessel. A knot-and-a-half does not seem to be a lot but it will be a part of the analysis that we will undertake to work out the value of these vessels when you compare them.

Mr HATTON—One of these vessels is still in the design stage, I understand. The other one has been put into place.

Mr Gillis—The Amaris vessel, the French vessel, is currently undertaking sea trials. Some of my staff and some of the staff from the Australian embassies in London and Paris are observing the sea trials. My advice is that the Novantia vessel is going to go into construction within the next couple of months. It has completed its design phase and it is ready for construction.

Mr HATTON—If you do a straight comparison between the two it seems that although the French vessel is much smaller it has about the same capacity. Can you fill us in on that?

Mr Gillis—No, it really does not. If you do a real apples to apples comparison in terms of troop-carrying capacity, the as-built French design has a capacity of approximately 680 to 700 troops. The Novantia vessel has a capacity of between 1,000 and 1,200 troops. There is a significant difference. There are additional lane metres for vehicles in the larger vessel. But it is larger, it is more expensive and it would be a more difficult task for Australian industry to build because of its size. They are the sorts of things we are currently analysing to work out the best outcome for the ADF and for government.

Mr HATTON—In terms of the defence ability of these two vessels, the ASPI paper quite rightly points out that they are large assets and given that we will have only two of them we will need to have escorts for them and so on. You also need to take into account the fact that if you lose one you are in a lot more trouble than if you have a dispersed capability. The USS *Cole* was despatched pretty quickly—it is a different vessel but it is still a large capable vessel. How much does that figure in terms of what we are looking at, particularly given operation in the region and the fact that al-Qaeda specialise in knocking off naval assets?

Lt Gen. Hurley—Are you talking about the operational employment of the vessel?

Mr HATTON—Yes.

Lt Col. Hurley—Quite clearly, if we were deploying on an operation with these ships delivering the major land force component, we would create very much a layered defence around the ships. Obviously, they would be accompanied at the surface by other major surface units—air warfare destroyers or frigates with SM2 air warfare missiles, depending on the time frame. Underneath, there would obviously be submarines picketing the route, clearing choke points or clearing the route for them. Above, if required, there would be the combat air patrol with the fighter of the day—AEWC and so forth. We will create a bubble around this to move it through because it is going to be a precious cargo. On top of that there will be space assets to increase our situational awareness and any other intelligence we can glean about where we are going. We will put the best defence around these that we can. The vessel will have some point defence capability against missiles that might come at it.

Mr HATTON—We have not had a capacity of this type before; it is something that is new. We have not been able to run down to Big W to pick one up off the shelf. Instead of looking at the Americans in terms of interoperability, we have gone to a European design. It has also raised a whole series of questions of how you fit these into the new Defence doctrine. Aldo Borgu argued that it does not fit particularly well with the Defence 2000 paper and that there are also a significant number of problems regarding what is required here. I think part of the difficulty is that you are mixing and matching the helicopter capacity with the heavy-landing capacity, and upping the capacity from the existing vessels places a number of constraints on what you are able to pick in the first place. Have you got any comments on that? One other relevant part to it is that the decision has been delayed and there is a question of how much time was available to Defence to adequately assess what was needed, given the changes in doctrine and perceived capacity. Have you had enough time to be able to effectively move on this issue?

Lt Col. Hurley—I believe we have. The requirement to upgrade or enhance the amphibious capability featured in the white paper 2000. We have been working on this major experimentation, the headline series of experiments and joint experimentations with Army—2002 and so forth—so we have been looking at it for a while. We have come to the solution set and we have looked at the relationship with helicopters. We are now in the process, under Mr Gillis's and my leadership, of looking at derisking the project to take it forward. Going back to the comment I made in the previous session, we will be looking at the full range of inputs to capability. All of that is being developed in hand as we go ahead. Some will be delivered as appropriate—doctrinal changes, concept of operations and employment—as we go through. But we have enough understanding of how we want to use these vessels to be confident in the nature of the vessels we are looking at.

Mr HATTON—How integral is the helicopter capacity to this? It is in terms of the design and the outfitting, but your previous comments seem to indicate that you see a range of deployments for the helicopters. Would they be used all the time or would these ships sometimes be deployed where you did not have much helicopter capacity—where the 12 would not be there between the two?

Lt Col. Hurley—There might be operations where you do not necessarily need them but, in my experience working with infantry and helicopters for 30 years or so, there are very few operations we have been on where we have not taken helicopters.

Mr HATTON—I will finish where Aldo Borgu finished, with probably the most difficult question with regard to this. Given that this brings all the elements of the new Defence Force together—Army, Navy and Air Force—he finishes with a key question: who is going to take responsibility for this? He says:

> Part of the problem is that no one really owns the ADF's amphibious capability, therefore no one organisation or group determines its capability development. Amphibious lift is shared between Army and Navy with the result that neither gives it the amount of attention it deserves. While this problem affects other projects in the DCP the interdependency of the many elements that come together to create an amphibious capability means that a single point of authority is essential. Once purchased, the ships will remain in service for at least 30-40 years ...

Is he right or is he wrong? Is this an example of having to refashion the way in which Defence does things because it is bringing all of those elements together and is a challenge that you have to respond to?

Lt Gen. Hurley—The Chief of Navy has been appointed as responsible for the overall development of amphibious capability. In terms of the employment of the capability, the chief of joint operations and the subordinate headquarters under him are going to determine how on a particular operation the capability will be put together. We have a project of major exercise activities each year which more often than not centre around putting this capability together and giving people practice in delivering it. We have a training regime in place. We have a head appointed who is responsible for oversight of the capability and we have an operational command and control element that is experienced in employing it.

Mr Gillis—In response to the statement in respect of the lack of focus from Army and Navy, I can assure the committee that the Chief of Army, the Deputy Chief of Army, the Deputy Chief of Navy and the Chief of Navy all pay great attention to the program and, in particular, to this program, and I am a regular visitor to their office.

Mr SNOWDON—I am interested in the employment of the defence personnel within your organisation. What are the general terms of employment and contract periods for defence personnel in DMO?

Dr Gumley—Defence personnel are placed in the DMO under the military staffing policy. I mentioned earlier that we have the four-year rotations coming up. There is also a requirement that I am satisfied with the quality of the people coming in. In other words, DMO has a veto if people who are ill-qualified for a job are just put there. So we have that ability to get good program managers and good domain experts. We also have what we call the 'no duds' rule. If a

military person comes in and is not working out, I can have a conversation with the service chief and remove that person and get a replacement.

Mr SNOWDON—What impact do you expect or is it thought that this four-year rotation role will have on the promotional and career options of defence personnel within your organisation?

Dr Gumley—I think those questions are probably better addressed to the service chiefs, but we are seeing a stream of military officers who can become and are becoming excellent program managers. As we work up our program management training framework, as they start off with small projects and work their way through, I can see rotations of people at captain and major level coming into DMO, picking up project management skills on minor projects, doing operational rotations, and coming back and doing bigger projects. I would fully expect to see in five or 10 years time a cadre of very experienced military officers running big projects.

Mr SNOWDON—Can I explore that a bit further. You are saying that you can see majors and captains who are in your organisation moving out of your organisation for six to 12 months to take a command position somewhere.

Dr Gumley—I can see majors and captains doing minor projects and assisting with projects and then their rotation being back to the operational units.

Mr SNOWDON—But I am talking about within the four-year period. I am concerned about the career options available for these middle-ranking officers to take command positions which they would otherwise have access to if they were not in your organisation on a four-year rotation.

Lt Gen. Hurley—I think you will find that people who are moving into DMO for that project management skill have already made career decisions about which route they are going to take. They look into being professional managers if they so desire. There will be some who will be put in there for their subject matter expertise to help on a project and then move back into the Army, Navy or Air Force. In one sense I would like to see them coming out of DMO into my organisation and sharing that skill set and that knowledge, because the organisations are going to be operating much more closely together. Do we need to career stream into those areas? That is a decision we have to have a look at.

Mr SNOWDON—The reason I am asking is that I think there are potentially real issues about career management. I would think there would be some at captain and major rank who move into your organisation because they feel compelled to and who may in 12 months or two years, if they were outside the organisation, be promoted. What are the options going to be for those people who effectively tie themselves to your organisation for a four-year cycle? Will they get to command college? What is going on? What capacity do they have to upgrade their skills in a military sense at the same time as they are doing your work as project managers?

Lt Gen. Hurley—I would think that a junior officer or a major—there will not be too many captains in DMO—who is in the zone, is working in DMO and has the performance track record to go to Command and Staff College will compete with his peers. If you look at a number of the majors who come from the Army into DMO, in my experience many of them have been to the Army technical staff officer course for 12 months or so to prepare them to do this. Their careers

actually take them that way. If they need further staff college training, that is a decision that the career manager will make in their particular service. It may not deny them that access; it depends where their career is going.

Mr SNOWDON—I appreciate that. I want to get to an understanding as to whether they are going to be limited by taking this four-year rotation; that, in fact, their careers can be developed in parallel.

Dr Gumley—Up to major level, the two-year rotations can still continue. We were concerned about the four-year ones, particularly the lieutenant colonel and colonel equivalents. I would pick up General Hurley's comment that, by that stage, their career is pretty well determined.

Mr SNOWDON—I would hate to see an artificial ceiling placed on promotion because you are doing a four-year rotation. I hope that we can look at that at some point as we see how this goes. In terms of the new deployment of LAVs to Iraq, Dr Gumley, you said that you were staging some of the upgrades. Will the remote weapons systems be that part of the upgrades that will not be completed?

Dr Gumley—Yes, they will be coming on later. We have placed the order with the manufacturer. They are being delivered progressively over the next few months.

Mr SNOWDON—How long will these LAVs be in theatre without the remote weapons systems?

Dr Gumley—A couple of months.

Mr SNOWDON—If we have a deployment for six months, it is possible that you will have personnel—

Dr Gumley—We do have some LAVs over there at the moment with remote weapons to do that.

Mr SNOWDON—I understand that. My point is that, in fact, we will have some people in vehicles with the weapons system and other people in vehicles without it.

Lt Gen. Hurley—All the vehicles will have a weapons system.

Mr SNOWDON—I know that, but I am talking about the remote weapons system. We will potentially have one class of soldiers at higher risk than another class of soldiers who are in the same location—is that correct?

CHAIR—Is it not 15 of the 40 who will have the remote systems?

Lt Gen. Hurley—We could get the precise numbers. Again, it is not an area I deal with specifically in current operations. I will come back to you with that.

Mr SNOWDON—I want to confirm that, for a good part of a six-month deployment, we may have a group of soldiers who will not be as highly protected as another group of soldiers deployed at the same time. Is that correct?

Lt Gen. Hurley—No. We will have a group of soldiers who will operate their vehicles slightly differently to others. We will apply the tactics with the utility of those vehicles according to what the threat level might be on the day and the particular tasks they are to undertake. I think we have the means to balance off the risk and that is what the commander on the spot is going to do.

Mr SNOWDON—Nevertheless, the point is that there will be one set of LAVs who will have the upgrade and another set of LAVs who will not.

Lt Gen. Hurley—Yes.

Dr Gumley—That is true. We are just progressively upgrading them—group by group.

Mr SNOWDON—Thank you.

Mr HATTON—I want to go back to the question of the ships and Army's vision of where they are. I go back to the ASPI paper by Aldo Borgu. At page 10, he goes to the core question not of big versus small, which we have talked about previously, but of the changed nature of our expectations of how we deploy our Army and how we protect them when moving from the light infantry role to a predominantly armour-protected Army using the Abrams tanks. He expects that in the future Army's role would be hardened as well as networked.

Aldo Borgu goes on to argue that, if you need to get the maximum number of troops ashore, there is a problem in deciding on these two larger ships. Certainly, you have more helicopters, but from the Army's point of view you want more landing craft. The larger ships give you no more landing craft than the smaller ones have. With two ships to replace four, you have the same capacity for landing craft with the bigger ships as you would for two of the smaller ones. You have to get more armour onto the beach or the landing zone as quickly as possible. I will quote you his final paragraph:

Hence the decision to limit our amphibious capability to two large platforms—rather than 3-4 smaller ones—means we would have less capability (half as much) to deploy and sustain our land force once they become "hardened".

This goes to the question of having an existing capacity that you want to deploy but, because of the way Army has changed its approach, needing more space to be able to accommodate it—as it is an armoured force—and whether this will be a problem. Secondly, if you had enough money you would probably want more of these larger ones to cover that. But how significant a problem is that from Army's point of view in relation to the changed Army doctrine?

Lt Gen. Hurley—I think the first point is that the vessels will be able to lift what Army is bringing into service. The second point relates to offload. It is all about what we call the 'cycle rate'—being able to turn the thing around. That is a function of both the size capacity and the loading technique used for the small craft. Unlike the current ones, where you back on and have to back off when you get to shore, it is a flowthrough type vessel. Then there is the speed of the

vessel itself, and the concept of operations we use to bring the ship into a position where we can sustain a high cycle rate. All those issues are going to be looked at when we look at the design on the smaller craft that are going to support these ships to optimise that cycle rate to offload.

Mr HATTON—How does the cycle rate get you through his fundamental point about too big versus too small and that you only have the same number of landing craft available.

Lt Gen. Hurley—We may not necessarily have the same number of landing craft. It depends how many and what type we put into the operation. Bearing in mind the third ship and this amphibious capability, which we are just calling a force sustainment vessel at the moment, its capacity capabilities will be defined by the development of the overall system. It could carry extra boats if we need it to.

Mr HATTON—So you would have more if you could, and that is a budgetary question for the future as well as a design question.

Lt Gen. Hurley—Yes. Factors such as the proportion of the defence capability plan you want to put into lift capability, the requirements you need to get the initial forces ashore, the cycle rate of the ships and how the third ship fits into the system are all worked through to make sure we can deliver what we need to deliver.

Mr HATTON—My final question goes to the benefit of almost buying off the shelf and buying a relatively commercial vessel rather than the hardened military one. Given that there is a layered defence, and you have to have a bubble of defence around these things, will these ships be more vulnerable because they are essentially a commercial design? Are you going to harden up the defences they have, or would that cut the speed that they run at?

Mr Gillis—That is going to be a balance in the design phase between which components you harden and which you do not. It is an issue of budget and trade-offs. What we are finding is that the British, the French and the Spanish are all making very similar trade-offs to those that we are. We cannot afford to have, in the long term, a vessel of this size fully hardened for every risk within the budget constraint that we have. You would need to give me many billions of dollars if you wanted to have the fully hardened version of this, fully mil-spec'd, with every piece of equipment category A shock.

Dr Gumley—It is factors of two or three in price, not just a little bit.

Mr SNOWDON—On the Joint Strike Fighter and its potential purchase and impact on this project, the question was asked earlier about the vertical lift. When do you expect there will be a conjunction between the decision on the Joint Strike Fighter and your project?

Lt Gen. Hurley—In terms of decision time lines?

Mr SNOWDON—Yes.

Lt Gen. Hurley—The second pass decision, government approval decision, for the amphibs is late this year—

Mr Gillis—The selection of the vessel is late this year.

Lt Gen. Hurley—in 2005 and the Joint Strike Fighter decision is in 2006-07.

Mr SNOWDON—So if there is no strong indication to you prior to you making the decision at the end of year about vertical lift, you will go ahead without vertical lift. Presumably, there is potential for that contract to be amended or changed. I am making the obvious point that if, for whatever reason, there is a decision taken to buy an aircraft which they intend to land on these vessels, you will need to know before the end of year, won't you?

Dr Gumley—Yes. We are working on current guidance that it is only the conventional JSF that we will be buying.

Lt Gen. Hurley—If we make that decision.

Dr Gumley—If we make that decision.

Mr SNOWDON—If you make that decision.

CHAIR—That completes the evidence. I thank you for your attendance here today. If you have been asked 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 fact and grammar. We are running a little ahead of time so we might move to topic 4, which is Australia's Defence Force contribution to humanitarian relief.

[11.12 am]

SHALDERS, Vice Admiral Russell Edward, Vice Chief of the Defence Force/Chief of Joint Operations, Department of Defence

CHAIR—Welcome. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Would you like to make an opening statement?

Vice Adm. Shalders—Before I make an opening statement on humanitarian relief, I might be able to comment on a question that was put in the preceding session regarding the LAVs that are being deployed, if that would be helpful.

CHAIR—Yes. Warren Snowdon was asking those questions.

Vice Adm. Shalders—It is not correct to say that there will be two different levels of force protection. Force protection, of course, is our highest priority in all of our operations. Amongst the light armoured vehicles that will be deployed to the al-Muthanna province, there will be a number of what are known as gun cars—the LAV 25, which have the 25-millimetre turret—a number of personnel carrier cars and one or two other support vehicles. The first point to make is that PCs are the only vehicles which will be fitted with a remote weapons station. Neither the fitters track nor the ambulance version carries the remote weapons station. Without going into details of the exact numbers of cars, the majority of vehicles will be the LAV 25 version. For the PCs, the standard operating procedure is that they always deploy with two gun cars so they have that inbuilt protection from the two accompanying vehicles, and the PCs that are going will be fitted with the remote weapons station. The majority of them will be fitted before they deploy. Some will have to catch up later. I hope that clarifies the question you had.

Mr SNOWDON—When will the last one be fitted?

Vice Adm. Shalders—It will be in theatre rather than before they arrive. The majority will be fitted before they depart; some will have to catch up. That is simply a matter of obtaining the system and fitting it.

Mr SNOWDON—The departure date is the end of March?

Vice Adm. Shalders—The actual departure date is in April, ready to start operations in early May. Chair, in terms of humanitarian operations, I do have a brief opening statement, if that would help set the scene.

CHAIR—Yes, it would. Thank you.

Vice Adm. Shalders—The first point I would make is that the ADF is not structured—nor is its personnel specifically trained—for humanitarian relief. We are trained and equipped for military operations, including working in extremely adverse conditions; by dint of that, we are

often very well able to support humanitarian relief operations. The force structure of the ADF is aimed to provide the most cost-efficient and operationally effective mix of capabilities for achieving the Australian government's strategic objectives. Those strategic objectives, as they are currently written, recognise that we must be prepared to undertake lower level operations, such as disaster relief. I make the point that 'lower level' in this case refers more to the threat anticipated rather than any suggestion of relative importance.

The force structure developed for defending Australia provides an appropriate force structure for these lower level tasks. In preparing to defend Australia, the ADF has to be, and is, a flexible and mobile force with sufficient levels of readiness and sustainability to achieve outcomes in relief operations. The skills and the capabilities that we need to deploy to sustain our forces for war fighting are fundamentally very similar to those required for humanitarian relief; so we can and do easily adapt our war-fighting force for these types of operations.

I would also like to note at this point—and I hope it is a point of great pride for all Australians—that one of the most important reasons that we seem to be able to do our part in these operations is because of the individual quality of our Australian service men and women. Most recently, in my observation of those qualities in Banda Aceh, I was once again struck by the human touch that our men and women bring to these sorts of operations. Their empathy, their compassion and their understanding for the plight of others were very evident in Banda Aceh, as they have been in every other humanitarian operation. That compassion and understanding is very heart-warming and I think is probably the real reason for much of our success in those types of operations. I think it has been demonstrated that our success in relief operations serves Australia well and has done for many years. We are capable of quickly responding to these sorts of requirements when required by the government.

I am happy to take questions on any particular operation. I do have some detail on Sumatra Assist, if there are any questions on that operation, and also on a number of others that the secretariat indicated you had some questions about. I am happy to take your questions.

CHAIR—Firstly, on behalf of the committee: the contribution that the ADF makes in relation to humanitarian relief is, I believe, almost second to none around the world. I congratulate you and all the members of those forces who gave up Christmas holiday time to come back to work. You did the nation proud in terms of the humanitarian relief following the tsunami, and I think we all stand as one in great admiration for that commitment. Many of us, I am sure, were taking leave ourselves, enjoying some time with our families, wherever that might have been around Australia, often on the beaches. That time of the year is a precious time for every one of us, including members of the Australian Defence Force. It is the way in which they gave up that time in the national interest in a compassionate way, as you have spoken of, that has always stood us so well internationally.

I thank you on behalf of the committee. It really was quite extraordinary, observing from the position that all of us were in—being on leave. We thank you with all our hearts, because it was something so extraordinary and so little known, in terms of the reports that were coming through at the time, with the vast and comprehensive nature of the destruction. To be the first country on the ground 24 hours later was an extraordinary effort. I think I can say that on behalf of all members of the committee.

Vice Adm. Shalders—Thank you. I will ensure that that is passed on. There were many people affected. They know that they have done a good job, but it will be good for them to know that the committee has also passed on its thanks.

CHAIR—I am sure Senator Payne, who also chairs the Human Rights Subcommittee of the Joint Committee on Foreign Affairs, Defence and Trade, will have a couple of questions.

Senator PAYNE—Vice Admiral Shalders, to start with, it would be helpful to have some of the further details you have on Operation Sumatra Assist and then perhaps we will go from there.

Vice Adm. Shalders—As the chair has said, within hours of the disaster occurring, Defence became a very important part of what then became a whole-of-government activity. By international agreement, Australia focused its major effort on the island of Sumatra and support to the government of Indonesia. Defence support became known as Operation Sumatra Assist. That operation came into force on 26 December and continues to this day. Our first humanitarian aid and our first people deployed on 27 December. They arrived in Sumatra on 28 December. Our initial contribution quickly grew to over 1,000 deployed Australian personnel and of course many other thousands back here in Australia supporting them.

Our contributions included delivering humanitarian aid via Air Force C130 aircraft and Army helicopters, and providing medical care—particularly through the Anzac field hospital established in the city of Banda Aceh—and engineering services. The airlift we provided from both Army and Air Force included four C130s which operated in theatre. Another two C130s, a Boeing 707, plus a number of contracted aircraft were used for sustainment support to and from Indonesia and within Australia. We also despatched a Beech King Air light utility aircraft and four army Iroquois aircraft to the theatre. They operated there for some time.

The medical support provided included medical teams, aeromedical evacuation specialists—and those AME specialists were the first into Banda Aceh—and the Anzac field hospital, which was a joint hospital between us and New Zealand. New Zealand provided 35 people to the hospital. Our contribution was about 90 health specialists, who returned only last Friday. That field hospital was set up in an existing hospital which had been ravaged by the tsunami. It provided surgery, intensive care, resuscitation, X-ray facilities, pathology and environmental health services. The engineering services included debris clearance using bulldozers and front-end loaders. We also provided potable water using a number of water purification plants.

HMAS *Kanimbla* carried the engineers and their equipment to the theatre of operations. It also provided two Sea King helicopters. The HMAS *Kanimbla* and the helicopters are still there, as are two large LCM8 landing craft, each capable of carrying 54 tonnes of cargo. The *Kanimbla* also provided medical facilities and personnel. It became an important command and control base and a floating support base providing accommodation, communications and stores. For example, they used to deliver hot meals on a daily basis to those who were working ashore.

Initially when we deployed we planned on staying in the area of operations for 90 days, with constant reviews of that duration. As Sumatra's needs shifted from emergency relief to reconstruction, in discussion with the government of Indonesia and the civilian aid agencies which gradually built up in the area, it became apparent that our support could be drawn down, and that is what is occurring at the moment.

If it is of interest to the committee, I can give you some statistics. Up to 4 March we delivered about 1,180 tonnes of humanitarian stores. We had relocated, or assisted in the relocation of, about 2½ thousand people. We performed 70 aeromedical evacuations and 3,700 medical treatments. We produced almost five million tonnes of potable water. We cleared 9,000 cubic metres of debris. We also cleared about a kilometre of roads in Banda Aceh, cleared many hundreds of large drains and we salvaged 12 fishing boats. I am happy to take any questions on anything I have raised there in relation to Operation Sumatra Assist.

CHAIR—Obviously in all these operations there is also something learnt about the equipment and the way we deploy it. There is no question about the way you deploy it, but there must be lessons about the equipment that we have for these extraordinary circumstances. Obviously, there is a debriefing at some stage about the suitability of the equipment we have. Has that been a focus at all at this stage, with feedback from those deployed in the field?

Vice Adm. Shalders—Yes, it has; it has been a part of the operation from the get-go. A 'lessons learned' team was set up very quickly. It has been driven out of our defence warfare centre based in Williamtown. There is a team that is looking at the lessons learned across the whole gamut of the operation—that is, the equipment that we used; what equipment might have been better; whether better equipment was available to do the jobs that we ended up doing; whether the equipment that we took was the appropriate equipment; whether we could have done the movement slicker, faster, better; and whether our command and control was adequate. All of those questions are being addressed by an evaluation team which was set up, I think, in the first week of January, so perhaps seven or eight days after we started the operation.

CHAIR—So later on this year you will have an evaluation of what lessons were learned?

Vice Adm. Shalders—We will. As we do with more warlike operations, we will have a lessons learned report, yes.

CHAIR—We might even get a briefing later in the year for the committee at one of our Tuesday night hearings. Much later; it is not the most important point around, but it would be interesting to hear about the suitability of all the equipment that we have and whether we have deficiencies. Obviously humanitarian relief for us in our region is important—although we hope we never see a tsunami or any disaster like that again, but we know these things do happen.

Vice Adm. Shalders—One of the interesting things we have done is held a lessons learned conference across the whole-of-government for all of the agencies that were involved in this activity. There is an emergency task force structure that was set up and which ran on a daily basis from the early days of the operation. That brought together all of the government agencies that supported this activity. In early February that interdepartmental emergency task force got together as a group in a facilitated way and went through what the group could learn about the whole-of-government control of the tsunami support activities. That was a very useful activity too.

Senator PAYNE—In the $1 billion package that was announced in relation to ongoing assistance to Indonesia that the joint council arranged, does defence have any role in that process?

Vice Adm. Shalders—We did have a role in developing the package. In fact, our secretary was involved in generating the package as it was announced and then negotiated. But in terms of the practical application, as that assistance comes forward I hazard a guess to say that we will be involved but I do not know the details. In fact, I think the first meeting is at the end of next week.

Senator PAYNE—Is Defence's ongoing role something that, in the future, you might come back to the committee on?

Vice Adm. Shalders—I would be happy to, Senator.

CHAIR—We might make a note of that.

Senator PAYNE—You referred to the drawdown in your opening remarks; I think you said it was occurring now. What remains of our defence presence in Sumatra and what is the time frame for the completion of the drawdown?

Vice Adm. Shalders—To start at the back end of your question, we think that we will be out of Banda Aceh by the end of March. We are working closely, of course, with the Indonesian authorities in terms of exactly when we cease various parts of the operation. In fact, we completed operations in Banda Aceh last week. The ship the *Kanimbla* is still there with all of her assets. We still have most of the engineering plant in theatre. It is on an island separate from Banda Aceh but it is going through a quarantine cleaning process which will take some time. Most of it will come back in the *Kanimbla* if we can clean the equipment by then.

Operations in Banda Aceh have effectively ceased. There are still a few people there. The headquarters yesterday transferred from Medan, which is clear of Banda Aceh. They are now embarked on board the *Kanimbla*. We still have a number of the force support group, the logisticians, working in Butterworth, Malaysia. In total our current contribution as of today is around 600, although that is drawing down quite quickly. Regarding the most recent large contingents that have returned, the health group of about 100 returned to Sydney last Friday and the engineering contingent returned to Darwin on Tuesday. Others are returning as their jobs complete.

Senator PAYNE—I know that as the situation has stabilised a lot of the humanitarian work has been transferred by Defence to specialist relief organisations. How is that process undertaken by Defence? Is it done in conjunction with AusAID and other relevant agencies? How are they chosen and what is their ongoing role?

Vice Adm. Shalders—It is coordinated by the whole-of-government process that I described. In this particular case AusAID is the lead authority along with Emergency Management Australia. Perhaps the best way to illustrate the point is in relation to the medical teams. Back in early February when I was there, an AusAID team had just arrived and they were in the process of taking over from the serving military people who were in the hospital. That AusAID team conducted shadow operations, if I could put it that way, for a period of time. They gradually took over what the military people were doing to a point where the health specialists were able to withdraw and hand over, I think almost on a ward by ward basis, to the AusAID teams as they picked up the role.

The other functions, debris clearance for example, is being handed over to Indonesian authorities rather than NGOs in most cases, and of course that is occurring as required by the Indonesian authorities. We work with a two-star major general up there who has been coordinating that relief effort. We were allocated certain areas to conduct debris clearance in. Once we completed our area we would be allocated another area or somebody else would be allocated that area and we could gradually withdraw. It has been a gradual process. I think the reductions started to occur at about the start of February.

Senator PAYNE—You mentioned, Admiral, as did the chair, that one of the reasons that we are good at this and well regarded in that way is because of the quality of the personnel, the calibre of the ADF participating in these projects, and, as I think you said, the human touch in particular. The individuals who have been engaged in this work would have had some rather confronting experiences, not in the nature, perhaps, of the battlefield but quite different in many ways. They would have engaged in some personal situations, particularly on medical teams, which I imagine would have also been quite confronting. What support is provided to those people on return by the ADF and in the field if it is required?

Vice Adm. Shalders—We are very conscious of the issues that our people have to face. Throughout the operation we have had support in place on the ground in Banda Aceh. We have had psych teams there to support as well as chaplains. In addition to being on the ground in Banda Aceh we have had similar teams in Butterworth who have either conducted visits into Banda Aceh or have been in Butterworth as people have come out of Sumatra. They go through a debriefing cycle in Butterworth. These people of course will monitor their wellbeing for many months in the years to come. It is not simply a matter of conducting debriefing and counselling. It is something we are going to need to watch. We are very conscious that we will need to do that. We have measures in train to ensure that we watch the future wellbeing and health of the people who have been involved.

Senator PAYNE—In relation to your remarks about what I would broadly describe as follow-up on an ongoing basis, what measures do you have in place?

Vice Adm. Shalders—I am not a psychologist; I cannot go into too much detail.

Senator PAYNE—Happily, neither am I. I am worse; I am a lawyer!

CHAIR—I thought you were a senator.

Senator PAYNE—They're worse; I know!

Vice Adm. Shalders—We have a number of psych teams, critical incident stress management teams and people who are specialists in this area. The process they go through is, I believe, that early counselling and debriefing occurs in theatre and then, in this case, back at Butterworth and then back in Australia. The engineers, for example, who returned on Tuesday are presently on a period of leave. Once they come back from leave they will go through further counselling and support. Exactly what form that takes and how it is done I am not entirely certain.

Senator PAYNE—Perhaps you could assist the committee with a response to that question on notice.

Vice Adm. Shalders—I can.

Senator PAYNE—A couple of members of this committee, including Senator Johnston and me, have been engaged, in another incarnation, in another inquiry which has concentrated in some depth on these issues. It is a matter that we will be continuing to turn our minds to and we would appreciate ongoing advice from the department and ADF.

Vice Adm. Shalders—Our specialists can provide much more detail on exactly how that is done.

Senator PAYNE—Thank you.

CHAIR—In relation to the humanitarian relief deployment in the tsunami area, do the personnel deployed have any special entitlements?

Vice Adm. Shalders—This was conducted as a peacetime operation under our nature of service declarations, so there were no special entitlements in that sense. They were given a special monetary allowance to account for some of the hardship they were affected by. In this case, that was advanced. There is normally a 30-day qualifying period for what is known in my service as hard lying allowance. In this case the qualifying period was not required and amounts were set for various parts of the operation. Those who were conducting, for example, drain clearance were on the highest rate of that daily allowance whereas those who were providing logistics support in Butterworth in not quite so difficult conditions got less. Beyond that it was an activity of a peacetime nature.

Mr HATTON—Given the number of incidents where forces have been called on to assist people in humanitarian situations, do you think there needs to be better preparation generally through the forces for these contingencies—given that the fundamental roles are completely different?

Vice Adm. Shalders—No, I do not think you can prepare for the sorts of contingencies that we are often confronted with. Having said that, I go back to my opening statement and say that if you are prepared for the war-fighting activities, which of course is our raison d'etre, then you can do these sorts of things. That was demonstrated in this operation and the many other humanitarian assistance disaster relief operations we have been involved in over the last two years, for example. Some of those are listed in the annual report. We need to look at whether we have the right equipment. Beyond that, in terms of preparation and training, our current package of training and our current preparedness and readiness covers most of the things we might be required to do. Then, we have to be adaptable if there is something there that we have not confronted before.

Mr HATTON—Without referring to the specific problems encountered by people in dealing with the situation in Banda Aceh, can you generalise in terms of the effect that that experience has had on the troops? Because they have been providing direct service to people in the most dreadful circumstances, I would imagine that that would have buoyed and lifted them in terms of being able to do so much at a time when they were needed so greatly.

Vice Adm. Shalders—I think that is exactly right. They have been buoyed and lifted. Certainly during my brief visit I saw that they were very proud of what they were doing. Those who have returned remain very proud of what they have been able to achieve. They can see the direct results of their efforts. I think it has had a very positive impact on their self-confidence, self-esteem and belief in themselves.

Mr WILKIE—I also want to congratulate Defence on its deployment. You are well known for the magnificent job that you do in this area, and yet again you have shone for the country and it is fantastic. Thank you for that effort. I do not think that the work that Defence does in the humanitarian area can be underestimated in terms of protecting Australia. It shows the rest of the world, particularly our region, that we are prepared to get in there and help when things are difficult. In a military sense that should not be underestimated. I would be very curious to know, on notice: given that these operations are exceptionally expensive and they come out of the blue, does the funding for the operations come out of the defence budget, or do you get a special allocation from government?

Vice Adm. Shalders—We will be seeking supplementation, Mr Wilkie.

Mr WILKIE—Good.

Mr WAKELIN—This is perhaps a slightly more difficult question: Banda Aceh has had some particular local difficulties over the years, and I am interested in your perception of the goodwill generated between your people, the local people and the Indonesian people generally. There were a few comments floating around at the time; and obviously we got through that very well. But I am interested in goodwill in the longer term.

Vice Adm. Shalders—On the ground—I will start with the simple end—it was very evident that there was a great deal of goodwill, not just to the Australians but to all the other contributing nations and the non-government organisations that were there. It was very apparent that they needed help, they were very conscious that people were there to help, and the goodwill on the ground was palpable. In terms of our relationships with Indonesia, in a military sense that was outstanding. As I mentioned, there was a two-star general who worked in Banda Aceh. He worked very closely with our commander, Brigadier Chalmers. Back in Jakarta, our defence attache and the embassy worked very closely with the Indonesian agencies—in particular TNI—and there was very good cooperation between Australia and Indonesia across-the-board, I would have to say, but certainly military to military. That is something that we are very conscious of in the normal course of events. I think that our activities in support of Sumatra will be very useful as we take that relationship-building further into the future.

Mr WAKELIN—Thank you. I just have one quick question on another issue in the humanitarian area: do we still run an Army Aboriginal program?

Vice Adm. Shalders—We do.

Mr WAKELIN—Do we record it in our comments in terms of the humanitarian program? Does that get a report or mention somewhere?

Vice Adm. Shalders—No, it does not, but it is covered in the annual report. It is known as ACAP and it is an annual program. I cannot quite recall where the program is taking place this year, but last year it took place on Palm Island. I think various members have actually joined this as part of the parliamentary program. I believe it is also open as an opportunity this year in the ADF parliamentary program.

CHAIR—Thank you, Vice Admiral Shalders. There may be some questions that we need to place on notice for you. I think there are some questions on notice anyway for some additional information. I thank you also for allowing us to bring you forward a little bit. It may help your time schedule today. The time that you give to the committee is appreciated, and we know that your time is valuable. I thank you for your attendance here today. If you have been asked 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. Once again, I reiterate the gratitude of the committee for the way you and all members of the Australian Defence Force have conducted the humanitarian relief in relation to the tsunami. It gives us all enormous pride as Australians to see how that was responded to so rapidly.

Vice Adm. Shalders—Thank you.

[11.45 a.m.]

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

GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation

MOORE, Mr Ken, First Assistant Secretary, Financial Services, Department of Defence

SMITH, Mr Richard, AO, PSM, Secretary, Department of Defence

CHAIR—Welcome. We are dealing here with the department's qualified financial statements. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Would you like to make an opening statement?

Mr Smith—I would. I would like to ask my colleagues, the Chief Finance Officer, the CEO of DMO and others, to come to the table because they are much involved in this work with me. Defence, as you know, is one of Australia's largest corporations. We have some 90,000 employees, in addition to contractors. We have more than $52 billion worth of assets. We have some $6 billion worth of liabilities and many hundreds of properties and we write something like 5,000 contracts a year. By any standards, that makes us one of Australia's biggest corporations. Unlike all the other corporations anything like this size, though, Defence does not exist to make a profit; it exists for quite different reasons. Nevertheless, we are being asked to achieve exactly the same accounting standards as other corporations. We accept that challenge. We also accept that, at present, we are quite some way from achieving those standards. Ever since we have been audited against accrual standards, we have been qualified. That has been my problem for only the last two years, although I have done some research into the history of the issue before my time.

Last year, as you will know from the annual report, I took the unprecedented step of saying that I could not form an opinion on the organisation's financial statements. I did not reach that conclusion without considerable reflection and consultation with the audit industry. The advice to me was that, while in the past an 'except for' finding might have been acceptable—and would still be in some countries—it would not be acceptable in the Australian audit environment at this time, shaped as it is not only by a strict application of accrual standards but also by an increasingly rigorous culture generally. That was a regrettable outcome for Defence, but a realistic one. It would not have been productive to hide from it.

Let me say again, though, as I have on a number of occasions elsewhere, that, as the Auditor-General confirmed, our statements in relation to cash management, specialised military equipment and ordnance were found to be true and fair. Let me also confirm that the effectiveness of our organisation in delivering the outcomes for which it exists have not been impaired. That has been demonstrated very fully in all of our recent operations, including Operation Sumatra Assist. As you rightly remarked earlier, Chair, our people responded very quickly and very efficiently to the demands put on them on the day after Boxing Day. Ironically, one of the parts of our organisation most criticised for its management of inventory, Moorebank,

responded brilliantly. There were no difficulties found in filling the planes from Moorebank very quickly.

What are we doing about the problem? We had remediation plans in place last year, but they did not achieve what we wanted. In the meantime, other problems emerged, in particular those relating to inventories and property evaluations. We now have much more tightly prepared remediation plans embracing all of the major issues. I am hopeful that we will show improvement this year, even if for technical reasons we are unable to transition from a no opinion finding back to an except-for finding. That said, the long-term objectives that we seek will not be achieved by simply remediating the specific problems that we now face. In the long term the solution lies in a fundamental transformation of the way we do our business in this area. In short, we have to move to a stronger regime of financial management controls. That can only be achieved by our adopting full balance sheet reporting every month from every service and group. We have begun that process. I am happy to talk to you further about it this morning.

I am often asked whether I have encountered resistance to these changes in Defence. Let me anticipate that question here. The answer is yes, there has been some resistance. Some of our people have asked how all of this effort that we are having to devote to remediation work and new business processes will help them do their core business better—that is, the business of war fighting. There has also been some concern about the resources that we are having to divert to our remediation efforts. All that said, I am very happy to say that all of our service chiefs, and I believe all of our senior leadership group, fully understand what we have to achieve and are behind the efforts that we are making. Indeed, all of the chiefs sit with me on our financial statements project board. That is necessary because not all of the people who have to deliver the outcomes for which I am accountable are in fact accountable to me. We are very willing to go through with the committee the nature of the problems, should you be interested in those, and to outline our remediation plans and transformation projects in more detail. We would also be happy to discuss international comparisons with you, should you be interested in those. Thank you.

CHAIR—Thank you. As we have Dr Gumley and Mr Bennett here, I advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Who is going to open the batting?

Mr WILKIE—Mr Smith, you mentioned that there have been some problems and that you have some remediation plans in place. If you could outline those I would be very interested in hearing what you see as having been the problems of the past and how you are going about dealing with those issues.

Mr Smith—We now have 14 remediation plans. Three of them are what I call general plans and 11 of them are very specific, relating to specific items that the Audit Office and our own auditors have identified. I am happy to go through those with you one at a time. The first, G1, general plan 1, is about financial reporting framework. Perhaps I will just enumerate these and you can ask Mr Bennett or Dr Gumley to come back to them. G2 is improving the annual audit process with ANAO—there are timetables which we have not been good at keeping to, for instance. G3 is a financial management and systems training program, improving our skills in financial management. You will be aware that the transition to new accounting standards and a further transition in the future to the Australian Equivalent of International Financial Reporting

Standards are all placing very heavy demands on the accounting industry. We have found that we cannot recruit all the skills that we need. We have to train a lot of people ourselves. We have quite a lot of work going on in that area.

Then there are the specific plans. S1 is stores records accuracy—in short, inventory accounting; S2 is general stores inventory pricing—there is a very interesting, difficult issue of doctrine, if you like, around the way that we price our inventory; S3 is supply customer accounts, which is a particular form of inventory management; S4 is explosive ordnance, again a pricing issue; S5 is military leave records; S6 is civilian leave records; S7 is executive remuneration, which in effect follows from the two previous problems; S8 is property valuations; S9 is a broad plan aimed at preventing the escalation of findings that the ANAO has identified as category A or category B findings—in other words, the ones that are small scratches tomorrow but may become serious sores the day after. S10 is stockholding controls, which relates to what used to be called asset write-offs and assets first found; and S11 is a plan for the improved management of items not in catalogue—that is, they are not entered onto inventories. Those are the 11 specific plans and the three general ones. They reflect pretty well where the problems are. We would be happy to outline them further.

CHAIR—Do all those silos—if we can call them that—talk to each other? How do you know what the other ones are doing? Do they operate exclusively as a silo?

Mr Smith—They certainly do not. They all report to a Financial Statements Project Board, which I chair, which the service chiefs are on and which we have representatives of the department of finance and a private sector financial person on. The work on these projects is pulled together by project officers, who work alongside each other.

CHAIR—Defence reports that a new travel management system was introduced, which was estimated to provide savings of up to some $21 million per year. Are reports that the rollout of this system was suspended after a trial using senior Defence staff accurate?

Mr Smith—Not that I am aware of.

CHAIR—A travel management system was introduced and was then—

Mr Bennett—I am aware that we went through a progressive rollout of it so that we could introduce the card, trial it with a limited number of people, revise procedures and then extend the use of it. But I am not aware that it was suspended. In fact, it is already demonstrating good results.

Mr Smith—Mr Moore, who is currently in the CFO group but was formerly the head of our National Operations Division, was involved in rolling out that project. He could probably speak to it with a bit more authority.

CHAIR—Mr Moore, I should advise you that, although we do not require you to give evidence on oath, these proceedings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses.

Mr Moore—Defence is embarking on a travel reform project. The rollout of a Defence travel card is the first phase of that particular project. It applies to Defence business travel. We have many other forms of travel, such as relocation travel when an ADF member is posted from one location to another; group travel; and exercise travel. The scope of the travel card at the minute is limited just to business travel. We have a contract with Diners Club to roll out up to 20,000 cards. So far we have rolled out just over 3,000. It has been a progressive rollout, starting with the senior leadership group, both military and civilian, in Defence. That has proved successful. We found a number of teething problems with it, which we are addressing. The card has now been rolled out to a further group across Defence and that rollout will continue over the next six to 12 months. So that certainly has not been suspended.

The travel management system that you referred to is a systems application—an online booking tool whereby members can go online and book with Qantas, our airline provider; with Hertz, our rental car provider; book a hotel room and so on. We are evaluating tenders for that travel management system. So it is a total travel reform program. Of the $21 million savings that you were referring to, up to about half of that is related to goods and services tax that we can recoup by using the card to buy hotel rooms or restaurant meals, which we cannot get back at the moment because we have been paying cash to our people and it has become a private transaction.

Senator JOHNSTON—Did we go to tender for all of those service providers?

Mr Moore—Yes.

Senator JOHNSTON—So Diners Club won the tender to provide the card.

Mr Moore—That is right—in open competition.

Senator JOHNSTON—How long has this system been in operation?

Mr Moore—We started rolling the card out about August last year to the senior leadership group, and between August and now we have rolled out about 3,000 cards.

Senator JOHNSTON—Anticipating how many cards, ultimately?

Mr Moore—Up to 20,000.

Senator JOHNSTON—Twenty thousand when we have got 52,000 service personnel.

Mr Moore—These are just members of the ADF and civilian employees who need to travel on business.

Mr Smith—Most often.

Mr Moore—Obviously, we will never issue a card to a recruit on enlistment in the ADF, so this is just business travel. We will then do a total evaluation of the success of these reforms to business travel and make a decision through the secretary and Chief of the Defence Force whether it can apply to other forms of travel in Defence.

Senator JOHNSTON—So Qantas won the tender for the air component of the plan.

Mr Moore—Our contract with Qantas is longstanding and precedes these reforms. The contract is with Qantas Business Travel and, apart from booking the airline seat, we also have the ability to book hotels and car hire through them. We pay extra for Qantas to do that and, in consultation with Qantas, we are looking in the future to buy the airline seats off Qantas and book direct with Hertz, who is our car rental provider. Rather than paying a fee to Qantas to do that for us, we believe we can do it more efficiently ourselves. We have gone to the hotel accommodation industry looking for proposals on how we can be a smarter buyer of hotel rooms. At the minute the individual traveller has the right to decide within accommodation limits. We believe we can provide our members with a better quality hotel room, particularly through a brokerage arrangement like most of us do on the weekend for private travel with a dotcom company, and they are very interested in responding to a tender.

Senator JOHNSTON—What is the term of the contract with Qantas and when is it up for renewal?

Mr Moore—From memory—and I might have to take that on notice to get the right answer—the main contract was due for expiration on 30 June this year, and we have put a one-year extension in place. I would like to check that fact and come back to you if that is wrong.

Mr SNOWDON—Can you tell us what savings have been achieved by changing the contract arrangements with Qantas on remote locality leave travel?

Mr Moore—That is a longstanding issue, and I will probably have to take that on notice. My understanding is that the changes to remote leave travel entitlement was to reflect what the department would have paid if the member had actually availed himself or herself of our contract rather than paying them the full fare entitlement for use of own vehicle.

Mr SNOWDON—I am fully aware of the policy. The chairman here was the minister at the time and he and I have batted a few balls about this particular issue, so I am very keen to know how it has developed and what savings have been achieved over time as a result of the changes to the contract arrangements.

Mr Moore—I do not know that; I would have to take that on notice.

Mr HATTON—I would like a bit more explanation on the savings of $10½ million or so in relation to going over to this new system using the card. Is it because it is not a set of cash transactions but done through the card as a business arrangement that it does not attract GST?

Mr Moore—The savings, estimated at $21 million, have a number of components. The big one is savings associated with the input credit for goods and services tax that we are losing now because once we put cash into a member's bank account it becomes a private transaction between that member and the hotel or the restaurant. The other savings are associated with, once the travel management system is in place, members being able to book online themselves rather than relying on a bevy of travel clerks that we have got right across Defence doing that for them, so there is an actual staff reduction saving that we have estimated as well.

Mr HATTON—Did you look at, given the size of the organisation, doing your own card rather than going to a commercial provider? Was that just too difficult?

Mr Moore—It was too difficult. Everywhere that Defence travels, which varies greatly domestically and overseas, we had to go for an internationally accepted and recognised credit card, and even then we go to places where Diners Club or any other card are not recognised. Diners are putting an enormous effort into remediating that situation when we bring it to their attention. Some of the places that particularly the ADF go to still require a cash advance or they use the card before they leave Australia. We are trying to be flexible about how this is applied to make sure people are not caught short if their card is not accepted.

Mr HATTON—What is the situation with the points? Are points accruable to Diners and, if so, are they individually given or do they revert to Defence? Is Defence able to use those in some way?

Mr Moore—There are no points associated with the cards. It is the same on Qantas. We traded in the frequent flyer points for an extra discount.

Mr HATTON—You did that in order to get the lower fees and benefit.

Mr Moore—Yes.

Senator PAYNE—In relation to remediation plan S8 on property valuations, I am interested, Mr Smith, in the evidence you gave to another committee recently about the relationship between the Australian Valuation Office and Defence and some of the problems that apparently arose in the nature of the advice given to the AVO by Defence. What component of the remediation plan is addressing that?

Mr Smith—I will reply generally to the question and then ask Mr Bennett to address it more specifically. What I did say to another committee was that our valuation work is done for us on contract by the Australian Valuation Office. They work off a contract that we write for them. It would appear that the work that we contracted them to do was not exactly what should be done to meet audit standards. They met the contract, but we fell short of what was needed. So that has had to have been rewritten and restructured, and the AVO have taken on more staff to do the new valuations. Mr Bennett may wish to add to that.

Mr Bennett—Some of the specific problems, as we saw them, were that the method evaluation was not made clear. We were not asking that it be made clear and they were not making clear the method of valuation used and that made it is hard to know whether—

Senator PAYNE—Was that an audit requirement, that the method of valuation be made clear?

Mr Smith—There is a particular method you have to follow to satisfy the audit standard and we did not specify it.

Senator PAYNE—You did not specify that. I see.

Mr Bennett—I think one of the key parts of the problem was that we have lots of properties that are of a very low value—something below a threshold value of about $250,000—and that adds up to a total property portfolio of those items of about $1.3 billion.

Senator JOHNSTON—Can I just clarify that. Did you say you do not have a capacity to analyse property that is of a low value?

Mr Bennett—No. We had not instructed them to look at properties below that value. Because there was a lot of movement in the property market in those years, we had not recorded the uplift in value of those properties. In their own right, it is a relatively small amount. But, because Defence is such a large beast, it all adds up and therefore there was a danger of there being a misstatement in the accounts.

Senator JOHNSTON—Predominantly small depots and other housing situations were not captured?

Mr Bennett—Yes, properties below $250,000.

Mr Smith—That means each building on each site; it does not just mean a total site.

Senator PAYNE—Are they valued separately?

Mr Bennett—All the buildings and all the properties have to be valued.

Senator PAYNE—Are you confident that the remediation plan in this regard is addressing those problems?

Mr Bennett—We have put the valuation letter through very extensive review both internally and with external expert opinion to make sure it meets all the current standards and anticipates all the Australian equivalents to the international financial reporting standards and also all the latest issues through the Urgent Issues Group. Yes, we are very confident. On top of that, we are also making sure that we do, as it were, spot checks of the valuation work to make sure that we are confident they are applying all of those instructions in an appropriate way.

Senator PAYNE—When is the next big test, if you like, of when you will hopefully be proven correct?

Mr Bennett—I guess the next annual report, and the next audit opinion is the ultimate test—the grand final.

Mr Smith—The progressive hard close that we are doing is at the end of March and that will give us an indication, though the AVO will not necessarily have finished all of its work by then.

Senator PAYNE—March, did you say?

Mr Smith—Yes. That will give us some indication—to confirm that we are on track. And, as Mr Bennett said, we will be doing spot audits of the work samples to see if they are what is required.

Senator PAYNE—Thank you.

Mr SNOWDON—What are the resource implications of this list of remediation projects?

Mr Smith—They are very considerable. I think that, in staff years, it is certainly not less than 600 staff years and probably more. That is very difficult to calculate because it filters right down to relatively low levels in ships, on bases and so on. In money terms, $12 million is what we are spending on consultancies and so on, to get the right kind of expertise in, but I will not be surprised if that figure has to grow as we disclose more problems into the future. To put that in perspective, in the United States the Pentagon is committing $1 billion to its financial remediation work.

Senator JOHNSTON—I hope we do not measure ourselves by that—

Mr SNOWDON—Or their budget!

Mr Smith—Of course the Pentagon have never submitted auditable statements that I know of! They had a mission statement to do that by 2007 but have now pushed that date out.

Senator JOHNSTON—Have you seen the deficit they are currently running?

Mr Smith—Yes. It is not unrelated.

Mr SNOWDON—In terms of stores and inventories, how much of a problem has the quality of data and data entry processes been?

Mr Smith—That has been a significant part of the problem. As I indicated earlier, there is very little doubt that the storemen and other people who work there, military and civilian, know where things are when they want them. The issue is how they enter the information into the records. They have to enter not just the movements of particular items but also their values, their prices, at any one time. One of the deficiencies we have had in our systems is that the pricing data mechanism was unreliable. People could put in a zero value and that would be sufficient to enable the system to proceed to the next stage. You cannot do that now.

Mr SNOWDON—How quickly will that be done? I assume it is part of your remediation.

Mr Smith—We are doing a couple of things here. The first is the 100 per cent stocktake that we have going on at Moorebank and the other 20 warehouses and in the supply customer accounts. The second is an increased focus on training people to get them to use the system as it is should be used. It is a very big task, especially when personnel rotate all the time and you have to keep updating their training and so on in these areas.

Dr Gumley—Looking forward, the problem does not just go away if you fix it now, because under the new accounting standards we are probably going to have to put two price codes for every inventory item in the system. The system is set up to accept only one price code, so there is going to be very substantial cost and effort required to go through the many lines of entry and put in second prices everywhere.

Mr SNOWDON—How many financial management processes currently exist in Defence?

Mr Bennett—At the lowest level, there are something like 985 financial processes that we have identified. That is at the lowest task level.

Mr WILKIE—You mentioned that people could put a zero-dollar value on it and it would still be recorded. Can they, say, put a dollar value on it now and get away with the same thing? Or would they actually have to be accurate?

Mr Bennett—The system does not allow them to enter a zero-dollar value, because they are concerned about the existence and the movement, not the pricing.

Mr Smith—As it now stands, yes.

Mr Bennett—Yes, as it stands.

Mr WILKIE—What I am saying is that, if they can put in a zero-dollar figure and account for the item, that is one thing. But if they wanted to put a $1 figure in, they could end up with the same sort of problem.

Mr Bennett—Yes.

Mr WILKIE—How would you go about putting in a system that would deal with that?

Mr Bennett—What I would be looking for in a future system is one that does a price reference or a price look-up, rather than allowing operator entry of that price. So, if you can remove the human interaction then you would eliminate the problem.

Mr SNOWDON—Going back to the financial management statements, what process have you implemented to research rationalisation of those processes?

Mr Bennett—I have had under way for over a year now a financial mapping process to go through and identify, using a better practice guide, all the financial processes that are performed within the CFO group and then across Defence as a whole. I was keen to make sure that as I upgrade financial systems, as I train people and as I instruct people we have an authoritative reference source for every financial process in Defence. That is not a small task but it is a necessary precursor to doing things properly.

Mr SNOWDON—What is the Financial Statements Project Board?

Mr Smith—That is the board, which I chair, that oversights these remediation plans. The vice chief, the three service chiefs, the CFO, critical group heads and two external representatives—one from the Department of Finance and Administration and one from the private sector—are on this board.

Mr SNOWDON—So it is an overseeing audit process.

Mr Smith—Yes. We have a Defence audit committee as well, which has two external members on it. They keep some oversight. But this particular set of projects is driven by that board.

Mr SNOWDON—This is not relevant but my first job after leaving school was in the internal audit section of the then Department of Army.

Mr Smith—Let us know if you become available again, Mr Snowdon!

Proceedings suspended from 12.17 p.m. to 1.48 p.m.

ADAMS, Rear Admiral Brian, AO, Head, Defence Personnel Executive, Department of Defence

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

GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation, Department of Defence

SMITH, Mr Richard, AO, PSM, Secretary, Department of Defence

SPENCE, Air Vice Marshal Christopher, AO, Commander, Joint Logistics Command, Department of Defence

WILLIAMS, Dr Ian Sidney, Chief Finance Officer, Defence Materiel Organisation, Department of Defence

CHAIR—I thank defence personnel for their patience. We will resume on topic three, Defence's qualified financial statements.

Mr SNOWDON—Mr Smith, with regard to the Financial Statements Project Board, I understand that a Department of Finance and Public Administration officer sits on that board. Is that right?

Mr Smith—That is correct.

Mr SNOWDON—Is that a successful fit?

Mr Smith—It has been. I think that was a decision taken by government at the end of last year. I think he has been to three meetings. He has now been appointed as Auditor-General, so we will have to find someone to replace him.

Mr SNOWDON—He now knows what is going on inside too.

Mr Smith—Yes.

Mr SNOWDON—Could that be a positive outcome?

Mr Smith—Yes, it could be. Finance has been very helpful in this matter.

Mr SNOWDON—In terms of the software that you are using for these 900-odd management processes, is there some sort of consultancy looking at the software packages which are used for financial management?

Mr Bennett—In Defence we have got major systems supported by a number of subsystems, so the core general ledger is SAP. People related information comes in via a PeopleSoft solution

and the logistics information, the inventory information, is held on a Mincom based solution called SDSS.

Mr SNOWDON—Have there been any difficulties with the software in use?

Mr Bennett—Not in a day-to-day sense. I guess it gets back to the quality of data issue that comes from subsidiary systems.

Mr SNOWDON—Is that a software issue, an instruction issue or an input issue?

Mr Bennett—That is more an input issue and a lack of process control issue.

Mr Smith—Is it a functionality issue as well?

Dr Gumley—Yes, there was a functionality issue with SDSS. We had to get it talking better to the financial systems, and that has been part of the current remediation program.

Senator JOHNSTON—I remember, back in late 2002 or early 2003, I was asking whether we had total asset visibility. I was told categorically that we had, and I was very surprised with that answer. After about five or six more questions, I was told we will soon have it. Where are we at with that now? I would have thought that before we can do a proper valuation, we would want to have a credible assessment of what we have got.

Mr Smith—If we are talking of land and buildings and property, yes. If we are talking about items of inventory—

Senator JOHNSTON—That is right.

Mr Smith—there are still some issues there.

Dr Gumley—There is a category; it is one of the 11 remediation issues. There are things that we call assets first found. Unlike many trading enterprises, where you take something to a retail shop and sell it and the consumer takes it away and you never see it again, we have this characteristic in Defence where you book stuff out of a store and then book it back in, book it out, book it in—it goes to a supplier, it goes to an operational unit, it goes to a ship, and then comes back in. You are constantly keeping your inventory moving around and around. There have been data process problems in the past where some of those assets have got lost, but not really lost. Everyone knows where they are physically, but they have been lost off the computer system. Then they have to get booked back into the store and that becomes an asset first found. So you are getting these write-ups and write-downs on the systems. It has been a problem, and it is continuing to be a problem. It is two of the remediation issues we are talking about in these 11.

Senator JOHNSTON—In effect, it is a moveable feast: at any given moment we have got some on, we have got some off, we have got some being put on and we have got some falling off. Obviously, with the number of assets we have got, there is a potentially huge fluctuation at any given time. What are we doing to try and ameliorate that problem? I am sure other departments have it and I am sure other corporations have it; what are we doing about it?

Mr Smith—Certainly other departments would have some of it, but nothing in the proportions that we have because we have about 75 per cent of government fixed assets. Corporations have been managing that against decent audit standards for many years; we have not been, and that is part of our remediation plan.

Senator JOHNSTON—Correct me if I am wrong, but it seems to me that we will have qualified audit certificates from the Auditor-General for many years to come. I hope my pessimism is wrong.

Mr Smith—I realistically have to say that we will have some qualifications on our statements for some years to come, yes. Some of these we might have to accept. For instance, there will be a question about how long we go on arguing about pricing policy for inventory acquired some years ago. We could go on trying to develop a position on that and never agree and just go on committing people and effort to it, but it might be better to say: 'Okay, we'll live with that scar. It won't be enough to take us over the edge in itself, but it'll just have to sit there rather than try to spend another $10 million fixing it.'

Senator JOHNSTON—Let me try to understand the process. Have we asked ANAO what they will accept?

Mr Smith—We have a continuing dialogue with ANAO about that. They are very cautious about giving us what they would consider to be management advice, and I believe that is rightly so. We develop proposals, we take them to ANAO, there is a discussion about them and they say, 'That won't work for these reasons.' So we go back and try to develop a new proposal. What we did on the pricing issue with FED LOG was an example of that. Dr Gumley might like to talk about that.

Dr Gumley—Yes, as an example we have a lot of inventory in the system from many years ago. We did not have to record the value of it up until the mid 1990s so we have to look for a pricing system. We did not have the paper invoices from the 1970s or 1980s so we have to look for a surrogate. The Americans have a huge database called FED LOG with virtually every military inventory item or asset on it with a price against it. Given that the American government buys at the cheapest price and we always buy at a dearer price, at least using FED LOG would put a floor under the cost of our inventory. That was the theory but that was not acceptable.

Senator JOHNSTON—Why not?

Dr Gumley—There were found to be exceptions to the pricing when they did a sample of it. For some of the records we did have, our prices were not the same as the FED LOG ones.

Mr Smith—And the gap was quite wide.

Dr Gumley—My argument is that it would be because you are just trying to get an average surrogate rather than the value of every item, item by item. From a management point of view, we need to know the pricing approximately. We do not need it down to the last dollar and cent. For example, a military commander might have to use, say, a hand grenade, which might cost $200. He is going to use that hand grenade whether it costs $189 or $201. It does not really

matter. You can get yourself into endless circles of arguing about the last little bit of pricing. It does not affect management or operations to not have that number exactly.

Senator JOHNSTON—Aren't these qualifications not so much about the integrity of the value but just about having a value?

Mr Bennett—In some of the older pricing issues it is just about having a value. The problem is that because the records were not kept and SDSS does not give you a firm pricing control we cannot have certainty about the recorded value in the system. That is one issue amongst a number of qualification issues.

Mr SNOWDON—Is this for all items on the inventory, including ordnance?

Mr Bennett—It is a combination. Last year there was a quantities issue. We were not sure that the quantities recorded in the system reflected our actual stock holdings. As well, there is this longer term pricing issue. We have the combination of both. The 100 per cent stocktaking and any other work we can do around the controls will help with the quantities issue, which I stress is not around EO or things like grenades. But then we still have this almost perpetual problem about the historic pricing.

Mr SNOWDON—What is the issue on explosive ordnance? It is just the pricing issue?

Mr Bennett—Just pricing.

Dr Gumley—Yes, we know how much we have and where it is. And they are the two key questions with EO.

Senator JOHNSTON—But we do not know what it is worth.

Mr Smith—We do not know the value of ordnance purchased before 1998 or something.

Mr Bennett—We cannot substantiate by documentation the price at which we purchased that item.

Mr Smith—Back beyond a certain date, which is?

Mr Bennett—There are several classes here. There is a pre 1997, 1997 to 2000, et cetera.

Senator JOHNSTON—Are you of the view that no internal mode or valuation is going to satisfy the auditor?

Mr Bennett—No, we are not yet of that view.

Senator JOHNSTON—You just keep submitting until they say yes.

Mr Smith—We have not found the key yet.

Senator JOHNSTON—And they are not going to tell you what the key is.

Mr Bennett—They are there to perform an independent review.

Senator JOHNSTON—Not to advise.

Mr Bennett—They cannot compromise their independence.

Mr Smith—We have gone to other auditors—the big audit firms—and asked how to address this problem. They are working on formulas for us.

Senator JOHNSTON—They are looking to give you a credible basis to value that ordnance?

Mr Smith—Yes, that is right. As I have said, if in the end we cannot agree on one of these with ANAO we may have to say, 'All right, we will live with that scar.'

Senator JOHNSTON—Those product consultants have assured you that they will be able to give you a credible basis to satisfy the auditor?

Mr Smith—They say to us, 'This is how we would do it in the private sector'—given of course that we have some unusual forms of assets. 'This is the best way we would approach it in the private sector. Let us see if that satisfies ANAO's concerns.'

Mr WILKIE—How many line items are we talking about?

Mr Smith—I could get a precise figure from Air Vice Marshal Spence or Brigadier Edwards. Do you mean line items for ordnance or inventory?

Mr WILKIE—I mean in total. If you are talking about inventory, is it 100,000?

Mr Smith—Air Vice Marshal Spence is in command of the joint logistics organisation.

Mr WILKIE—I am trying to understand how big the task is to try and go back and fix it.

Air Vice Marshal Spence—Perhaps I could give you an idea of the scale of the endeavour that the command has. I have seven business units across the whole of Australia—in each of the states and most of the capital cities. Within those seven units, there are 31 sites that actually have warehousing facilities. The total number of warehouses, excluding those that are to do with explosive ordnances, is in the order of about 148, so there are quite a large number that we have. The number of stock codes—discrete and different types of items—is in the order of about 1½ million different types of stores, so it is quite large.

Mr WILKIE—I used to be in purchasing; I was a purchasing manager in charge of stores but we only had 100,000, so I can appreciate that.

Mr Smith—I believe 1½ million line items are covered by that and particular items underneath that.

Air Vice Marshal Spence—These are stock items.

Mr WILKIE—How many of those would not have a dollar value? That is the problem you are dealing with, isn't it?

Air Vice Marshal Spence—I expect they all would.

Mr SNOWDON—It is just what the value is.

Air Vice Marshal Spence—Yes.

Dr Gumley—It is not only those that have a known dollar value, it is also those that have an implied value. You cannot substantiate the value that is actually in there; you have got no third party objective evidence.

Senator JOHNSTON—Are we saying that in order to get an unqualified audit certificate, we have to have a rolling audit function in each of your remediation program projects? So do you get a list of recommendations, you comply with those recommendations and you are re-audited so we know the repairers are doing the right thing, if you follow me. What we have created is a multiple layer of remedial activity that, in itself, needs to be audited to see that it is headed in the right direction?

Mr Smith—Yes. For instance, there is the stocktaking program, which aims to remediate the general stores qualities issue. We will complete 100 per cent of the stocktaking, where we are doing it, by 31 March. That will be an achievement in itself, but what will be crucial is what happens between 1 April and 30 June. Having got the stock correctly recorded, what then happens when it is moved in and out? Do the users then continue to record it properly? The ANAO will come along—and our own auditors will come along, incidentally—and do sample audits, spot audits, to see that that is happening. So we might have it clean on 31 March, but over the next three months there is a lot of operational movement; it might slip again. But that is the process, as you describe it.

Senator JOHNSTON—What is all this costing per annum?

Mr Bennett—The stock take just in one warehouse is approximately $2.1 million or $2.4 million at Moorebank.

Mr Smith—At Moorebank, yes; we have that stock take going on at the cost of $2.4 million, I believe.

Air Vice Marshal Spence—Yes, that is the cost of Moorebank and we are about to do a similar one at Bandiana.

Senator JOHNSTON—But that is just to identify lines.

Mr Bennett—That is to also verify that the count and the records in the system are accurate.

Senator JOHNSTON—But we have got no integrity on values in any of that, or a large proportion of it?

Mr Bennett—That is right, but part of the qualification relates to the quantities issue, as recorded in the system, and part of it relates to the price. The one that is most important for us to make sure is as right as we can get it is the quantities issue.

Senator JOHNSTON—For these projects, G1 through S11, we have a budgeted cost—

Mr Smith—There are three ways in which that is paid for. Firstly, some of it is the normal work of the various groups—and so it should be. Secondly, we have put additional staff on, and thirdly, we have budgeted money for hiring consultants. At various times most of the major accounting firms are involved with us—in either mediation work or quality assurance work. We have estimated, and I think it is modest, that we will spend $12 million on that this year.

Senator JOHNSTON—$12 million this year?

Mr Smith—Yes.

Senator JOHNSTON—Can you tell me how many years you think we are going to need?

Mr Smith—We will need at least another two or three—although, I would hope, not at that level of spend. It depends what we disclose.

Senator JOHNSTON—In the scheme of things, $12 million in your budget is not that much. I must say I was surprised. I thought you were going to say a couple of hundred million dollars.

Mr Smith—I think it is a modest cost, because it does not reflect the cost of people diverted from other things, it is only—

Senator JOHNSTON—So there are some hidden costs in that.

Mr Smith—There certainly are. I have said 600 staff years but Dr Gumley was taking me to task earlier, saying that going right down the chain there are many more staff years than that actually involved.

Dr Gumley—So if you assume, say, $100,000 a staff year, that is $60 million for 600 staff years. And we are not including in that the amount of money we will spend on system upgrades.

Mr Smith—I am a newcomer to this business over the last two years, but I am astonished at the amounts that are spent. One of Australia's major banks has put $120 million into its accounts remediation work. I am sure government would not want us to do that, for all that it wants us to improve.

Senator JOHNSTON—In terms of public policy, I take it, Mr Smith, you would have sat down and thought to yourself, 'Is there an alternative to having this blight in our annual report year after year?' Have you been to government and said: 'Let's have a special regime of compliance that is then deemed to comply, such that the ANAO can see that we meet designated

thresholds without having to go to all of this trouble. So we achieve the end result—that is, the public and the parliament know what is going on and where the money is going, but we do not get bogged down in the minutiae of trying to identify ordnance that we purchased 30 years ago.' Have we gone down that path? What is the result? I do not want you to tell me about policy or any of that sort of stuff.

Mr Smith—I have had some discussions about that, but I have not taken that to the level of cabinet. The discussions I have had about that have essentially come back to the point that there is a new audit and accounting environment and the government has legislated that in the Corporations Act, as I understand it, and the government cannot expect less of its own agencies than it expects of the corporate sector. That is the position we are in.

Senator JOHNSTON—But is there any comparable corporate sector entity? I cannot really think of one that stands on all fours with the Australian Department of Defence.

Mr Smith—I do not believe so. The nearest analogy would be, say, Telecom, which became Telstra when it was a fully public-government entity but it was a GBE. It went through a 10-year transformation program and now meets the standards. But of course it had incentives—the listing process—and it employed different sorts of people to do it. Probably Australia Post is a similar one which again transitioned over 10 years, but there are a lot of dissimilarities as well.

Senator JOHNSTON—But they would have a use of asset factor that would identify and flush out these things, whereas we are on standby more than we are doing anything, so we are just massive storage and capability, ready to go, but we never look at it.

Mr Smith—That is exactly the point that I have often made. We are a 'just in case' organisation, therefore we keep massive redundancy in a way that other modern businesses would not.

Mr SNOWDON—If my memory serves me correctly, ANAO put out a best practice asset management guide in 1997 or 1998—

Mr Bennett—I am not sure of the date of publication.

Mr SNOWDON—I am just wondering why, if that is the case and if people were drawn to these issues some years ago, we are in this situation right now?

Senator JOHNSTON—It is a change to accrual accounting, isn't it?

Mr Smith—Yes, it is, but it is not simply that. I would have to say that Defence did not build in either the technical systems with all the functionality required or, to be honest, the culture and training that was necessary to get there. Whether it would have got there even then is a big question.

Senator JOHNSTON—Or the uniformity of systems.

Mr Smith—We went on trying to update, amend and revise existing systems and I think probably you had to go back to taws. I think that is the answer to that question, Mr Snowdon.

Mr SNOWDON—Thank you.

Dr Gumley—Capital expenditure on these systems is in competition with capital expenditure on anything else we might be buying.

Mr Smith—Exactly. The next big revision to our logistics management system, which we call joint project 2077, will take us to full functionality, we hope, in these areas of financial controls on inventory. But that is a couple of years away, and we are treating that as a capability, like an aircraft, and they are the tradeoffs you make, as Dr Gumley said.

Mr SNOWDON—I thought that 2077 was a sort of suggested date! With the stockholding controls S10, will a new inventory management system be introduced?

Mr Bennett—I do not think it is a new system per se; it is probably the management practices, processes and controls that are put around that existing system—the way people record it and the way people classify it would probably be more relevant.

Mr HATTON—I have a confession to make: I have been struggling to understand accrual accounting ever since it was legislated. I guess there are a few people inside and outside of government who are also trying to understand it. I have also struggled to understand why, in the first place, you would impose on the public sector a private sector system, which is fundamentally about adding up all of the assets, so when you come to flog it off you have a value to work out and then you can do that. Given the way things have been happening with Telstra, you can understand it. As far as I know, Defence is not up for privatisation or flogging off. It is a strange thing that what you are struggling with at enormous cost is a system that is basically about a private business being able to know exactly where it is for the purposes of being able to sell itself to the public or, if there is a sale, allowing people to get on with it.

Part of what you have outlined today to me is that it is a system that is supposed to be built on telling us all what is there and what its value is. When we come to appropriations and to budget stuff, when I pick up the papers that come to us, I have not got a clue what you blokes are spending and what you are spending it on. All it has is these behaviourists goals, aims and outcomes and it is so general. The old system was one of saying: 'Here is product X. It is a plane and this is what we are going to spend on it. Will you give us the dough for it so we can go ahead and do it?' I thought that was pretty straightforward and simple. Part of the problem is that you have, although it is legislated, what may be an inappropriate accrual accounting approach into a government area where you probably do not need it. That is a loaded question, but I put it to you.

Mr Smith—I think it probably is a loaded question. It is a matter of government policy, and we are trying to achieve it. There are some ironies in that, because, as you are suggesting, if you are in business and you want to use an asset, you need to know what the cost of using it is to decide whether it is worth it. As Dr Gumley indicated, when we commit forces to operations we do not stop and say, 'Is that expenditure going to be worth it?' The decision is made on other grounds. The biggest decision I have ever made in government is that I decided that I could not form an opinion on my own organisation's accounts. I am told by the audit community that, if this were a private sector body, that would mean that we would cease to be a going concern. Of course, we are very much a going concern.

Mr HATTON—And hopefully you remain so.

Senator JOHNSTON—That highlights the inappropriateness of that commercial measurement, to some extent.

Mr Bennett—Perhaps I could make a comment. Cash and cash flow are very important for investment decision making and understanding the day-to-day health of the business. That is very useful information in its own right. But accrual information gives you very good information about the long-term health and whether you are replacing depreciating assets. How your balance sheet is moving from year to year is an important indicator of the health of the business. So I think we need both in our environment. In the outside world there is no such thing as cash or accrual accounting; there is just accounting.

Mr Smith—I would also say that you cannot make light of the inventory management issues. They have been highlighted by the audit process that takes place under the heading of accrual accounting, but they are serious issues and they ought to have been shown up in performance auditing if not in financial statement auditing. And probably the same can be said about some aspects of the personnel records. If you measure up to accrual standards, then, in those practical areas, you will have a better corporation. That is true.

Dr Gumley—I certainly think it is good management to get all this pricing stuff right, moving forwards from today. Lloyd's comments about the depreciation are valid. One would have to question the rate of effort that goes into going backwards and trying to recover the past and the history. That is a matter of how you use resources or whatever else you use your resources on.

Mr HATTON—So as was implicit—almost explicit—in Senator Johnston's questions, the line in the sand argument really needs to be addressed with this in terms of the value and cost retrogressively, compared with if you say, 'Okay, this is a new standard coming in, and, given that we have all this stuff, if we start from today, we can implement systems quite effectively and cover what needs to be done according to the legislation.'

Mr Smith—In fairness, I think that the ANAO would say that at this time they would not be entirely confident of that, because they think the controls are not in place. That, of course, is what our plan to put in monthly full balance-sheet reporting will be about.

Mr HATTON—But is part of that problem the fact that you have to drill down so far vertically and change so much?

Mr Smith—Yes, you do have to do that.

Mr HATTON—And when you do it, on the positive side, will you have a better idea of just where you are and do you think you will be able to manage things more effectively and also more cost effectively?

Mr Bennett—More accurate information is always useful, but what drives investment in Defence is not the number of stock turns you have in your warehouse but how effective you will be in the field. It may mean that we can put more money into the tooth part of defence on the margin.

Mr WILKIE—It could mean that you could identify what it is costing, couldn't it, so you could budget properly for it?

Mr Bennett—In one sense we have a very good ability to do operational costing right now in terms of the preparation cost, the actual operation, the net additional cost and the remediation cost. That is a lot about predicting what the make good will be—analysing the burn rate of fuel and all those sorts of things. We do that exceptionally well right now.

Mr Smith—I mentioned earlier that I think our cash management is in good shape. One of the things that we have done well in the last few years is to estimate the costs of operations. We get full supplementation for that, but the government wants to know in advance roughly what we will be coming back for.

Mr HATTON—So you are quite expert at that.

Mr Smith—We have been doing it more often, I guess, over that last five years, but our people have become quite good at it.

Mr WILKIE—Where I am coming from is that it would be fairly easy to work out costings for an operation in an exercise where you know how many rounds you are going to shoot and you know what you are going to do. But in an actual operation—let us say in Iraq—where you are using all this ordnance and getting it out of the stores, how do you cost that if you do not have a dollar figure on the items you are using?

Mr Smith—Because you are looking at the replacement costs, so you can predict pretty accurately what it will cost to rebuild your war stocks and tracking stocks.

Mr WILKIE—Would you replace it all? If you are using ordnance that might be old and you are replacing your equipment with newer equipment—

Mr Smith—But we know what the new prices are and they are catalogued as something we could use.

Mr WILKIE—On what you are going to replace, the outcome?

Mr Smith—Yes.

Dr Gumley—We are quite happy to put a current price into the SDSS; that is easy. Digging up the 1984 price is hard.

Mr Bennett—For things like inventory and the things you would consume in a day-to-day sense in an operation, it is reasonably easy to predict the replacement cost. It becomes a whole lot more complex when you start to talk about replacing a platform or a capability—there is not a like-for-like. That will be a real challenge for us under some of the new accounting standards where you do have to try and predict a replacement cost when there is no such thing as an F111 to go out and buy new these days.

Mr WILKIE—What would you do then? There must be equipment or ordnance that you have got in these storerooms which is obsolete. We are not going to use it; it is a waste of time restoring it. How do you go about—

Dr Gumley—Frankly we probably have too much of that and Air Vice Marshal Spence and Brigadier Edwards are addressing that pretty robustly in this remediation plan.

Air Vice Marshal Spence—I was going to make the point that, from my perspective, this is one of the advantages of the notion of accrual accounting because it drives home the cost of doing business. In my game it is exactly that. One question is: do we have the right type of inventory? Do we have the right amount of it? Are we using up warehouse space with obsolescent equipment that should not be there? How do we encourage people to get rid of it? That notion of the cost of doing business is a valuable one from accruals.

Mr WILKIE—How do we go about doing that at the moment?

Air Vice Marshal Spence—The remit resides between me and Dr Gumley. We have to make sure that the ADF logistics managers, whilst clearly they are focused on operations and delivering support to our troops in the field, also understand that there is a cost to keeping equipment that is no longer required. We have to ensure that they are resourced to focus on the disposals activity as well.

Mr WILKIE—Right, so it is probably fair to say that is one of the areas where we have not been doing very well.

Mr Smith—Yes, we did not take any notice of what it cost to hold obsolete equipment. Now we have to know and we think, 'Hang on, we'd better get rid of that.'

Mr WAKELIN—I want to explore it a little more—not that I will discover the Rosetta stone in the hieroglyphics of accrual accounting—

Mr Smith—That resides in John Curtin House, Mr Wakelin.

Mr WAKELIN—Defence has $52 billion in assets, including $30 billion in specialised military equipment and $10 billion in land and buildings. I want to use the Moorebank example that you use because it performed so well in the recent event. Mr Smith, you said it 'performed outstandingly in preparing relief supplies and providing other support'. I suspect it was probably not a lot to do with accrual accounting at that point; it got the job done. What happened at Moorebank that actually made it outstanding from where it had come?

Mr Smith—Frankly, the people; they know where stuff is on the shelves and they can get to it pretty quickly—and they did.

Mr WAKELIN—I want to go to the issue of the changing operational and training needs. My electorate is 90 per cent of South Australia. I understand that your department and the ADF have an interest in some training areas there—perhaps for Abrams tanks. I read somewhere that you have about three million hectares that you control. I will go to changing operational needs first and the environmental standards that you are trying to implement. Getting back to getting the job

done: are there any particular impediments to your operations in terms of accessing land and meeting the environmental standards?

Mr Smith—I am not sure I can answer that with great confidence, and our Deputy Secretary of Corporate Services is not here, but I believe not. In fact, I think our record on environmental management is actually pretty good now. We published something recently on it; we are very conscious of it. Perhaps I should take the rest of the question on notice, though.

Mr SNOWDON—Can I ask a question?

Mr WAKELIN—On the environmental issue?

Mr SNOWDON—Yes; I just want to know how you cost it. How do you cost Bradshaw?

Mr Bennett—You would look at the basic running costs of the property itself and the infrastructure. You would look at the cost of the personnel and the capital you are bringing in and the costs of services provided by other groups to support the running of that. So you would be able to build up a reasonably detailed picture by capital, by operating, by personnel, by training—

Mr WAKELIN—Is there a valuation of the site, though?

Mr Bennett—No, there is not a valuation of the site. That will be the cost of running the site, so to speak. If you want to do a valuation, that is where we get the valuers to come in, look at the site, judge the highest and best value et cetera compared to things around it.

Mr SNOWDON—The reason why that is interesting, I think, is because if that and the Air Force range, which is used internationally—

Mr Smith—Delaware.

Mr SNOWDON—Then they have a value external to your own needs. So presumably you quantify that in terms of exchanges with the United States or Singapore or whoever is using them—

Mr Bennett—We have different ways of costing things for different purposes. Certainly we have the equivalent of an activity or a costing model in Defence that shows us the cost cascade through the different services and supporting groups through to the final output or military operation. I can tell you the flying cost per hour of a plane and all those sorts of things and it is a matter of building up the picture for the services that the site or that operation consume.

Mr Smith—And there is a formula for the site itself called ‘highest and best value’—

Mr Bennett—That is in terms of the property valuation of the site.

Mr WAKELIN—You mentioned earlier, Mr Smith, that the ANAO would say that the controls are not in place. What sorts of controls would the ANAO be interested in?

Mr Smith—Controls in a technical accounting sense so that if you put in the wrong data it triggers a response that tells you that that is wrong. As an accountant, Mr Bennett will explain it better than that.

Mr Bennett—The sorts of controls we would be looking for are both the preventative controls that prevent people from getting it wrong in the first place and the detective controls—those controls which would let us know that some body has something wrong—or controls to give us insight or a management analysis into that. Clearly, at the moment we do not have enough of those in place and that is part of what we are doing with the remediation projects to start building the reports, the measures—

Mr WAKELIN—You would be aware of the media this week with the headline: 'Jet fighter costs set to double'. It is not an unusual thing for Defence to run into when you have got such a long lead time et cetera

Mr Bennett—That is a completely different aspect from what we are looking at in terms of the recording and reporting standards. The cost of building a new piece of kit is not in this area of concern.

Mr WAKELIN—I was trying to make the point because it seems to me that it highlights the issue of forward planning and debt defining some of these issues which end up at the secretary's door. I do not know whether we can usefully discuss it. I come from South Australia and I am aware of the submarine project et cetera and I wonder, for the credibility of everybody, how you manage something like that. It looks a bit silly, doesn't it, sitting out there as a headline? There may be wholly legitimate reasons, but can you comment on how we should deal with this forward planning and forward costing? Should we raise the expectation and manage it differently? How do we deal with it?

Dr Gumley—We have done some work which indicates that there are several kinds of inflation rates out there for predicting forwards. Probably one of the better information rates for predicting forwards is average weekly earnings. Because Defence is such a manpower business, we are paying wages. In addition to that there is a bit of technological creep, because every generation of military equipment is a bit more sophisticated than the one before. So there are ways of predicting forwards. It is certainly not the CPI, because that has got a mixture of goods and services that Defence does not actually use. So we can predict forwards.

On the comment on the JSF that was in the newspaper, that was a wrong interpretation by the journalists of the American GAO accounting standards. They forgot to put on the bottom line, dividing the whole program cost by the number of jets. They only used the number of American jets not the potential number of international jets in addition. So when you do that, the number comes back down again quite sharply. But that is just a correction.

Senator JOHNSTON—I have asked a lot of questions and I hope committee members forgive me for asking one more. The last one is about accrued leave. I have got some sympathy with you with respect to all of the inventory items relating to your stores, stock and asset valuations, but how on earth can we not have a system that deals with leave entitlements? Give me the bad news as to what difficulties you are confronting there.

Mr Smith—Mr Bennett can speak to that, but I believe Rear Admiral Brian Adams has spent a lot of time on that question in the past year.

Rear Adm. Adams—I will go back and use the words of the ANAO. They said—I am talking about 2002-03 here—that they could not validate the amount of $1.2 billion, which was the provision for the accrued leave liability for all ADF and APS personnel.

Mr Bennett—Last year we decided not to resample all of the leave records et cetera, because we had a series of remediation activities under way and we did not think it cost beneficial. The nature of the problem we have there is also the lack of substantiating documentation to prove the leave record on the system.

Senator JOHNSTON—Sorry, to prove what?

Mr Bennett—You can have an entry on the system that says you have X days annual leave accrued, but if we did not have the leave records that people had signed off on—the applications for leave—then we would not have the substantiating documentation to prove that that was correct. A lot of work has been put in, and there is still a lot of work to go, to make sure that we can both provide the substantiating documentation and have the controls in place over it.

Senator JOHNSTON—So the ANAO is asking you to show a secondary system of proof or corroboration, if you like, of the electronic record?

Mr Bennett—Yes. In the civilian environment we have what we call employee self-services, which is a way of automating the application of leave, so civilian leave is not in question in that regard. It is a question of military leave. The military pay system does not have that same sort of work flow capability to be automated, therefore it has got—

Senator JOHNSTON—All right. So you have got a system that works for our people at Russell.

Mr Bennett—Yes.

Senator JOHNSTON—Why can't we take that system and use it for the enlisted personnel?

Mr Bennett—There are a lot more complexities in the types of military leave you can have, and I think it is a question of making sure that the system is ready to be converted from the ADF pay system to the civilian payroll system.

Rear Adm. Adams—If I could just pick up on that and step back a little. I agree with the CFO. Until relatively recently, all leave transactions for the defence work force were paper based. In other words, when you requested leave you filled in a form, you sent it to your supervisor, they approved it, it was sent off and that leave was entered on your leave record. That record would show how much leave you accrued each year. As the CFO said, for an ADF person that would include war service leave, normal recreation leave and a range of other sorts of leave. Those records were kept in a variety of ways, depending on the service. One service would have a record which accompanied a person from base to base. Another service would have a record centrally kept. You can see the complexities that were involved there.

To give you an idea of the paperwork associated with this, I will use the last year as an example. In the last 12 months we took 2.3 million days worth of leave, and that involved 350,000 separate leave transactions. Each one of those transactions would involve at least one piece of paper, and we are required to retain those pieces of paper for seven years. So, to get back to the CFO's point, it is about the ANAO having difficulty validating the balance that is on our personnel system now by getting their hands on the substantiating leave records.

Senator JOHNSTON—What they want is the signature of the person who took the leave to say, 'I was not there during this period'?

Mr Smith—And that of the person's supervisor to say, 'Corporal Jones is authorised to take leave on these dates.'

Senator JOHNSTON—I am not entirely convinced that that is such a difficult proposition. We have got police forces around the country—at least six of them—that manage their leave. Just refresh me as to where our problem is.

Rear Adm. Adams—Our work force is 70,000 strong. In the case of the Public Service, the leave is a relatively simple thing: they earn 20 days per year and that accrues. In the case of military people: if they were serving in Iraq, they would get their 20 days leave and they would accrue war service leave; if they were a pilot, they would get flying leave; if they were in a ship at sea, they would get seagoing leave et cetera. So it is a complex situation.

Senator JOHNSTON—So you are saying that the template is a very broad one.

Rear Adm. Adams—Yes.

Senator JOHNSTON—How are we solving the problem?

Rear Adm. Adams—We are solving the problem in a variety of ways. One is, by management intervention, simply to reduce the accrued leave liability. That is a command or management issue of simply requiring people, on a variety of grounds including health and welfare et cetera, to take their leave at the time they should take it. That is one action, and we are having success there. In the case of the ADF, for example, the military people, over the last year we have reduced by about 60 per cent the number of people with 100 or more days leave outstanding, and that process is still going on now.

Senator JOHNSTON—Are you telling me that you are scheduling leave in accordance with your requirements whereby people take leave when they are told to so that you can monitor it?

Rear Adm. Adams—That is part of it.

Senator JOHNSTON—They must be pretty happy about that, I would imagine!

Rear Adm. Adams—People are very happy about getting better access to their leave at the time they might want to take it, yes.

Senator JOHNSTON—So they are getting access to leave when they want to take it; they are not being told to take leave to fit in with our administrative issues.

Rear Adm. Adams—It will not always be possible to give people the opportunity to take leave at the precise moment they wish to take it. But that certainly has been our goal: on the grounds of health and welfare, to try to give people the opportunity to take their leave when they want it. But, as you can understand, that is not always possible.

Senator JOHNSTON—I do understand that.

Rear Adm. Adams—The second stream of attack is the problem that I think has been alluded to already. We have three remediation plans. One deals with military leave, one deals with civilian leave and one is the issue that has been referred to with the executive remuneration note. Resolving the problems associated with the remuneration note is contingent upon resolving the problems associated with leave, because leave feeds into executive remuneration. So we have three plans and we are implementing them now. The executive remuneration plan is well advanced and detailed. The two remediation plans for military and civilian leave are still in draft form and not quite as detailed as we would like, but they are moving on.

In addition, we have had to review our policy. The controls I think you have heard referred to. We have had to look at whether the control regime is adequate. Part of that has been to look at the policy—at whether the different sorts of leave we give military people in particular are appropriate, at whether supervisors and commanders have appropriate guidance on what they should and should not do and at quite simple things, such as demanding that people fill in forms appropriately and send them to the centres which fill in leave balances in a timely manner and make sure that data is entered appropriately.

Senator JOHNSTON—So, until we get all that done, we will make provision that we think will cover the liability and just deal with it as and when it falls due.

Rear Adm. Adams—The CFO might want to comment here, but I do not believe that there is an issue of covering the liability; that is there.

Senator JOHNSTON—I accept that, but you just do not know exactly what the liability is at any given moment.

Rear Adm. Adams—That is our problem. We do not know it within the level of accuracy required by the ANAO.

Mr WILKIE—But you believe it is around $1.2 billion?

Rear Adm. Adams—Yes, give or take.

Mr Bennett—Over 50 per cent of the $1.2 billion is long service leave, and the error rate in that is around 0.1 per cent, as I have been advised by my internal auditors. Based on that advice, a large proportion of that provision is demonstrably not wrong.

Mr WILKIE—Does that cover all ADF personnel, civilian and military?

Mr Bennett—Yes.

Rear Adm. Adams—Yes.

Senator JOHNSTON—I imagine this is not just an ANAO requirement. The department of finance would be saying to you: 'What is our liability?' In terms of looking at all Commonwealth employees, including you, they would want to know what our current liability is for long service leave and things like that. In terms of time lines, when will we be able to say at the push of a button: 'This is what the liability is'?

Rear Adm. Adams—There are two ways I have to answer that question. The first is: in terms of having a fully automated leave process, that will be some time yet. At present, only the senior leadership group—250 of the more senior civilians and military people—have access to employer self-service on our corporate personnel data system, and the civilians. We will progressively be fielding that, but clearly we have some difficulties with that for people in the field and people at sea but they are not insurmountable. So, at some as yet indeterminate point in the future, we will get to a point where we will have a totally automated process.

Mr Smith—Just to add to that, there will nevertheless be a baseline problem, or a line in the sand problem, where we cannot go back forever and find records. Last year, to try to complete one of the audit actions that we had to do, I had quite senior people out at a warehouse in Queanbeyan digging around in boxes to find and bring back written records of leave applications to confirm that leave was taken on a given date.

Senator JOHNSTON—How did you confirm that—by physically ringing up a person and asking them?

Mr Smith—That was the other approach we took. We boiled it down to two or three problem individuals in the SES. We said, 'The record shows that you took leave on these dates, but was it properly authorised?' They then had to find a copy of the record and bring it to us.

Senator JOHNSTON—What happens with the Americans and the British? Surely they have systems that we can emulate?

Mr Bennett—The British may, but given the nature of the problems the Americans are facing they may not.

Senator JOHNSTON—So they are in the same—

Mr Smith—I would not be surprised if they have some of these qualifications. They certainly have them on all the inventory areas—we know that. I will just see if there is anything here about personnel records.

Senator JOHNSTON—I am sorry, Mr Bennett, I cut you off.

Mr Bennett—I do not know that too many other military forces have tackled these problems successfully on our scale. Certainly the Kiwis are exemplary in what they have achieved in the accrual accounting framework.

Senator JOHNSTON—There is one reason for that: they have not got much to count.

Mr WILKIE—I want to move away from leave but, before I do, can you tell me roughly how much we would spend—that is, what is paid out—on annual leave in a year.

Rear Adm. Adams—I will have to take that on notice. I do not have that at my fingers.

Mr WILKIE—I am just curious.

Mr Smith—On leave of all types?

Mr WILKIE—Yes. I am asking because there is a $1.2 billion liability for leave that is not taken.

Mr Smith—We process 350,000 leave applications of various types a year. I cannot put a money value on the end of that.

Rear Adm. Adams—It was 2.3 million days in the last 12 months, so the cost of that 2.3 million days is the answer, but I do not have the dollar cost.

Mr WILKIE—The other question I have relates to the report that a new travel management system was introduced and it was likely to save about $21 million a year. There are reports that the roll-out of that system was suspended after the trial using senior defence staff. Is that accurate?

Mr Bennett—No.

Mr WILKIE—I might have missed the answer if that question was asked this morning—I was not here this morning.

Mr Smith—Mr Moore tackled that question. I will ask him to come forward again.

Mr WILKIE—Do not worry about answering if it has already been answered. I will read the transcript.

Mr Smith—I think it is in the *Hansard*. The answer was that we did not suspend it. That is correct.

Mr SNOWDON—You mentioned major accounting firms earlier on. How many of the major accounting firms are currently involved in providing consultancy advice to Defence? What is the cost of that advice?

Mr Smith—The cost of that advice this year on these remedial actions is $12 million. I am not certain which companies are involved. We list them.

Mr Bennett—We are certainly using most of the majors. We are not using PwC because they are working with ANAO. We are using a number of the second-tier firms as well. I would stress

that what we tend to do is make sure we pick the people with the exact expertise we need from each of the firms on a case-by-case basis.

Mr SNOWDON—Given the nature of your work, though, and the nature of the problems identified by ANAO, that must be very difficult.

Mr Smith—It is, and it tests them. This is one of the biggest audit challenges around. The audit firms have to recruit and employ people to do this. The lead firm in this, as we have said in another committee, at the present time is Ernst and Young, which led similar work in Telstra some years ago. We are benefiting, I think, from that experience.

Mr SNOWDON—But, given the depth of the difficulties that you seem to have in asset management and inventory control, how in the hell are they going to advise you? Presumably they have never experienced anything like this in any event.

Mr Smith—It is unusual for them, but the principles are familiar. What they can do for me is tell me whether the policies we have are appropriate, whether there are alternative policies, whether the practices we have in place to support them are sound or whether there are better ones. Then they can give us advice on managing the audit issues that arise. So they have very practical experience.

Mr SNOWDON—Can I go back to the valuation issue briefly. At the moment there is a discussion or dialogue with ANAO about how to validate your valuations. Is that correct?

Mr Smith—Yes.

Mr SNOWDON—So presumably the next step is agreeing on a write-down cost of whatever it is you identify as the value of—

Mr Bennett—Depending on the way we have to correct any errors that we actually find through that process.

Dr Gumley—There might even be a line-up cost—

Mr SNOWDON—I have a question on the issue of the explosive ordnance. We are saying that there is no issue about the quantity of ordnance; it is just a question of the pricing?

Mr Bennett—Correct.

Mr SNOWDON—There can be no suggestion that there is ordnance missing or a shortage of ordnance when you have a stock—

Mr Smith—The issues are about pricing, and pricing of pre-1997 ordnance essentially.

Dr Gumley—Also, just to complete the picture, until a year ago there was an issue of pricing of bundled goods. For example, where you have, say, bombs and aeroplanes turning up as one price, how much of the value of the bomb goes to the bomb, how much goes to the software integration and how much goes to the platform integration? We did not have good accounting

policies on separating out those three. In fact, it was a very tricky area working out what goes where. In fact, you could probably argue for three different answers and get it right three ways.

Mr WILKIE—Can we go back to the Joint Strike Fighters. There are reports that they are two years behind schedule and development costs have blown out by 80 per cent. Do you think that is accurate?

Dr Gumley—Yes, they did have weight problems on the aeroplanes. They are certainly a year late. I am not sure whether two years is correct. The development cost has blown out, but a large part of that was actually because the Americans wanted more scope for their own needs. They have not asked the partner countries to pay for that.

Mr WILKIE—Is the DMO going to go back and review the possible delivery date for Australia and the implications of that?

Dr Gumley—That is constantly under watch. I will probably be going to the US again in June for the chief executives conference on the program where the American government officials, the government officials of the partner countries and the officials from Lockheed Martin and their supply chain all get together and talk this through.

Mr WILKIE—And they will give us a possible indication of what the increase in costs is going to be?

Dr Gumley—We should know a lot better. The Americans are doing their costing review virtually as we speak. We expect their audit office to review that in April. We are hopeful of getting the results in early June.

Mr Smith—It might be worth restating what the problem was with that newspaper report the other day.

Dr Gumley—Yes. The newspaper report had two numbers. The first number was a total program cost, which was both the development cost and the production cost. As to the denominator—when you divide by the number of aeroplanes—they just looked at the US quantities. If you add the up to 1,500 international variety aeroplanes to the 2,400 or so American ones, you get a different unit cost completely.

Mr WILKIE—Right. So that is when the GAO said that, really, it is just inexecutable at the moment?

Dr Gumley—The GAO have taken a fairly conservative line. They are assuming that no foreign country buys any aeroplanes. But a large number of foreign countries are already putting money into the SDD phase and so on and will inevitably buy aeroplanes.

Mr WILKIE—But do you think that at the moment it is fair to say that there is a delay in the process of getting—

Dr Gumley—Yes, there was a delay.

Mr SNOWDON—Going back to the discussion we had about the naval vessel and whether or not we would have a vertical take-off strike fighter—as per the recommendation of the foreign affairs committee—I think the response we got earlier was that you will make a decision on the vessel on the basis of the knowledge you have about the aircraft at the time the decision has to be made about the vessel. Doesn't this sort of delay complicate those issues for you in terms of planning future needs and making assessments on what we really need?

Dr Gumley—At the moment we have no need for the vertical take-off aeroplane, and we are assuming that the ships are going to be designed on that basis. So it does not matter that it slipped a year because we are not getting them in the current capability thinking.

Mr WILKIE—I want to go on a bit further from that. Obviously we have decided at the moment we are not going to get them, so we are going to go down the path of getting ships that do not carry them. Have we investigated whether we should be looking at getting them? If we are looking at being proactive and we know that there is a possibility that this thing could be developed and may suit our purposes, have we looked into that?

Dr Gumley—The types of aeroplane that we buy are constantly under review. The world environment and the threat environment are changing constantly. We are always monitoring what the external environment looks like. On the knowledge we have now, there is not a capability case for them. That may change in a year's time or 10 years time, but at the moment there is no capability case.

Mr HATTON—If you have a flat platform—which you would have on this vessel—something like the Harrier jump jet could just go straight up and away. So if you wanted to use that kind of capability in the future you could just use it off that platform with the Harrier—any of the ones that you are investigating—without modification, whereas the Spanish provision is to have a specially designed incline. So if it was done in a different way you could do it.

Dr Gumley—As we go through the definition phase of the platform over the next year I am sure we will be looking at those sorts of questions and working out what the engineering possibilities might be. Clearly we would want to build in flexibility if we can.

I will just make one clarification on something I said earlier about the GAO in the United States: they looked at the number of aircraft required by the US and the UK. They did not include acquisition by partner countries or prospective third-party sales. So it was the American plus the British that they divided by, not the entire international amount.

Mr WILKIE—Given that, how come they are still working with a national perspective? You mentioned 1,500. I take it that that may include the UK.

Dr Gumley—That may include the UK. I am not sure what the UK numbers are. I do not have them here. We could get that on notice for you.

Mr WILKIE—That would be great.

CHAIR—Thank you for your attendance here this afternoon. If you have been asked to provide additional material would you please forward that to our secretary. There have been some questions on notice.

Proceedings suspended from 2.54 p.m. to 3.10 p.m.

COSGROVE, General Peter John, AC, MC, Chief of the Defence Force, Department of Defence

SMITH, Mr Richard, AO, PSM, Secretary, Department of Defence

ACTING CHAIR (Mr Hatton)—Welcome. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and, therefore, have the same standing as proceedings of the respective houses. Would you like to make an opening statement to the committee?

Gen. Cosgrove—No, thank you, but I welcome any questions you may have.

Mr WILKIE—General Cosgrove, we thought it would be appropriate if condolences were passed on to Private Clark's family on behalf of the committee.

Gen. Cosgrove—Thank you, Mr Wilkie and members of the committee; I will be delighted to pass those on. I shall write a condolence letter to the family of the soldier who passed away, and I will include in that a particular reference to this committee's concern and condolences.

ACTING CHAIR—It might be appropriate for me, on behalf of members from our side, to read on to the record that federal Labor extends its deepest sympathy to the family and friends of Private Jamie Clark, who tragically died yesterday while serving his country in the Solomon Islands. I understand Private Clark and his mates were on patrol outside Honiara when he fell into a deep shaft. The accident serves as a reminder to us all both of the dangers of duty and also the personal sacrifice that is at times made in the pursuit of peace. We know the sacrifice was not only Private Clark's but also his family's, and hence our heartfelt condolences go to them at this sad time. Private Clark has not died in vain. He and the men and women who continue to serve in the Solomon Islands are proud examples to our region and the world that Australia is a nation of peace and a home to people of courage. As a result of their service, children in the Solomon Islands will be able to grow up in a country of peace and security. That provides a framework not only for us but also for members of the coalition in dealing with the work that you are doing and members of the defence forces are doing not only in the Solomon Islands but elsewhere. People do put their lives in jeopardy, and as representatives we wanted to indicate the depth of our concern for those who have lost their lives and their families in this instance and the instance of others who have put themselves in jeopardy.

Senator PAYNE—General, I understand the minister announced this afternoon a couple of appointments in terms of the southern Iraq deployment that you might be able to update the committee on. If there is any other information in relation to that deployment that it is possible to put on the public record, we would be grateful to receive it.

Gen. Cosgrove—I would be delighted to mention that matter to the committee. I want to reiterate that I propose, with the committee's agreement, to offer a classified briefing to the committee at some future date. I stand ready to do that if that is the committee's wish. In relation to the media statement the minister released earlier today, I can announce the command

arrangements that will exist in the deployment of the Al Muthanna Task Group, a battle group of Australian soldiers moving into protect the Japanese reconstruction engineering group.

What we have structured will look like this. We have appointed a senior Australian officer in multinational division south-east. That will be Colonel Andrew Nikolic, who is presently the commandant of the Army recruit training centre at Kapooka. He is a very experienced and highly regarded Australian infantry colonel who will serve at Basra next to the British divisional commander for that multinational division area of operations. Colonel Nikolic will have the assistance of a small staff. His job will be to exercise command in relation to Australian national command interests over the operations of our task group. I stress that he will look at those national command aspects which are important for our national interests. His job will essentially be to monitor our operations and watch very closely what is required by the British divisional commander and harmonise those operations with our national interests.

Our commander on the ground in al-Muthanna will be Lieutenant Colonel Roger Noble, the present commanding officer of the 2nd Cavalry Regiment. Colonel Noble will command the task group, which is in two parts. There will be about 360 or so in the battle group and they will be the people directly effecting the security operations for the Japanese. There will be a training team which will make up the balance of the 450, and they will be engaged in training and mentoring the Iraqi army units that will be on security operations in al-Muthanna. So Noble will be on the ground and Colonel Nikolic will be at Basra monitoring the overall British operation and, of course, our own operations in relation to national interests.

Mr SNOWDON—We had a discussion that this morning about the deployment. Firstly, I congratulate those two officers. Roger Noble, of course, used to work in Gus's position on this committee and we know him well. He came with us to Kuwait and Afghanistan. We wish him well. I might try and have a beer with him before he goes, with any sort of luck. This morning we did explore the deployment itself and the question of the preparedness of all the vehicles. We were told that there was a staged upgrading of some of the vehicles with the remote weapons systems and that they will not all be in place by the time the vehicles are in situ—they will be gradually upgraded over time. How long do you estimate it will take before all of the vehicles that are there are actually upgraded?

Gen. Cosgrove—When they arrive and proceed on task in Iraq, all of the vehicles will be significantly upgraded from their ordinary state here in Australia. These armoured vehicles are already a very robust and well-proven vehicle. We will add additional protection to them. The vehicles we send will be among the best protected of their type of vehicle in Iraq. We will protect them to the state in which they have been operating in central Iraq, particularly in the area around Baghdad, where they have been the subject of several attacks and have offered great protection to the crew. We are taking these enhancements even further. In the sense that everything is relative, I am content that as they proceed on operations every one of them will be at a heightened state of protection and that the further enhancements will, if you like, increase the delta between other vehicles of their type in the Iraq where Australian vehicles will be.

In one sense, while I and others have referred to some of the enhancements, I am a little reluctant to list these, chapter and verse, because to do so would be to almost post on the internet a description of the vehicle and allow our adversary to have thoughts about how to overcome it.

To that degree, I would ask the committee in this unclassified forum to accept an assurance that they will be highly protected.

Mr SNOWDON—To the extent that the incremental improvements are going to be made, they will presumably be all made by a date. Do we have any idea when the final improvement might be made?

Gen. Cosgrove—We have a program for the continued enhancement of the vehicles, and it relates—if I could just say this broadly—to the armour system. All of the vehicles will have upgraded armour by the time they start operations in Iraq. That upgrade, which in some cases is of a more expedient nature, will be made more permanent. So the level of protection will not necessarily change; it is just that the protective layer will be made more permanent by dint of work that will continue in the country. Without the details, which I will provide in a subsequent briefing to you at your discretion, that is the program of work.

Mr WAKELIN—You mentioned the deployment to Iraq and to the province. An issue that interests me—and I suppose it interests many of us—is the training of the Iraqi people. Are you able to comment about the status of that? I saw, for example, that a British officer when asked about this said 12 months. Inevitably, you people are asked about time lines and all this sort of stuff. He made a pretty sensible general comment about the future. Are you able to make some general comments about the potential of and the training of Iraqi troops, and the Australian role?

Gen. Cosgrove—I might describe for you anecdotally the opinion of many about the performance of the Iraqi troops in the last year and in the recent past and make some comments about observations on the troops in al-Muthanna. That would be pretty useful. It was a difficult time for the Iraqi security forces last year. Everybody knows that the level of insurgent attack in Iraq was very high. There was significant pressure on the Iraqi security forces. They, too, were attacked. The whole governance system inside Iraq was, on the Iraqi side, in fair flux. The performance of the Iraqi security forces was patchy. Some performed very well indeed. Others were low in morale and their training was at a fairly basic level.

To quite a remarkable degree, there was a tremendous effort by the Iraqi security forces over the period of their national election. The polling places during the election were protected largely by Iraqi security forces. Iraqi security forces—police, national guard and army—in some cases behaved extraordinarily courageously. There is a story about an Iraqi policeman who apprehended a suicide bomber near a polling place. He wrestled that person around a concrete barricade, which protected the people at the polling place. The policeman and the suicide bomber died together. It is now a significant matter of security force morale—both the coalition and the Iraqi security forces—that no successful attack was prosecuted by insurgents against the people at polling places. That was achieved through by Iraqi security forces shedding a lot of blood. This has been a watershed moment. It is quite plain now that there are increasing numbers of Iraqi people seeking to join the security forces and that the morale of the ISF has taken a quantum jump. This is not to say that the problem is over. There is a significant need to further recruit and train. But many people feel that there has been a turning point in that important part of this march towards independence.

The battalion that is on the ground in al-Muthanna is rated well. It is correct to say that there has not been a significant security challenge that has invoked the use of the high-combat skills in

al-Muthanna by the Iraqi army, and heaven forbid there should be. But this is, by and large, an Iraqi battalion that comes from the district, so they know their own people. Another battalion will be recruited soon and we will be involved in helping to develop the existing battalion and helping to train, from square one, the new battalion. In al-Muthanna we anticipate that the Iraqis will be a significant force for good.

Mr WAKELIN—Thank you. On a totally different subject, how are we going with the issue of separation and of skills coming back a little bit on previous years in our Defence Force within Australia? Without worrying too much about the numbers, what is the prognosis for the future in recruitment within our own armed services?

Gen. Cosgrove—I have some brief statistics here. I will not burden you with all of them, but our 12-month rolling separation rate at 1 February stood at 10.9 per cent. Our historic average—and that is post-World War II but, let's say, going back 20 years—stands at 11.8 per cent. So we sit below our historic separation rate. At the low point of wastage, our separation rate in January 2004 was 9.5 per cent, so we have come up a bit. We are taking notice of that. We would like, of course, to have kept it down to 9.5 per cent. It is up to 10.9 per cent. What this means to us is that it is time to look again to our retention and to look again at our recruiting efforts to get on top of a slowly climbing separation rate—still below the historic average but with a recent rise of just over one per cent.

In this regard, ordinary remuneration is, again, coming up for modest increases. We have a two per cent increase arriving in June 2005 and 1.5 per cent payable in March next year. We are looking at some other conditions of service which, of themselves, all increase the attractiveness of the package. Some of these conditions are big-ticket: a $1 billion defence housing replacement program that resonates with child care improvements, the reduction of forced discharges through a better occupational health and safety program, increases or improvements in the military rehabilitation and compensation scheme, and a new structure to our locality allowance to try to more correctly recognise people in remote localities. There is no real silver bullet, but you put the jigsaw together and then, with your communications strategy, you try to persuade people that they are better off in than out.

Mr WAKELIN—My last question is on changing operational needs and the Abrams tank. I have a self-interest in this, so I put that up front. My electorate contains the Cultana training area. With the demands, the changing operational needs, the urban restriction or the changing world—call it what you like—how are you going in terms of accessibility to sufficient land for your operational needs? Australia is a pretty big place. How is it going in that area?

Gen. Cosgrove—You put your finger on one of the travelling dilemmas for our Defence Force: to find land in Australia where it can responsibly train with all of the bells and whistles, which sometimes include the manoeuvre of heavy units that can have an environmental effect and the use of ordnance. That is weighed up against the actual cost of getting there and operating there within a budget. We have a few areas where, with very careful management, we have been able to do this—Shoalwater Bay training area and Cultana. There are places in Central Australia which are pretty good but, again, they are a delicate environment. There is Bradshaw and Mount Bundy—these are further north from you. In each case you have to balance the ability to use the land with responsible allowance for it to regenerate.

We also find ourselves using as much simulation as we can. Simulation—for example, with heavy units such as our armoured regiment—will, to a great degree, reduce the need to run the tanks and to fire the main armament, because you get to a stage where a lot of your training is done in a box with excellent simulation inside it. I would say it is dynamic, but you are looking at a defence force which knows that people do not want us to wreck the environment so it is no good to anybody. We pay a lot of taxpayers' money to do this in a way which rotates our use of training areas. Cultana is one of the more sensitive ones.

Senator JOHNSTON—I want to talk about recruiting. A number of figures are light-on, to the point where a number of elements, particularly in Navy, to my understanding—I am not sure about the other services—cannot fully man the various ships and boats that make up the various figures because they are light-on for troops and recruits. I take you to table 5.16 on page 272, which sets out the permanent force recruiting activity for 2002-03 and 2003-04. If you look at and cross-reference the figures on the right-hand side, which are the totals for the three services, you will see that in 2002-03 we had 17,642 formal applications, of which 4,322 recruits were enlisted. The following year we had 2,500 fewer—15,957—applications, of which more—4,747—were enlisted. That says to me that we have a capacity to increase our enlistments pretty rapidly, if we want to, given that one year they went down in terms of applications but we took more of them. I am troubled to think that possibly one submarine, perhaps the new Armidale patrol class ship, may not be able to be in full operation because we are short of trained personnel.

Gen. Cosgrove—It is a fair point to worry about that. What we have to do about what I might call general purpose enlistments—people who can turn to submarine training or to manning patrol boats—would come out of the more generalised seamen category of enlistment, including the specialists. There are some specialists on submarines, and they do not grow on trees. I would put it this way: the difference between 17,000 and 15,000—yet there were more recruited in the second year—probably comes through getting better at turning applicants, many of whom are good young people, into people who are enlisted by dint of process, follow-up and by being clearer in the first layer of advertising and information to applicants, so that somebody who walks in the door is rather more orientated towards what it is they are seeking to do. We work very closely with our civilian recruiting company Manpower to get that better. It seems to me—and this would be my view to you on this—that we got better at turning X number of applications into a greater number of enlistments. That means that if we are able to drive up the number of applications, we will also get the enlistments proportionately better.

It is a bit of a combination of art and science. It responds to all kinds of things and advertising is but one of them. The rest of the job market is there and we are in a period of quite high employment. I do not need to tell you this, ladies and gentlemen, but that is the case. We are struggling with competition. But I am happy with the progress made by our refinement of process in recruiting together with Manpower. We are still working hard on our critical trades. You mentioned manning submarines. A submarine has some seamen and also a lot of specialists. These are people with certain aptitudes. Without those aptitudes you cannot man the trade, and we have to get them in the door. I think we share Australia's issue with people going into trades. The things that can be done to improve that in Australia will help us as well.

Senator JOHNSTON—The reason I mentioned this is because, with 14 new patrol boats and two amphibious ships on the horizon—although they are some distance away yet—as well as

three air warfare destroyers, it strikes me that we need now to be looking at this: we are taking 25 per cent of those who want to join and that is of concern to me. What is wrong with the 75 per cent who are missing out?

Gen. Cosgrove—Nothing, I would say. A lot of people seek to join the Defence Force who are intrigued but may not sustain that interest when they are having more explained to them at recruiting office level. There are others, of course, who just do not quite have what we want. We are a very highly demanding employer in terms of physical attributes in particular, because a lot of what we do is stressful. I would like to think we would take everybody who was likely to be able to survive the training and produce a good result for us but not one more person. We do not want somebody set up to fail. I have just today been at Kapooka, where over 100 soldiers graduated. During that process some of those recruits went by the wayside. That will always happen. But I would hate to think that we took in people at recruiting level and thought, 'Oh well, we'll give them a go.' The last thing you want is somebody to have a blow to their esteem by being in an experience they were not set up to survive.

Mr SNOWDON—Do you have an idea of the specific skill sets that are deficient in terms of manning?

Gen. Cosgrove—I have a tremendous list here which gives me the categories by service, where the pressures are—that is, where generally recruitment for that speciality is low or lower than we need—and the things we are doing to resolve that. It is quite a long list. Rather than reading it out, if you were particularly interested in a category I will find it and talk to you about it.

Mr SNOWDON—Unless it is a classified document, maybe we could get a copy for the report.

Gen. Cosgrove—There is nothing on my document to show that it is other than something you could have. I would be delighted to table it.

Mr SNOWDON—That would be great. I want to go into this issue of trades a bit further. We saw an item in a newspaper recently about a third-year apprentice earning $90,000 doing heavy vehicle engineering in the mining provinces. One assumes they are the sorts of skill sets that we want to retain in the Defence Force. When we had a shortage of pilots we did something exceptional for pilots. Are we likely to see something exceptional for people in the trades in terms of inducements to join the Defence Force or, indeed, for those people currently seeing these wage levels outside, to induce them to stay?

Gen. Cosgrove—One of the most vexed questions we have wrestled with in the last decade is whether to fully breach the all-of-one-company principle of having people who, by and large, earn about the same within the ranks they occupy, with the exception of some people whom we know we will not get unless we pay extra. Doctors and lawyers are folk who are on special rates.

Mr SNOWDON—Always the lawyers, mate.

Gen. Cosgrove—I will not go into that. We want really good lawyers and pilots. We simply had to acknowledge the reality that the airlines, for reasons I do not pillory, have a predatory eye

upon us—if not our own airlines then other people's airlines will do it—and they will go, so we had to pay a special rate. But beyond that, as much as we can, we would still like to stay with one company. I do not want people comparing pay slips as they go into battle. By way of remuneration, I think we are in a more and more industrialised area. We have a remuneration reform project before the DFRT which will end up banding officers' salaries. You will have lieutenant colonels earning thousands and thousands of dollars more in one band than their same-ranked colleague in another band because of the demands of the skills in the job. We contemplate that. That still bends the knee to one company. There is the sort of adhocery of saying, 'The only way we're going to retain you is to pay you more.' Another approach is to say: 'Look, we're just going to accept the churn and recruit you, train you, indenture you for a few years, let you go and hope you come back because you hate what you're doing outside and you want to rejoin. You'll be coming back for lifestyle reasons rather than the bottom line dollar.' That is another approach: just to accept the churn. Sadly, where you have a very narrow sector of employers—'aeronautical engineers' rings a bell—you probably have to look at a hybrid system: pay them more and accept a minor bit of churn.

Mr WILKIE—I want to talk about Iraq but I will wait until a private briefing. I would like to concentrate on the area of air support for our people over there, but obviously that is a sensitive area.

Gen. Cosgrove—I think we can have a very advanced discussion on the whole issue if you would wait for that briefing.

Mr WILKIE—I am happy to do that. I commend you on your support for the ADF parliamentary program, which I have been involved in for a number of years. It is great to see members getting involved with defence forces and seeing how they operate. We are talking about recruitment. Last year I spent time with 4RAR, and I see that they are looking at getting some special forces direct recruiting going. I am wondering how that is progressing.

Gen. Cosgrove—I have a note about that. It may be that you flagged that as an area of interest. If you do not mind, I will refer to some of my notes. At the moment we are deeply involved in a recruitment effort to bring our east coast counterterrorist capacity, and the commando battalion that surrounds that, up to a viable strength. It is already at operational strength, but the initiative of the government was to provide an extra commando company and this tag, so we are now manning to those new levels. It is going pretty well. We raised the east coast counterterrorist team on 22 July 2002 and, not long after that, we embarked on a direct recruiting scheme. The scheme was initiated to fill an additional 334 positions. When candidates passed through the aptitude barriers at recruiting and seemed to have the aptitude and the desire, they were directed towards a position within 4th Battalion Royal Australian Regiment as commandos, even before they had started military training. They then passed through recruit training as a cohort. In fact, a platoon of these young people went through and graduated from Kapooka just the other day and are now at the infantry centre where they will be trained as commandos under the Special Forces Training Centre. Having passed all those very hard tests, they will then go into the unit directly without the need to go into some halfway house employment, say, within the infantry corps or in another corps.

The direct recruitment scheme takes about 33 weeks. The initial planning was for the throughput of 144 candidates per year, which equated to about three platoons per year for 2004-

05, 2005-06 and 2006-07. We have been able to revise that downwards to fit in better with our commando reinforcement cycle of training. It suits the unit to have the lesser number. To date, we have put five platoons of special forces into training, with a total of 232 people enlisted as part of the program since January 2004.

We believe even now, before we have reached our end target, that this scheme is successful. By the end of 2004, out of the people we started training, we had produced 60 candidates for the commando training course. Remember that we do not recruit just in this way; we recruit volunteer candidates for special forces through the Army, Navy and Air Force. We have produced 60 special forces soldiers out of the overall 232 that have been recruited.

I ask you to note that, because of the very arduous nature of this training, there will always be a high wastage rate. We anticipated this. The highest attrition rate occurs almost exclusively during that initial recruit training. There is a much lower attrition rate thereafter. It tends to be because of injuries that they must overcome rather than their fundamental aptitude. Attrition at the recruitment training centre is usually because candidates have simply changed their mind. They have found that their expectations of army life were a bit different to the reality.

Of course, we also offer those people who are not going to succeed in the special forces training regime an opportunity to stream to other parts of the Army, and some of them take that up and they are quite happy in that regard. In summary, it is a winner. We are going to keep going with it and, by offering direct recruitment to people off the street, we have some marvellous young men.

Mr WILKIE—When people get trained and they are actually operational, how hard is it to keep them? We keep hearing reports of special operations people being poached by private security firms operating in Iraq, Afghanistan or other parts of the world. The view is that they are being offered a lot more money and they are racing off and taking that up. Is that actually happening or is that a bit of a myth?

Gen. Cosgrove—It is happening, but it is not happening at a rate which is so alarming as to cause me great concern. You should say I am concerned because each one of these soldiers who leaves is somebody we would vastly prefer to keep. And, of course, to replace that soldier takes time and money. When you look at the mind-boggling sums that are being dangled in front of these young men, you understand that we simply cannot pay that much. That is not government money. The taxpayer would not want us to be paying those amounts of money to try to keep soldiers.

About all we can do is to tug at their heartstrings, which we do by saying: ‘Look, we cannot let you go on leave and do this. You have to make the break with no guarantee that you will be able to rejoin the family when you have had your fill of big bucks and a different lifestyle.’ I have to tell you there is an incredibly strong tribal tradition within our special forces, and if that money were not so immense then hardly any of them would give in to the temptation. They go, and we wish them farewell with all the best wishes, but we make them make a clean break so that they have to think, ‘What does this mean if I want to come back in the future?’ Nothing else would be sensible for us as employers.

Mr WILKIE—How many do think we would have lost this way as a proportion of those that leave?

Gen. Cosgrove—We have lost 31 in the last 24 months out of the Special Air Service Regiment.

Mr WILKIE—To private enterprise?

Gen. Cosgrove—We believe that that is the sort of number that has gone to private sector industry. We do not count the one or two old and bold who have left because their knees have cried 'Enough' or something—people who would be at the tail end of their most effective service within the special forces community—but we are talking about the younger ones who have got what we would consider as very valuable time in front of them.

Mr SNOWDON—What is the cost of training one of these people?

Gen. Cosgrove—I would not venture to say. I have not worked it out, but it is a lot of money.

Mr WILKIE—I have some other questions, Chair, but let other people ask theirs first.

CHAIR—I am going to ask about the reserves. You might have to refresh my memory on this, General. Did we send to East Timor a rifle company as an operational platoon or company?

Gen. Cosgrove—We did, very successfully. I think it was called Charlie company, 5/7RAR. They were reserve soldiers gathered largely from Victoria, some from New South Wales, as I recall. We gathered them in for a number of months before the deployment to train them up at various levels so that they would be absolutely cohesive when they went, and they performed outstandingly. I need to point out, though, because this is important if we were to be thinking of doing this again in the future, that in order for it to be a guaranteed success—we would not do it any other way—we gathered them in for a number of months before the deployment. The last thing I wanted anybody to be able to say was, 'They were a bit raw.' It may be that we sort of overtrained them, but I would rather do that than have the other.

CHAIR—Is the reservists employee support payment going well? Are we having problems with that; are they having problems?

Gen. Cosgrove—The only things we are having problems with is the sort of shyness in the take-up. We are advertising it, we are beating a drum and we are saying to employers, 'It is there. It salutes your employment of this reservist, and it recognises that you make sacrifices when you let your reservist go for periods in excess of two weeks.' We just would like more take-up of it. It is a superior scheme to those which I am aware of in any of the like countries where we often we tick-tack on conditions of service. It is a beauty, and I would like more Australian employers to be aware of it and to put in their bids.

Mr WILKIE—In the year in review annual report, the secretary talked about the need to expose some shortcomings in information flows between Defence and departments and ministers, probably in relation to what had been happening with the handling of detainees in

Iraq. I was just wondering what measures have been put in place to try to deal with these shortcomings.

Gen. Cosgrove—The secretary may wish to observe on this as well. There are two things. First, I think I have flattened the chain of command a little by taking out a layer of consideration for these high tempo operations we are involved in now wherein things that happen are known quickly to the media and the people and the parliament also want the information very quickly. That was by the slight flattening I did by the institution of a Chief of Joint Operations, the smashing together of the role of the Head of Strategic Operations Division and the Commander Australian Theatre. That gave us a slightly flatter chain of command, which has speeded up information and passed it through one less conduit or layer of filtration.

Aligned to that was the institution of a Chief of Staff, Australian Defence Headquarters, who is an SES officer, Mr Mike Pezzullo, who holds in his hands our parliamentary oriented directorates, which talks about the information flow to the parliament, and our public affairs directorate, which talks about that which we disseminate to the media and the public. He works extraordinarily closely with the secretary and myself. When we see an issue, or there is a situation likely to lead to an issue—an operation, for example—he is our finger on the pulse of who is telling what to whom, drawing information from any stovepipes that exist and ensuring that it is the same information, that it moves where it needs to go and with the right speed.

They are two pretty big improvements. But part of the requirement relates to the dynamic between speed and accuracy. For example, yesterday we received terrible news about a soldier. We knew immediately that a soldier had had a fall. Our initial belief was that it was an accident, but it was hours before we were in a position to confirm that, to tell his loved ones of his death and to give even ordinary information like what was happening with his body. You want to get that right. You do not want to say something and then have to say, 'Well, we were wrong.' We struggle with that all the time. Whether it is in the Solomon Islands, Timor or Banda Aceh, we want to get it right the first time. We are a long way from having that dynamic perfect.

Mr Smith—One of the things we have learned over the last year or so is that a combination of the operational tempo out in the field with the number of activities our ADF personnel are involved in, on the one hand, and the speed and ease of communication, on the other, can easily create a situation in which the general and I do not have as much visibility of things as we would like. To help us manage that flow of information, this chief of staff position, as the general explained, has been created and I would say it has helped us greatly in that.

Mr SNOWDON—I have a general question about Iraq. Has the deployment or the bringing together of the group of 450 caused any hollowness in other units around the place?

Gen. Cosgrove—No. One of the benchmarks we had to achieve to my satisfaction, before we were able to advise government that this would be an appropriate course of action, was 'concurrency'; that is our term for it. There would be other things we might have to do that could pop up at no notice. I am satisfied that we can meet our contingencies in terms of the concurrency—that we have appropriate forces trained and ready to do the sorts of things closer to home that might crop up. We are aided there by something you will have noticed particularly from the Northern Territory point of view: we have reduced some of the deployments we have made. Banda Aceh is reducing every day, Timor is down to a small contribution now and in the

Solomon Islands I think we stand at about a rifle company. Following the tragic death of APS officer Adam Dunning, we deployed some extras and they are in the process of being brought back to Australia over a period of time. All in all, we are in about a stable numbers game compared with what we have been in over the last several years, even with the 450.

Mr SNOWDON—Are any logistical issues involved in having two groups of Defence Force personnel in different parts of Iraq?

Gen. Cosgrove—We are going to beef up a little bit the logistic facility we have in Kuwait. I would just remind members of the committee that Kuwait is quite happy for us to mention that we have a small presence there; that is a logistic activity. We do not mention our people in some of the other countries of the Middle East, but in Kuwait we have a small footprint. We will put some extra people there because that will become a sort of logistic node to feed into southern Iraq. But we do expect the British to provide a significant layer of logistic support—that is the deal we have with them—to help support our people in the divisional area.

Mr SNOWDON—Will there be any private sector contractors deployed to that base in Kuwait?

Gen. Cosgrove—We may well have, and I will leave that to the logistic experts. I would be very happy to see working logistic arrangements done under contract. It is done in plenty of other places, both in the Gulf broadly and inside Iraq.

Mr SNOWDON—I was thinking more about the mechanical support areas, like engineers and machinery specialists.

Gen. Cosgrove—I will take any solution which works in a guaranteed way for Australian forces. It is not something we are looking at now—that is, private maintenance of our armoured or other vehicles. We are looking to do that ourselves. If, within the year, that presented as a viable alternative, I would certainly look at it and make some comments to government.

Mr HATTON—Earlier today we were looking at our future amphibious requirement. We were using the ASPI document and its arguments about whether we should have more small craft rather than the two bigger ones. One of the points I alluded to then was what the Chief of Army said about the future of the Army—the fact that it needed to be hardened as well as networked, and that we would be moving from a light infantry force to a more armoured one. What has been happening on that in the last year, and where do you see it going, given that there are very different requirements for the ADF now than there were previously?

Gen. Cosgrove—I think what is different is the level of lethality available even to what we would hitherto have regarded as a lightly armed adversary—that is, an adversary who is not in possession of armoured divisions of artillery regiments but who, with very potent, man-portable weapon systems, can challenge conventional forces. The sorts of things we are seeing, which are available even to an insurgent or guerrilla type enemy—the entry-level enemy, if I could put it that way—are shoals of anti-armour weapons, potent high explosives, military explosives, that can damage lightly armoured vehicles and are devastating against soldiers without levels of protection. So in order for us not to become embroiled in a war of attrition with an insurgent who operates in and out of an innocent population, against a conventional force, you tend to

have to protect your soldiers more and more. It is not to engage in tank versus tank battles; it is to be able to prevail in complex terrain—that might be urban terrain or rural terrain—a mixture of towns and close vegetation. It is about being able to force your way in and say, 'Even with your more potent, man-portable weapons we can still bring you to battle and defeat you.'

That is the principle of hardening and networking. The networking part is to have information superiority; the hardening part is so that we do not get into an attritional battle with an irregular enemy—that is a guerrilla or insurgent enemy. In this regard, one of the things I am sure the Chief of Army referred to or could have told you is that the sum total of armoured vehicles entering the Defence Force is not really changing. The Chief of Army is arranging them in a way that means forces used to using them can form the core of our contribution. We used to hold these forces on the edge of the core of the force—they were out to the side; it was as if they were on the distant shelves of the military supermarket. He has now brought them to the popular aisles because we now know, as recent history has shown us, that we may very well need to bring them in at the outset to protect our force so that we when we arrive we can prevail.

Mr HATTON—Thank you very much for that. It is almost like a modern version of the Roman version of the use of the tortoise division, where they armour themselves, get to where they need to fight and then go to it.

Gen. Cosgrove—Everything we do invites a reaction from people who are looking to go asymmetrical on us. If we were to present as a fully armoured force without infantry, you would find that infantry would adopt tactics to defeat us. If we were to present as a fully infantry force then these adversaries would adopt tactics to give us the thing that Australians find abhorrent: high levels of casualties. We want Australian soldiers to prevail without the high casualty levels inherent in any kind of attritional warfare. What the insurgents in Iraq are trying to do is drive up the casualty rates of the coalition forces to achieve political victories back in their home countries, and that is what we are preventing.

CHAIR—I remind the committee that it is now after four. I think we had General Cosgrove here until four. I appreciate we are going over the time that we estimated for you, General. I remind the committee so that the remaining questions might be fairly brief.

Mr HATTON—A have a second point on this. Another challenge, of course is the question of the Joint Strike Fighter and the problems associated with that, particularly in terms of its provision being delayed—there is still a decision to be made in 2006-07. But we have also got a problem in the fact that we have a timing gap and with the F111, which has been a brilliant platform and platform that is differently configured to the JSF. It will need to be extended in terms of its usage. Where is it at in terms of the way you see that situation? How confident are you we will be able to provision the F111 to take its role it as far as it can?

Gen. Cosgrove—That decision is still available to government, but it is not preferred in the sense that we notice the JSF and the possibility that it will ease out a couple of years—we notice that, of course. Even though government has not yet made a decision which ultimately says we are going to get JSF, it is more likely than not, I should think, simply because we see it as one of the best multirole platforms we could possibly get.

Let us just say that government still has the prerogative to make that ultimate decision about the JSF. But it is hypothetical to say that that is what we will do. Why don't we look at a coping strategy for both meeting a withdrawal date for the F111 and keeping us in the game with strike until such time as the JSF is online and capable of strike? That is the program we have got to enhance the capability afforded by the FA18—a multirole jet. In the first place, and in no particular order—it is a good way to start—the flying of the Wedgetail system is going to improve our ability to operate in the air combat environment in a quantum way, both in air defence and in what we call offensive counter air and strike. Offensive counter air is where an adversary sits on an airfield and we take out his fighters. Strike is where we strike any target—but using the same sorts of platforms. Wedgetail will be a particularly valuable ingredient in that.

We are going to get one of the most capable air-to-air refuellers available in the world—the Airbus. It will greatly enhance our ability to strike. It will allow a refuelled FA18 to reach the range of an unrefueled F111.In a measurement from our bases, that covers a vast amount of our region. The third point is that we will enhance the sensors and the weapons fit on the FA18. We will buy for the FA18 a stand-off weapon which will mean that the FA18 brings a very accurate weapon into the strike target on either a long-range approach or shorter range targets from any direction you like to name. This means that with the FA18 carrying one or two of these weapons it achieves the same sort of effect on the target as used to be achieved by a bomber with a bomb bay full of dumb bombs or even smart bombs that have to overfly the target. So we are going to go for precision. In this respect, the layer we have is that we would prefer FA18 to cover until the JSF strike variant is available. As we watch the incorporation, the fielding, of these additional systems, government still has an opportunity between now and 2010 to make a decision if it wishes to extend F111.

Mr WILKIE—I am a great fan of the F111s. I think a refuelled F111 could do a lot more than a refuelled FA18 and with a lot more capacity. One F111 could probably carry the same amount as four FA18s with a lot greater capacity, but that is not the question that I had.

Gen. Cosgrove—Mr Wilkie, I have seen you in a flight suit in the cockpit of an F111. I suspect you are a fellow traveller.

Mr WILKIE—You talked about how the environment is changing all the time as new technology comes along and the baddies tend to have different weapons systems that we have got to combat. Do you think our people are skilled enough and flexible enough to deal with that threat given that often procurement takes many years? From the time we say, 'We want this,' evaluate it and purchase it, it may be obsolete. Do you think we are flexible enough to deal with that, or do we need to improve a little bit?

Gen. Cosgrove—Our people are flexible enough to accept modern war fighting technology as and when we can provide it to them. I would like to point to our acquisition system, which over years has taken a few hits. If one turns back to the urgent preparations made for the cautionary deployment that then led to offensive operations in Iraq, I would like to point out that we fielded for the SF a new missile, an automatic grenade launcher and a series of smaller but very important high-technology systems that greatly enhanced their capability on the battlefield. We were able to do that on very short notice. We are in the process of rapid acquisition to up the protection of the force we are putting into the al-Muthanna province. When we need to do it, we can do this stuff really quickly. Also, while a lot of the more normal acquisitions look slow,

judged against the acquisition process of some countries it is quite quick because we can be discriminating buyers. The acquisition of the Wedgetail is a case in point. It has a proven design, slightly new radar, and incorporation and testing has gone very quickly indeed, and we will have that in service in double quick time. We will not know ourselves as an air combat force when we have got that. I am pretty confident, Mr Wilkie.

Mr WILKIE—We are very impressed with your new helicopter.

CHAIR—General, I have a question that is a little left of field. I mentioned it prior to the commencement of the hearing. It is to do with some recent media reports on some of the missing from the Battle of Fromelles in 1916 in France. For those who do not know their history, there were Australian soldiers who got behind German lines and their bodies were never recovered at the end of the war. There is some work going on that suggests that perhaps the bodies were buried in a mass grave at Pheasant Wood. There is quite a bit of evidence out there, but there seems to be some suggestion in the media—whether it is accurately reported or not, I do not know—that, because no bones have been discovered anywhere and there has not necessarily been an investigation, until there are some bones found there will not be any further investigation. I thought the Defence Force was not in any position to request this of the Commonwealth War Graves Commission or other authorities.

What I am saying is that something like 163 are listed as missing from the First World War. Certainly dog tags were handed across from the Germans to the Red Cross and back to families. I think it has been the subject of some questions in the Senate estimates hearings as well. I would appreciate it if, just for the record or to put this to rest in one way or another, whether Defence is able to request of Commonwealth War Graves Commission or other authorities in that area to carry out some sort of investigation as to the claims that there could possibly be some Australians in the alleged mass grave that has never been identified at Pheasant Wood. Perhaps we could carry out some investigation. I just ask what you might be able to do.

Gen. Cosgrove—As you know, Defence will always do the right thing. In this case, while it is unclear that has proven to be a mass grave or a mass grave that involves Australians, we have asked the French authorities to conduct an investigation. We have asked for action, we will monitor that and I will invite the relevant section of Defence to make sure that you, as chairman, know the progress of that.

CHAIR—Thank you. I appreciate that very much. In relation to the condolence read by the deputy chairman, Michael Hatton, it is agreed that it is important to offer that condolence on behalf of all members of the committee—not just as members of political parties but as members of a bipartisan committee, the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. General Cosgrove and Mr Smith, I thank you for your attendance here today and the frankness with which you answered our questions. If you have been asked to provide any additional material, would you please forward that to the committee's 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 **Mr Snowdon**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

Before closing, I like to thank the members of the Defence Force and the department for their time today. You are very busy and the operational tempo is probably as busy as it has ever been, with the areas that we are involved in around the world. We do appreciate your time and effort as well as that of uniformed and civilian people in the Defence Force who have been involved in supporting us here today. On behalf of the committee I ask you to pass on our thanks. I also thank the staff of our committee for their work. I really appreciate the work that they do in preparation for these public hearings. I also thank Hansard. From time to time, our members do a bit of mumbling in their beards. I am always impressed at the accuracy with which they have been able to record those hushed tones from time to time, including those off-the-cuff remarks.

Subcommittee adjourned at 4.19 p.m.