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

Defence Subcommittee

Friday, 3 March 2006

Members: Senator Ferguson (*Chair*), Mr Edwards (*Deputy Chair*), Senators Bartlett, Crossin, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowdon, Dr Southcott, Mr Cameron Thompson, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Defence Subcommittee members: Mr Bruce Scott (*Chair*), Mr Hatton (*Deputy Chair*), Senators Bartlett, Crossin, Ferguson (*ex officio*), Hutchins, Johnston, Payne and Scullion and Mrs Draper, Mr Edwards (*ex officio*), Mrs Gash, Mr Gibbons, Mr Haase, Mr Snowdon, Dr Southcott, Mr Cameron Thompson, Mr Wakelin and Mr Wilkie

Members in attendance: Senators Ferguson and Johnston and Mr Haase, Mr Hatton, Mr Bruce Scott, Mr Snowdon and Mr Cameron Thompson

Terms of reference for the inquiry:

To inquire into and report on:

Review of Defence annual report 2004-05

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Committee met at 9.20 am**GRAY, Mr Norman, Deputy Chief Executive Officer, Defence Materiel Organisation****GUMLEY, Dr Stephen, Chief Executive Officer, Defence Materiel Organisation****LEWINCAMP, Mr Frank, Chief Operating Officer, Defence Materiel Organisation****WILLIAMS, Dr Ian Sidney, Chief Finance Officer, Defence Materiel Organisation**

CHAIR (Mr Bruce Scott)—I declare open this public hearing on the review of the Defence annual report 2004-05 by the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. The committee will scrutinise the following four areas of Defence operations: commencing very shortly, the prescribed agency status for the Defence Materiel Organisation and implications of ongoing reforms; at 10.30 we will do the Chinook helicopter Air 9000 upgrades and Afghanistan deployment; at 11.30, the Joint Offshore Protection Command's roles and responsibilities; and at 1.30 a remediation of Defence's financial statements.

During the period of July 2004-05 Defence saw a continued focus on military operations, procurement, reform and financial management remediation. Particular attention was also accorded to military justice matters, intelligence reforms and issues of Australian Defence Force—ADF—recruitment and retention. The first topic the committee will examine is in relation to the ongoing reforms to the Defence Materiel Organisation, which was accorded prescribed agency status on 1 July 2005. Specifically, we would like to address the relationship between DMO and Defence, with an emphasis on personnel and workforce management, including the upskilling, and training and development programs.

The second area the committee will consider is in relation to the Chinook phase 5 upgrades, approved as part of the Air 9000 program. Areas for specific examination include the implications for the Chinook deployment to Afghanistan and the ongoing upgrades to the aircraft. Topic 3 examines the roles, responsibilities and interagency relationships of the Joint Offshore Protection Command. Defence's qualified financial statements and the steps that Defence is taking to improve this situation are examined in topic 4. The Vice 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 fairly and accurately report the proceedings of the committee.

The first topic is the prescribed agency status for the Defence Materiel Organisation and implications for ongoing reforms. I now welcome representatives from the Department of Defence, who are giving evidence on the Defence Materiel Organisation prescribed agency status and the ongoing defence procurement reforms. 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. Do you wish to make an opening statement to the committee?

Dr Gumley—I would like to make a short statement. DMO achieved prescribed agency status on 1 July 2005. We were very pleased to make that date; it was always an ambitious date to get to. It happened through an enormous amount of hard work from some very dedicated staff, both in DMO and in Defence. We took the view that it was important to get on with the change agenda as recommended by Kinnaird and endorsed by government. This meant that we became a prescribed agency with perhaps 95 per cent of the tasks done with the arrangement that we would sort out the last few things as the year progressed, and that has been happening.

Since 1 July we have been bedding down the changes, and I can report they are going pretty well at the moment. I am happy with the progress. I think the prescribed agency status is the correct one for DMO at this stage of its development, and already we are seeing the benefits flow through to capability in that the organisation is lifting its productivity and becoming more efficient.

CHAIR—Since no-one else wishes to make a statement, I will now open the review to questions from the members of the subcommittee.

Senator JOHNSTON—Mr Gumley, I notice that in the annual report on page 257 we address a number of projects and work our way through looking at air warfare destroyers, amphibious ships et cetera. I am interested that we often look at our top, say, 20 or 30 by price—by value. I am keen that we should also look at our top 30 by risk. Can you assist me with that? Have you got any systems with respect to that—a different mode of analysis of projects that you need to keep an eye on as opposed to just looking at the raw numbers in terms of dollars?

Dr Gumley—Yes. We report to the defence committee, on a monthly basis, on probably the top 60 or 70 projects. The definition is the largest amount by spend, which is the traditional way, but also those which we regard as of high interest to government or those we regard as having an unusual risk profile. So we do have internal systems now where we report those each month through to the defence committee and, of course, to our minister.

Senator JOHNSTON—Have you developed a methodology with respect to assessing the risk analysis? People like us also like to look at the dollars. Obviously, air warfare destroyers are at the forefront of our minds, but there are lesser projects which have much greater risk attached to them which we should know about and should know to ask about, if you follow me. I am looking for you to assist me with some different mode of analysis of risk.

Dr Gumley—We develop a risk profile for each of our projects. We have developed a maturity score, which is composed of seven types of project attributes. We score each of the projects against those seven attributes. We give them a score out of 10. That means you get a score out of 70 for each of the projects. It means that we can work our way through from a project which, at its birth, is very, very risky, which might have a score of perhaps only 10 or 15 out of 70, to first-pass approval, which normally has a benchmark score of 21. In other words, unless we have de-risked a project sufficiently, we do not take it to government for first-pass approval. First-pass approval requires a score of about 21. Between first- and second-pass approval, government gives us funds to further de-risk the projects and to look at alternatives. We normally require a maturity score of about 35 out of 70 before we are able to take a project to government for second-pass approval. Of course, the job of every project manager is to de-risk the project gradually and manage risks intensively until, at the end of the day, you deliver

the capability to the war fighters with a score of 69 or 70 out of 70. That is the constant progress that we make.

We measure this every month. We look at how the maturity scores change month on month. Sometimes a maturity score actually goes backwards. If you were to hit a technological problem you were not expecting, you could have a maturity score of, say, 50 go back to 45 while you sorted out that difficult technical problem. Or you could have a difficult schedule problem if some equipment did not turn up. So we are able to track the score of each project and once we hit the high 60s we are ready to hand it over to the war fighters. So it is a very constant, deliberate, organised process of managing the risks in DMO.

Dr Williams—I would like to add one thing. In the last portfolio additional estimates statements, we increased the number of projects that were reported, to pick up some that were of the sort that you identify—ones that will become significant—and others that may have been at the lower end that might one year be in and one out of the top 30. That document will give a much greater number reported than is in a previous report such as the annual report.

Mr SNOWDON—I want to ask about the attributes you mentioned. Could you tell us what these seven attributes are? Are they hierarchical?

Dr Gumley—Are they what, sorry?

Mr SNOWDON—Are they hierarchical? What is their priority status? Do they go from one to seven in order of priority?

Dr Gumley—No. They are each worth 10 points. Schedule has a number of feeders into what makes your schedule come out on time. We have made schedule the key driver of performance in the DMO. It is more important to get the equipment to the troops soon and quickly than to have it sitting around not being finished. So schedule is the No. 1 thing. Cost is obviously very important in a budgetary context. If you are going to get a cost blow-out or a cost saving, people need to know about it early. Another one is meeting the technical requirements, which is a capability measure. Then there is one that we call ‘technical understanding’. Military equipment is some of the most complex equipment there is anywhere in human development at the moment, in that it is nearly always very leading edge. We always have to try to get a technological edge over the bad guys. So the technical understanding is not just of the equipment itself but how it is going to be used, the doctrine, the operations and so on. Another one is technical difficulty. That sort of starts off as a conceptual thing that the scientists look at right through to a truly proven technical design.

Another big area of risk, of course, is terms and conditions of a contractor or the contract. The commercial arrangement, the t’s and c’s, are pretty crucial in ensuring that government gets a good deal for its money and that industry can make a profit fairly. The seventh one is managing the risk of operations and support. It is no good putting a high-tech bit of kit into the field if you cannot look after it, if it breaks straightaway. So you have to have a proper arrangement for getting through life support and ensuring that it transits to operations easily. They are the seven attributes. We think that covers most of the risk profile we are up against.

Mr HATTON—Do you have a maturity score for the joint strike fighter?

Dr Gumley—We do, but I will have to go through my notes to find it for you. Can you give me one moment?

CHAIR—While Dr Gumley is looking, would you like to ask another question?

Mr HATTON—I can go to a broader question. Have you found it?

Dr Gumley—No. I will find that later.

Mr HATTON—I will go to a broader question, and that is a question of the prescribed agency status. I want to be a bit more informed about how that works. I understand how mergers work. In the commercial world when major mergers are undertaken they have a great deal of risk associated with them. Quite often, they are not very successful because putting two groups together is extremely difficult to do and it is difficult to get the right synergies. You are doing the opposite: you are demerging. I cannot work out how far you are demerging. Given that you split Defence, and there is a reporting responsibility to the Minister for Finance and Administration, in your budget statement you said:

... DMO is not being created as a separate executive agency, but will remain an integral part of the Defence Portfolio.

How wide ranging and how deep is this demerger? Has the unit just been dropped out and it is sort of sitting there in space, still in Defence but just having a reporting function?

Dr Gumley—There is interesting tension there between being completely separate, which I think would be the wrong answer, and being so integrated and the eggs so scrambled up that people do not have clear accountability and responsibility. We have found the middle ground where we have a clear customer-supplier relationship. I think that is the most important thing for getting the productivity increase and the capability to the troops quicker, in that when you know what you have to produce you can get on and do it. If there is continual changing of scope, of specification or of requirement, it is very hard to hold anyone accountable, including the contracting community, for actually delivering anything on time.

The thing that really makes the prescription work is having the materiel acquisition agreements and the materiel sustainment agreements, which is like the customer, being Defence, giving us a purchase order—to use a simpler version of it—to do something. The materiel acquisition agreement says what you have to produce, when you have to produce it by and how much they are prepared to pay for it, and that makes us accountable to get on and produce it in that way. We have it for both the major projects. We have it for the sustainment fleets. DMO looks after about 100 different fleets of equipment, whether they be jet aircraft, ships, tanks or whatever. Each of those is called a fleet. Again, there are performance requirements on each of those fleets.

What we have not done up until now is have a full customer-supplier relationship on some of our minor projects—the very little ones. We have had a half-baked approach. The task for this year is to get the 100 or so minor projects—those under \$10 million each—into the same structure. It is working very well for the big projects and now we want to do it for the little ones as well.

Mr HATTON—What is the degree of separation? If you compare the current situation, post Kinnaird—section 2.3 is very upbeat on how the department has responded to that report; it is almost like a nice advertising brochure—it is a difficult process to take something that is so fundamentally integrated into the whole psyche of the Department of Defence and the way you did things and make this separation. How much actual difference is there and what problems have there been with the change?

Dr Gumley—There are a number of dimensions to that question. The first thing I would like to address is the balance sheet itself—the financial side. What we have had to do there is ‘descramble eggs’; they were all mixed up and we have had to separate them out into the constituent parts. That is where it has required a large amount of work. It has involved setting up a second chart of accounts in the ROMAN financial system and having cost codes and separating it all out. That was a lot of work, and the finance committee has done a very good job in making that happen.

This prescription is actually the second phase of change. I think it is sometimes not remembered that the first phase happened back in 2000 with the putting together of the sustainment world and the acquisition world. That created a group of about 45 system program officers and that was where we started treating the whole spectrum, from acquiring the equipment right through to finally disposing of it, as a continuum being run in DMO. That bit of organisational change happened in 2000 and started bedding down between 2001 and 2003. What we have done with prescription is then put formality around the paperwork structure and the people structure to get the hand-offs happening in a way where people clearly know where the risks lie. Under the new arrangements, General Hurley clearly manages and has the risk for the development of capability—working out what we need to buy. We have the clear responsibility of buying it efficiently and then looking after it through life. So those hand-offs, I think, are pretty effective.

Mr HATTON—Even though it is very early days, do you think this is a way station or a destination, given your experience so far?

Dr Gumley—I think we have further to go on the change progress. I have a vision that we are going to be the best project management and engineering organisation in the country. I think there is every opportunity that we can do that. To get there we are going to require a lot more professionalising and upskilling not only of our own staff but also of the people out in industry. DMO are doing a very important job—there are a bit over 6,000 people in DMO—but there are over 19,000 people in industry who are manufacturing the equipment and looking after it, and it is just as important for our overall defence capability that industry upskills itself as well. So we have been taking the lead in pushing the professionalising and upskilling agenda. I could give you some statistics later if you are interested in just how well that is going. We are doing it internally and, of course, we are trying to give the lead to the private sector to lift their skills as well.

CHAIR—Do you have the answer on the Joint Strike Fighter?

Dr Gumley—The maturity score of the Joint Strike Fighter at the moment is 24. That means it has passed the benchmark needed to go to first-pass approval. By the way, we do not go to first-

pass approval just when we get to 21—there are a lot of other reasons—but we would rarely go to first-pass approval unless we had 21.

Senator FERGUSON—One of the problems we as laypeople have is that sometimes a little bit of information is dangerous. We think we know something when often we are going down rabbit burrows, so the more information we can get sometimes the better it is. How sensitive are the maturity scores you rate your projects with?

Dr Gumley—I think the maturity score is not really a sensitive number. How it is composed perhaps is, but I would not regard as sensitive the actual number out of 70. I would be nervous in publishing too widely some of the composition of it, though.

Senator FERGUSON—So why do you not publish the maturity score in your report? As laypeople, we are not going to pursue something that has a very good maturity score with as much enthusiasm as we might pursue something that has a very low maturity score.

Dr Gumley—Thank you for the suggestion. Can I take that on notice, because, as you know, for us to offer up information we have to get approvals?

Senator FERGUSON—Yes.

Dr Gumley—From my point of view, I think that would help the committee's work because it would enable you to work out which are the complicated projects and the risky ones and which are the ones that are going okay.

Senator FERGUSON—What is the maturity score of the Hornet upgrade?

Dr Gumley—Phase 3.2B, which is the big piece of work at the moment, is sitting at 41. You would expect that. The FA18 is an established aeroplane and we are doing an upgrade of it. The JSF has not flown, so we are fairly clear the FA18 would have a significantly higher maturity score than the Joint Strike Fighter.

Senator FERGUSON—Is the benchmark on that still 21?

Dr Gumley—It is 21 for first-pass approval, but that is actually a project under way. Second-pass approval would have got to 35—so between 35 and 41 it has been further de-risked.

Senator FERGUSON—In your budget estimates for the 2004-05 budget, there was a \$134 million estimate. That was revised to \$155 million and the actual expenditure was \$175 million. It seems there was a fairly large miscalculation somewhere along the line. It is on page 267.

Dr Williams—The figures that we include in here are what we refer to as the gross figures. We go to each project and get them to estimate what they would spend if all went according to the ideal schedule. On top of that we assume that, for reasons beyond anyone's control, certain projects will have delays—industry will not deliver or whatever. We then apply a slippage factor to say about the program as a whole what will slip. We do not know which projects it will occur to, of course, but there is a difference. So you will find generally that overall more projects will be below the initial estimate. That, as I say, just reflects the fact that certain events arise. What

we try to measure ourselves on is the net figure—how well we do against that. Looking at last year and so far this year, we think we are tracking fairly well.

Dr Gumley—With the Hornets it is true there is an increase in scope. The number of aircraft that are going to require remedial action is increasing.

Senator FERGUSON—I do not want you to answer this immediately but, in the event that the maturity scores are not published in this report, could you supply to the committee which, of these approved major capital equipment projects, are the five projects that have the lowest maturity score? I do not want you to do it right now, but could you provide that to the committee?

Dr Gumley—Yes, we could do that.

Senator FERGUSON—Thank you.

Mr CAMERON THOMPSON—I am looking at one of the acquisition and integration type projects and I want to ask you a little bit about how successful that has been. I want to ask about the F111 stand-off weapon and whether the process of acquiring and fitting that is now fully complete. I know they had a plane flying with it on, but has it been completed and has it been successful?

Dr Gumley—I have the report on the follow-on stand-off weapon here. During December and January this year the project office finalised the design acceptance activities and have developed the airworthiness board submission required to get the supplemental type certificate and service release of the missile for the F111 capability. The project seems to be going fairly well. There has been a small delay in a part of the system, but it is not impacting the initial operational capability date. As in any project that is made up of many miniprojects, there are a couple of bits that have lagged behind the others, but they reckon they are going to catch up, and the initial operational capability date has not changed.

Mr CAMERON THOMPSON—What is that?

Dr Gumley—The in-service date is predicted to be towards the end of this month, subject to the airworthiness board giving the tick-off.

Mr CAMERON THOMPSON—Does that mean that the complete conversion of aircraft rolls on from there or is it completed at that point?

Dr Gumley—It means that we have the equipment that can be used in an operational sense. The project will not close on that date, because always when you introduce a new piece of equipment there is a range of paperwork and support and other measures that keep going for probably six, 12, 18 months after an in-service date. So the project continues as they wind it out, but so far it looks as though it has been a pretty successful project. My reports here are showing that it is a project that is green with a green up-arrow, which means that it is going well.

Mr CAMERON THOMPSON—But the actual installation of the weapon on the aircraft is going to happen from that date—that is what I was getting at. We have had aircraft testing it and doing all that sort of stuff. From that date, will we start to install it on all the F111Cs?

Dr Gumley—I will have to take that on notice. The Head of the Aerospace Systems Division will be here for the next session. It might be appropriate then.

Mr SNOWDON—Following on from the question about the Hornet, I notice that the FFG upgrade had a budget estimate of \$137 million but came in only at \$54 million. What was the explanation for that?

Dr Gumley—We pay against a combination of earned value and milestones and, if a contractor has not earned the value or produced the milestones, they do not get paid. It is a schedule delay. Virtually most times when you see an underpayment in the annual report, it means that there has not been a correctly rendered invoice for work properly done, which is a strong indication that we are slipping schedule.

Mr SNOWDON—In this case, what does this mean for the time line for the upgrade?

Dr Gumley—The upgrade is late. The next set of tests and trials is at the end of April. The FFG has been a very difficult project for us. It has taken probably three years longer than it should have taken and there was further slippage. When the initial budget estimates are put in, you make your best estimate of what you think the contract progress is going to be, looking 18 to 24 months out. If the contractor does not achieve, you just cannot pay them. That is one of the things I track most carefully. I have a look at all the projects and at the money that is not going to be spent, and that is usually a very good surrogate for project delay. In fact, about 80 per cent of all our cost increases or cost decreases can be traced back to schedule being the prime reason.

Mr SNOWDON—Would the maturity score for that particular project be affected by the scheduling delay significantly?

Dr Gumley—Yes. I will get you the maturity score of the FFG. The maturity score of that project at the moment is sitting at 43. It is a project that is currently red with a horizontal arrow, which means that it is a project that is in difficulty, getting neither worse nor better. What I think has happened in that project is that we lost somewhere between two and three years of schedule and, quite often with these projects, once you have lost them you can never get them back. So it has not lost any more schedule in the last year; the same two- to three-year gap is still there from what it should have been.

Mr SNOWDON—But is the major reason for that that the contracting parties are not able to meet their deadlines?

Dr Gumley—Correct.

Mr SNOWDON—Can I just ask you about the M113 armoured personnel carrier upgrade. I notice here there has been a 40 per cent increase in the cost estimate for this financial year, from the estimate to the actual. What was the reason behind that?

Dr Gumley—The M113 is an interesting project. This time last year, it was red. Now it is yellow, with an up arrow. This time last year, I was having fairly deep and meaningful conversations with the chief executive of the contracting firm about their performance on this contract. The good news is that the contractors have lifted their performance significantly during the year. They have started catching up on some of their milestones, or at least not losing any more, and it looks like we are on schedule for the end of this year to get the first M113s out into the field. So it is possible that when the original budget estimates were put in there was a great deal of pessimism about the contractors' ability to complete their milestones and they now are completing a lot more milestones than we thought they would. There has not been a real cost blow-out in the project itself; it is a phasings issue.

Mr SNOWDON—So their scheduling has been brought forward in a sense. They are starting to produce more on time.

Dr Gumley—The schedule actually slipped backwards and now it has come back a bit the other way and so that affects the phasing of the money.

Mr SNOWDON—Okay. Thank you.

Senator FERGUSON—I think the system you have developed is fantastic, because it makes it a lot easier for us. But, if you are giving us the five lowest maturity scores, there might be very good reason for them being the lowest, so I think that as well as giving us the lowest ones you should give us some information as to why they are low. That might help us in our considerations. There may be very good reasons why the five lowest are the five lowest.

Dr Gumley—Yes. We can give reasons against the benchmarks. I am just thinking about what the committee's need for information is here. If we just took the five lowest, you might get the five youngest—

Senator FERGUSON—Yes, that is right. That is why—

Dr Gumley—and they may not be the five riskiest.

Senator FERGUSON—I think the five riskiest would be better than the five lowest, because if they are brand new projects they are going to have a low score.

Mr CAMERON THOMPSON—What about the ones that are red?

Senator FERGUSON—The ones that are red will be the riskiest; that is the point, isn't it?

Dr Gumley—Yes.

Senator FERGUSON—You can see the sort of information we are looking for, Dr Gumley. We are looking for things that have been approved and are under way but are not actually going as well as you had hoped they would.

Mr SNOWDON—Or, conversely, they are going better.

Senator FERGUSON—Yes.

Senator JOHNSTON—For example, Bushmaster was probably not a big budget item compared to Mr Gray's project when he was in uniform, but it was a very problematic one. I had a ride in a Bushmaster lately and, thankfully, that has come through after all those years. But way back in 1998 or 2000, it probably was a very red project on your maturity score. It was not showing up in the top 20, for instance.

Dr Gumley—No, because it was a relatively low spend. In fact, that is an interesting thing: if they are going so badly that they are not meeting milestones, you are not spending the dollars and they might actually drop out of the league table entirely.

Senator JOHNSTON—Exactly.

Senator FERGUSON—Yes, that is true.

Mr HATTON—Would it provide better context, and more balance in terms of the information we have, if instead of just giving us the five riskiest—given we have a top 30 here—we got a good proportion of the league table, so that we could see how the program as a whole is running? Or do you think it is enough to do just the five riskiest to start with?

Dr Gumley—I would have no problem with DMO reporting on risky projects, as long as we are also allowed to report on successful projects.

Mr SNOWDON—Yes.

Mr HATTON—Yes. That is why greater context might be better, because it could cover those as well.

Dr Gumley—Because there have been some remarkable successes this year. Bushmaster, for example, was quite a troubled project 18 months ago. ADI did a fantastic job on that one in the first half of 2005. We were able to get them over to the overseas operations, they are highly regarded by the troops in the field and it has been a very big success story.

Senator FERGUSON—We would be happy to get the five best as well.

Dr Gumley—Okay. Another project which might be of interest to the committee is the replacement combat system on the submarines. It was a reddish project 18 months ago; now it is solidly green—on schedule, on cost.

Mr SNOWDON—I want to get my head around the seven attributes and the scale. How is the scale of one to 10 determined? How do you assess where an item is on the particular scale?

Dr Gumley—We do that at two levels of sophistication. One is—and this might sound a bit simplistic but it is designed to be—that we get a single word, a single adjective, to try to describe each number on the scale. Behind that there is a lot of science. To be able to use that word, you actually have to go through a lot of checks to prove you are allowed to use that adjective. Let us look at one picked at random—'technical difficulty'. If it is not defined—in other words, you do

not know what you are buying—it is a 1. Conceptual is a 2. If the building blocks of the technology are in place it is a 3. If the technology is actually feasible it is a 4. If it is manageable—in other words, not only have you got the technology but you could actually turn it into something practical that people could use—it is a 5. Then it works its way up. Planned is a 6, fully designed is a 7, integrated into the overall platform or whatever is an 8, tested and out in the field is a 9 and then proven through service is a 10. Each of those adjectives has a number but against those there is a series of tests that enable you to use the particular adjective. We have the same items on cost. A 1 on cost is speculative—who knows what it is going to cost? That is about as bad as it can be. Finally, you get up to a military off-the-shelf item—for example, one purchased through an FMS case with the Americans where the price is precisely defined—and that is a 10. So you have that full range in between.

Mr SNOWDON—What about reporting against budget for the item?

Dr Gumley—Reporting against?

Mr SNOWDON—Presumably there is a purchase price. What does that come under? Is it in the cost schedule?

Dr Gumley—That comes under cost. It is true that quite often we will enter a project and not know the final cost. That is part of going through first- and second-pass approval. Usually when we go for first-pass approval, there is a range of costs. When we go through first-pass approval typically we might only have reasonable estimates from industry; those might be the best we will have. They might be plus or minus 30 per cent, but at least they enable you to do a bit of a cost capability trade study to work out which technology you want and then you further de-risk the cost part of the project between first- and second-pass in particular by conducting tender activities and so on and getting market prices.

Mr HAASE—The project that I am personally interested in is the Jindalee operational radar network. I notice, in your report on that, that actual expenditure and approved expenditure are pretty much on target. But I am hearing that there is some glitch in its operational performance and I am wondering, given that it is mentioned in your sector of operation, whether you can make any comment about that. Is it something that has been prioritised for you to continue to work on or is it fading in significance?

Dr Gumley—The reports I have here are that ‘capability continues to meet contracted rate of effort and exceeds availability targets—green, green, green, green’. I am not aware of the reports that you may have.

Mr HAASE—So that would indicate to you that everything is on target and as expected?

Dr Gumley—Yes. I note:

Schedule: contractor continues to meet contracted rate of effort and exceeds availability targets.

This is at 31 January. That is about five weeks ago. Unless something has happened in the last five weeks, I could not comment further.

Mr HAASE—The information I have is older than that of the last few weeks.

Dr Gumley—We regard this project as very successful now. The contractor did a good job on this one.

Mr HAASE—And the operational aspect of that operation is not something that you would be qualified to comment on—I accept that.

Dr Gumley—I do not know where the problem might be. Its maturity score is 69.

Mr HAASE—So you have achieved the target and it is performing in the manner expected?

Dr Gumley—Yes.

Mr HAASE—So it may be other aspects of the application of that project that are raising issues?

Dr Gumley—In which case it probably would not be a DMO issue.

Mr HAASE—I accept that. I just wondered if your partnership had any problems with it.

Mr HATTON—I want to know about the cost structures that you have to deal with. You mentioned that there was an indicative cost often at the start of a project if something was not completely tested. At the other end, you have an off-the-shelf price that is extremely exact. I imagine with a lot of projects you would probably have three levels to it and, particularly if it is an early phase project, the indicative stuff at the start. Another set of costs would say, 'This is what you are going to pay for this platform.' But there would be one or two other sets of costs, I imagine, in terms of factoring in the length of the service. The other ancillary support programs would have to be part of that. So you could have an item that might cost \$45 million, but the actual cost, taking in the whole service life and the expectations, would be \$100 million or so. Do you have experience with those different levels?

Dr Gumley—Absolutely. A typical project might have 70 per cent going to the platform and 30 per cent being other costs. It could be 50:50; it could be 90:10. But there is always a substantial amount of extra costs. An example might be any of the aerospace platforms. You might buy the aeroplanes, but another major cost might be a \$60 million, \$70 million or \$80 million simulator that has to be bought. Another might be a set of training packages that has to be bought as part of the project. Another might be to buy into the initial rotating spares pool. So the actual headline cost that a gun running merchant might give you, and the actual cost of capability, can be two quite different numbers. I think this is one of the difficulties in some of the published numbers that the media get at times. They look at just the unit cost of a particular item of kit without realising the project cost is significantly higher to be able to use it effectively.

Mr HATTON—That is our fundamental actual cost, isn't it?

Dr Gumley—Yes. What we do at second-pass approval is have a total project cost that includes all of these things, and we also do our best to get an estimate of whole-of-life costs, which we present to government at second pass. Of course, you do not have as much precision

on that, but you get some guide, at least for the first five or 10 years of operations. Putting up the estimate of operating costs is one of the requirements of government for second-pass approval. It would be irresponsible, for example, to introduce a new fleet of aeroplanes if you did not somewhere put in the 10-year budget cycle what they are going to cost to maintain each year.

Mr HATTON—In terms of the current experience and a bit of historical context, given the saga of the F111s and how much they were originally supposed to cost and the blow-outs in relation to them, is the manner in which this is dealt with now different and are the cost estimates and the way the process is managed different to what happened with that purchase?

Dr Gumley—The F111 was a project where, from my understanding—I have only read the history books, like most others—we agreed to pay a unit price which was based on the American production run. When the Americans cut quantities, the unit prices went up because you had a lower number of units with which to amortise the non-recurring engineering and development costs. We have that on a range of programs because typically the costs of development can be 25, 30 or 40 per cent of the whole production costs of the entire manufacturing run. So the quantity in which things are produced is a critical determinant of your final unit prices.

Mr HATTON—So could we be in that same situation with the joint strike fighter, then, given that it is very early days in the program and we have made a monetary commitment, even though we have not made a decision yet? We have also made a commitment in terms of development costs and putting our dough into that to be part of this. With the production run that is projected for the JSF—which is still some way away; 2015 or 2020—do we have potential problems? Or are we aware of what the contractual arrangements would be?

Dr Gumley—First of all, we are aware of the contractual arrangements. Secondly, the unit fly-away price is not finally determined at this stage; it is a moving number. It changes with changes in material prices—what it is costing in labour, experience and so on. The quantity of joint strike fighters produced is going to be an important determinant of the final price of the units.

At the moment, all the estimates are done based on the American requirement plus the British requirement. There is some discussion as to whether the American requirement might drop a little bit—but then we have to factor in all the third party countries like ourselves, which push the quantities back up again. Where that final number will end up, we do not know. It depends upon the interests of eight sovereign nations and how many they want to buy.

Mr HATTON—If you are doing a comparison between the estimated \$US100 million for a joint strike fighter versus the actual cost of, say, \$126 million for the F22 Raptor, which is already here—

Dr Gumley—I am not aware of the figure of \$US100 million for the joint strike fighter. It is certainly not the data we have.

Mr HATTON—What figure do you have at the moment? Are there different sets of figures? At this stage I would imagine it would be difficult to look at the life of the product and what the total price might be.

Dr Gumley—We do have cost data. I am wondering, Chair, whether you want to go through that now, when I understand that later on we are going to have a session on the JSF. Is that correct?

CHAIR—Yes, we will do it later.

Dr Gumley—I do have quite a bit of data available.

Mr CAMERON THOMPSON—I want to give you the opportunity to update us on what is happening with the replacement combat system for the Collins. You were pretty chirpy about it before, and I wanted to tap into that and find out where we are at.

Dr Gumley—The project remains on schedule for the first installation into the first of the submarines, *Waller*, in November this year. The systems integration in Australia is progressing to schedule. There are no major issues—technical or otherwise. Australian and US members of the joint project office in Washington DC are progressing with the development phase of the tactical system. At this stage, the project looks like it is going pretty well.

There are some cost pressures on the project. I think we have to understand that because combat systems are software driven, there is a constant evolution and update cycle. So, every couple of years, there will be a new base load of software into the submarines. The same applies, of course, to aeroplanes and other sophisticated military equipment. An interesting issue is whether we regard each update as an acquisition or whether it is just part of the normal sustainment cost of keeping the platform current. That debate is occupying our minds in a number of projects at the moment. The submarines and aircraft have to be kept up to within a year or two of the most recent technology to be effective.

In summary, at this stage, the replacement combat system project is green with an up arrow—so we are happy with it.

CHAIR—The report said that all submarines were to be upgraded by the end of the decade. Is that all still green?

Dr Gumley—That is still entirely possible. The only thing that might change it is that the only time you do a major upgrade like this when the submarine comes in for one of its longer dockings. We have to arrange the upgrade to happen when the submarines come in their normal maintenance cycle. For example, if we had a big operational need of one or two of our submarines in 2008 or 2009 and you had delayed its docking—docking is when you take it out of the water and give it a complete maintenance fit—you would then delay putting the combat system into that particular submarine. So the equipment will be ready to go but the actual installation will depend upon the docking cycles as they eventuate.

Mr SNOWDON—I want to go back to the M113. Can you tell us if the contract has entered full production of the vehicle? Will they meet the key date for initial capability in service by December 2006?

Dr Gumley—The current forecast for the in-service date is December 2006. The delay in the project is actually in the integrated logistic support packages, where the contractor has not been

able to resource up with enough skilled people to be able to do that work. I guess I would be expecting that they will get there just in December or they might be a month or two later than that. If you had asked me the same question last year, I would have been a lot more pessimistic. They have done a good job. This time last year, they had a lot of technical problems. The engines were overheating and there were all sorts of things going wrong. Now they have fixed the technical issues, and we are pretty much on track.

Mr SNOWDON—So in terms of the logistical support package, is that to do with contractors around Darwin, or is it in Victoria?

Dr Gumley—No, it is in Victoria mostly.

CHAIR—Are there any other questions? It is all clear?

Senator JOHNSTON—Dr Gumley, I am just looking at that lightweight torpedo. Is that the European torpedo?

Dr Gumley—Yes.

Senator JOHNSTON—Every other torpedo we have, in my understanding, is an American torpedo—and it is only a small number of torpedoes, isn't it? Why are we going to Europe for these torpedoes?

Dr Gumley—It was an open tender against a performance specification, and they won it.

Senator JOHNSTON—Right, but—

Mr Snowden interjecting—

Senator JOHNSTON—No, but let us work through that. The situation is that most of our operations are likely to be deployed with US submarines. We have quite a long history with the US torpedo. I am interested to know whether the tender documents actually factored in that history and the fact that, I would have thought, through-life support for the ongoing maintenance and management of those torpedoes was not onshore. What can you tell me about that? I have had a number of people complain to me about this.

Mr Gray—We really need to bring in the head of our weapons division, but the lightweight torpedo of course is not for the submarines; it is air carried.

Senator JOHNSTON—So it is the Orion torpedo, is it?

Mr Gray—Yes. The lightweight torpedo is for the Orion and for helicopters, so it is not an issue for us in working with American submarines. They won the tender. It is a good torpedo, and there will be in-country, through-life support for it.

Senator JOHNSTON—Who provides that?

Mr Gray—They have set up a joint venture. We will take on notice the details, but there is a capability.

Senator JOHNSTON—I obviously thought it was the submarine torpedoes, but all torpedoes in submarines are the US, the standard operational—

Dr Gumley—Yes, they are the heavyweight ones.

Senator JOHNSTON—So this is the helicopter—and the Orion has a torpedo too, doesn't it?

Mr Gray—Yes, the same one.

Dr Gumley—And the Anzac frigates. The lightweight torpedo goes on the Anzacs as well.

Senator JOHNSTON—And that is the European torpedo that you are talking about that won the tender?

Dr Gumley—Yes. From a company called EuroTorp.

Mr HATTON—I have a question slightly related to the interoperability of kit. The armed reconnaissance helicopters, the Tigers—we have had a look at them being put together and so on and at the MR90s. How effectively is that program going? There are some indications of some delays, but from what we have seen that is a pretty good buy from France and it will serve our purposes pretty well.

Dr Gumley—Yes, the Tiger helicopter program has gone reasonably well. I think our biggest concern now is training pilots. We are concerned about getting enough pilots through the system. The helicopters, as you are aware—you have seen them flying around there—are available for training, but now it is a matter of getting the proper training packages in place. So I am predicting some delays in pilot training.

Mr HATTON—I know we are going to deal with the Chinook later, but is there a related problem with the availability of pilots for the Chinooks because people are being trained to fly the Tigers as well? Is that interconnected?

Dr Gumley—I think we should wait for the head of air division for that one.

Mr CAMERON THOMPSON—Dr Gumley, there is an issue that you might be able to address more generally. When some members of the committee visited NORFORCE, there was some discussion about all the different types of batteries that soldiers now have to carry because of the requirements of all the different types of kit that they have got. Is something being brought together within your organisation to try and standardise batteries or reduce the weight of batteries that the average foot-slogging soldier has to carry?

Dr Gumley—I do not know.

Dr Williams—I will make a comment on that, although my knowledge of it is a little out of date. A couple years ago, there was a program in Land Systems Division to review all the

batteries to see whether there could be some standardisation. The difficulty, of course, is that you need to get a balance in that, if you specify a standard battery, you could have a big cost blow-out when purchasing new items of equipment because the items may be manufactured with unique batteries. So there is a trade-off. What has been done is to come up with sets of standards to design preferred sets of batteries and, unless there is good reason, to try and adopt that. But, as I say, there is a tension. You do not want to change the battery in a bit of US supplied equipment because that could be very costly and risky, but by accepting it you may be introducing a new battery—and that is the trade-off.

CHAIR—Thank you very much for that, and thank you for your attendance here today.

Proceedings suspended from 10.16 am to 10.34 am

GILLESPIE, Lieutenant General Ken, AO, DSC, CSM, Vice Chief of Defence Force and Acting Chief of Defence Force, Department of Defence

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

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

ROSSITER, Air Vice Marshall Clive, Head, Aerospace Systems Division, Defence Materiel Organisation, Department of Defence

CHAIR—Welcome. Our topic is the Chinook helicopter, Air 9000 project, upgrades and Afghanistan deployment. 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. Do you wish to make any opening statements?

Lt Gen. Gillespie—No.

Lt Gen. Hurley—No.

CHAIR—I will open the hearing to questions.

Mr HATTON—We noted earlier the problems with the Tiger helicopters in terms of providing training for pilots and so on. It is noted here in regard to the Chinooks that part of the difficulty is finding enough pilots because there are pilots who are on the Tiger training program and that is causing some difficulty. Can you give us some more information about that?

Lt Gen. Gillespie—That is more in the Chief of Army's realm. I do not have the specifics on that, except to say that the issue that we have—and we will be discussing it later on today with regard to recruiting—is in some of our technical areas in our Defence organisation at the present time. It is a continuing struggle to make sure that we have the numbers of people recruited and trained to meet some of our highly specialised capabilities, and this is no less challenging than with our aviation capacity and pilots. But it is an issue that the Chief of Army is highly focused on, and, as the Chief of Joint Operations, I do not have any apparent concerns that I cannot meet my operational responsibilities.

Mr HATTON—What I was specifically referring to is at 3.7 of your submission. It says:

Army reports that the annual flying hours for the Chinook were under achieved (by 8%) during 2004-05 because of an 'inability to conduct a planned flight test trial due to the test pilots being required for Armed Reconnaissance Helicopter Tiger testing program development.'

So there is a direct link there, and Dr Gumley told us in regard to other matters that there were problems in finding enough for the Tiger program. Do you have any more information in regard to a connection between those two? If not, could we get that?

Lt Gen. Gillespie—We can take that as a question on notice.

Dr Gumley—There is a clear problem at the moment with having enough pilots for the Tiger. We will have to take this matter of a linkage between the two programs on notice and get back to you as soon as we can.

Mr CAMERON THOMPSON—I notice that the Chinook upgrade is going to reduce the operating cost of the Chinook. What are the operating costs beforehand and afterwards?

Lt Gen. Gillespie—Air Vice Marshal Rossiter has not arrived yet, so can we leave that question for a little later in the session? He is on his way.

Mr CAMERON THOMPSON—I was going to go further down that track so I will wait until the witness arrives.

Mr HAASE—I am not sure if you can answer my questions which are also in relation to the Chinook. I have a question with regard to the self-protection system that is going to be deployed. Are you in a position to answer that now?

Lt Gen. Gillespie—I am in this instance.

Mr HAASE—How is the recent Afghanistan deployment going to impact in a practical way on the timing of the upgrade, and why has so much time elapsed without the Chinook having been given a self-protection system? Now that something is being done, what system is going to be deployed?

Lt Gen. Gillespie—The reality of it is that we have been operating this aircraft for many years in an environment where we did not need to spend the money on the sorts of capabilities that we would need to operate in an Afghanistan environment. When the requirement for operations in Afghanistan came up, we reassessed the operating environment we would expect the aircraft and crews to perform in and we advised government that we would need to upgrade the aircraft for them to be able to survive in that sort of environment.

Government agreed to a range of recommendations. We entered into what we call a rapid acquisition process. It concerned an aircraft that was in service with another nation. The sorts of things that we needed to do to the aircraft to make it survivable in Afghanistan were apparent with about a three-month lead time. We are modifying the aircraft to give it additional ballistic protection and electronic warning self-protection for the apparent threats that are in Afghanistan—the sorts of missiles that are there—so attuned capability. We are looking to enhance the aircraft's interoperability so that we can work in a coalition environment, including enhancements to communications and tools in the cabin for situation awareness so that we can see what other coalition assets are doing around our aircraft and flight operations. And we are looking to enhance the operational utility of the aircraft by improving gun mounts and putting different weapons into the aircraft.

Mr HAASE—Can you indicate what some of that equipment might be, as far as offence-defence is concerned?

Lt Gen. Gillespie—I can say that we are hardening the skin of the aircraft, and that is a highly technical composite industry approach. We are going to replace the older and heavier aircraft with less utility machine guns that we would normally have had on the aircraft with some mini guns. In fact, by enhancing the mini guns, we give the guys more firepower, but we also have less strain on the airframe and greater aerodynamics in the process. They are the sorts of things that we are doing. I guess the issue is that, in Afghanistan, we are ensuring that the crews and the aircraft can operate in two sorts of environment: (1) a natural environment that is harsh and which will test our pilots and their skills and (2) the hostility that comes into the environment from man-made factors, with the anticoalition forces that we have there. All of our work is being done to ensure that the crews are trained and prepared, that the aircraft is prepared and that we can confront both those environments.

Mr HAASE—Do you believe that is happening in a timely fashion, given that my notes advise me that the troops were deployed in 2003 to Iraq—a hot spot—and we are still talking about doing that? A lot of water has gone under the bridge.

Lt Gen. Gillespie—The task that we had designed for the aircraft in Operation Falconer did not require that we move down the path that we are now going down. In fact, we ensured that the tasking that the aircraft had at that time was suited for its capability and we looked at how it was configured. That became one of the constraints on where they operated and did not operate, and we were comfortable with that approach. Now we have a completely different set of operational circumstances, where we want and need to operate it in an environment where we have to confront the issues of electronic warfare self-protection and ballistic protection. From the time government announced that it was intending for us to do that deployment to now has been about three months. The rapid acquisition process has worked very well. We will have all of the essential upgrades to the aircraft done before they commence operating. About four upgrades that we want to do will be done whilst they are in theatre. They are not absolutely mission-essential upgrades, but they are ones that we want to follow through for additional safety and protection. But, with the upgrades that we have done already and which will be apparent when we deploy those aircraft over the next few weeks, our CH47s will be the most capable CH47s in the Afghanistan theatre.

Senator JOHNSTON—Why do you say that? Just on that point, you say they will be the most capable; how does that separate them from the American helicopters that we are using now?

Lt Gen. Gillespie—Some of the upgrades that we are putting into the aircraft to meet our requirements for our troops to operate in that sort of environment are well beyond the capabilities that exist in aircraft that are already flying over there.

Senator JOHNSTON—Can you tell us what those capabilities are? If you do not want to, I am happy for—

Lt Gen. Gillespie—For example, our electronic warfare self-protection is better than the suites that are being used in aircraft that are flying there at the present.

Senator JOHNSTON—I note that Air 9000 was not a top-30 project in 2004-05. Can you give us a bit of a snapshot of where we are at with Air 9000 in terms of these Army aviation upgrades and where we are going with this. Is it likely to be in the top 30 this year?

Lt Gen. Hurley—Air 9000 is not a single project in that sense, as you would be well aware. There are eight phases in Air 9000. Phase 1 was the development of the strategic plan for rationalisation, enhancement and future development of our rotary wing fleet. Phase 2 was the acquisition of the 12 additional troop lift helicopters—that was the selection of the MRH 90. They signed a contract—

Senator JOHNSTON—Is that the British one with the composite—

Lt Gen. Hurley—No, it is European—a French Eurocopter.

Senator JOHNSTON—But it is not a metal outside—

Lt Gen. Hurley—No. It is a composite skin.

Senator JOHNSTON—I know what you are talking about.

Lt Gen. Hurley—Our aircraft are under production. The first four are being produced in France. Two of those are already up and running. The fifth one will be produced in the line that is opening in Brisbane. It is on track at the present time. Whether it appears in the top 30 is a call by Dr Gumley as an approved project. Phase 3 will be the Sea Hawk midlife upgrade. We should be in a position to make a proposal to government on that in the latter half of this year or early next year. Phase 4 is the upgrade or replacement of the Black Hawk fleet. The decision has not been made yet as to which way we will go. Phase 5 is subdivided into two phases, A and B, which deal with the upgrade of the Chinooks. We have already made the decision on phase 5A to re-engine the Chinooks. That is under contract. Air Vice Marshal Rossiter can talk about that a bit further when he arrives. Phase 5B is essentially our midlife upgrade options for the Chinook fleet. Phase 6 is Sea King replacement. Phase 7 is a new Navy helicopter training system and Army training system. There are two subphases in that. Phase 8, in the longer term, would be the new combat helicopters for Navy—the eventual replacements for Sea Hawk and Sea Sprite when we come to that point in time. To be in the top 30 when one of those phases is activated by government would transition and, depending on value and status, Dr Gumley will start including it in that sort of reporting.

Senator JOHNSTON—So the troop lift helicopters will probably push it into the top 30 this year?

Dr Gumley—Yes, I think it will get there. The maturity score is 45, so that is going well and showing green on all measures at the moment.

Senator JOHNSTON—Great.

Mr SNOWDON—What is the situation with the availability of aircrew and technicians in terms of current operational demands? Are they sufficient? Do we know?

Lt Gen. Gillespie—In terms of current operations, we have the crewing that we need to be able to deploy and sustain the Iroquois for the range of tasks that I have in my books at the present time.

Mr SNOWDON—I want to pursue an issue which is about technicians and engineering in the aviation regiment. I am aware that there are allegations of Army personnel signing off and forging documents in relation to the serviceability of aircraft, particularly in Darwin on Jet Ranger aircraft. I am advised that there was an inquiry into this and that some of the personnel have been redeployed on the Black Hawks. I am just wondering if you are aware of that? If not, could you take it on notice?

Lt Gen. Gillespie—I am aware that there was an issue that I think is still under investigation and involves a number of agencies, including Defence. I am comfortable to take where we stand with that inquiry on notice. That is something that the Chief of Army should be providing to the committee.

Mr SNOWDON—I will follow it up at some later point.

Senator FERGUSON—I know we are dealing with a 2004-05 report at this stage, but I am wondering if you can tell us whether or not you are achieving the target of flying hours for all of your helicopters for this year? I say that because in 2004-05 with the Black Hawks and the Kiowas you were down. There were a considerable number of reasons given as to why; I might ask about them later. Do you know whether you are up to your target flying hours this year?

Lt Gen. Gillespie—My view is that we are, but I am not 100 per cent sure. I will get that information and give you an answer in this afternoon's session.

Senator FERGUSON—You also say that the Kiowas are progressively being replaced by the Tigers. How many Kiowa aircraft are left at this stage? There were 42 at the time this report was written.

Lt Gen. Gillespie—I do not have the answer.

Senator FERGUSON—I would be interested if you could find it. When describing why you did not meet the targeted hours, you talk about higher than expected failure rates on basic courses, reduced student numbers on instructor courses and slippage in the recruiting program as reasons that you did not fly as much. Then there is this wonderful line:

These shortfalls were partly overcome by a number of personnel initiatives in the second half of the reporting period.

That sounds bloody wonderful. I have no idea what it means.

Lt Gen. Gillespie—In the second half of the year we managed to reintroduce into service some pilots we had previously wasted. They had gone to try their hands at other things. We had an influx of people who had experience, who had skills we needed, who came back in. That was a marked number last year. That alleviated quite considerably some of the problems that Army was having with regard to numbers.

Senator FERGUSON—So why didn't you say that in the report? It does not mean a thing to say 'a number of personnel initiatives'. I have no idea what that means until you explain it. Just reading that in the report tells us absolutely nothing.

Lt Gen. Gillespie—It is a good point. And we see in here have 41 Kiowa aircraft.

Senator FERGUSON—So you still have 41. How many of the reconnaissance helicopters, the Tiger helicopters, do we have now?

Lt Gen. Hurley—There are none in service because they are still coming off the production line and going through their certification processes and so forth.

Senator JOHNSTON—Don't we have a couple in training?

Senator FERGUSON—We have a couple that are in training.

Lt Gen. Hurley—Yes, but they are not actually out in operational units.

Senator FERGUSON—I understand that. I just wondered how many had been delivered. Have we still only got the two?

Dr Gumley—I think it is up to six now. As the Tiger gets fully certified and the training comes on, gradually the Kiowas will go away and the Tiger will take over.

Senator FERGUSON—When is it expected that we will complete the replacement program? Does it have a target date?

Lt Gen. Gillespie—The Kiowa will continue its training services until its planned withdrawal date, which is between 2012 and 2015.

Senator FERGUSON—That is a long changeover period, isn't it?

Dr Gumley—Of course, the Kiowa is being used extensively for training. The Tiger is a much more capable aeroplane for reconnaissance and strike, so it is not exactly a one-for-one equivalent.

Senator FERGUSON—I am only going on what I read in your report. You said the Kiowas are being progressively replaced by two squadrons of armed reconnaissance helicopters. I would have thought that out to 2012 and 2014 is a pretty slow replacement program.

Lt Gen. Gillespie—Not for training helicopters. We will replace what the Kiowa does for us in reconnaissance with the Tiger. The Tiger brings enhanced capabilities, but we will still be using the Kiowa as a training aircraft for some time to come.

Lt Gen. Hurley—Some of the questions you are asking are about in-service management of equipment, which is not necessarily right on our point. Army wanted to keep some of the Kiowas in for training purposes to lead on to the Tiger to reduce the other stresses of introducing a new type of helicopter into the game. So, instead of getting rid of the Kiowas altogether and getting

another training helicopter and a new helicopter into service, we will keep training on the Kiowa. So we will keep some of those running, transition to the Tiger and then, in time, when we look at the Navy and Army helicopter training systems I referred to in phase 7, we will try to line them all into the same model.

Senator FERGUSON—Are the Kiowas based at Oakey?

Lt Gen. Gillespie—Currently the training fleet is at Oakey but we still have Kiowas in Townsville and Darwin.

ACTING CHAIR (Mr Hatton)—Dr Gumley, at 3.8 of your submission you speak about the upgrade. There is also a notation that it may be time to start looking at the possible replacement of the Chinook, given the medium to heavy lift that it provides, and that the debate on that might be timely. Has there been a debate? What is the current thinking in relation to that? I know that commitment to the upgrade is a commitment to the platform, but we are looking at midlife here.

Dr Gumley—That is a capability question I would like my colleague to answer.

Lt Gen. Hurley—The planned withdrawal date for the Chinook helicopter is 2025 and that is based on doing a midlife upgrade within the next five to six years or so. In the DCP at the moment there is no plan to replace the Chinook.

ACTING CHAIR—Sorry, that was 3.8 in our briefing papers, not in your submission. Moving on, ASPI, the Australian Strategic Policy Institute, does a lot of very important work, and it useful for us to have another source that is close to Defence. Its job is simply to be more targeted. They argue that in the whole range of those upgrades, the cost of the Black Hawk has increased by 50 per cent, the Seahawk more than 60 per cent and the Chinooks have more than tripled in cost. I think this is probably a question for Dr Gumley. Is that a reasonable set of assessments? What are the reasons for that assessment?

Dr Gumley—The helicopters as a class of assets are quite a bit more expensive than we thought five or 10 years ago. It is not just the unit prices of the individual platforms; it has been all the auxiliary systems that we have talked about. We have been surprised, for example, at the cost of simulators for some of the helicopter fleets. So when it comes to the total project cost compared with where we were in the 1990s, there is no doubt that the cost of the entire helicopter class of assets has increased. They are fairly competitive markets too. It is not like there is one supplier just able to name the price they want. When we have been out to tender, we have had a range of prices which have all been a lot higher than we expected five or 10 years ago.

ACTING CHAIR—Given that there is a tripling in the cost of the Chinook, if that is about right, is part of the reason for that the nature of the upgrade? The requirements to make it battle ready for Afghanistan are very new but also very specific to that. I understand that two are being sent to Afghanistan.

Lt Gen. Gillespie—There will be two aircraft in Afghanistan and we will rotate them around. The upgrades are happening to the fleet of six aircraft.

ACTING CHAIR—For the entire fleet of six?

Lt Gen. Gillespie—Yes.

Dr Gumley—Those upgrades have not been horrendously expensive. I think we are getting reasonable value for money on the upgrades. I am not concerned about that. Upgrades on some of the other helicopters we have had have been very expensive, and we have talked about the Seahawk and other upgrades in the past.

Lt Gen. Hurley—I think we also need to be careful that sometimes people go to the public DCP, look at the brackets and they like to jump to the top end of the bracket and say, 'Hey, its gone up \$150 million.' That is not necessarily the case and that is certainly not our intention to hit the top bracket when we go to government.

ACTING CHAIR—I understand.

Lt Gen. Gillespie—Can I make a clarifying statement on the number of Tigers. By the end of 2005-06 financial year, we will have nine.

CHAIR—By June of this year?

Lt Gen. Gillespie—Yes.

CHAIR—Further questions.

Mr SNOWDON—Later on this afternoon, I would like to pursue that issue I raised earlier on, if that is possible. I would like to drill down to the detail of the allegations which have been made and understand what remediation has taken place and ensure that no civilian contractors have been victimised.

Lt Gen. Gillespie—I will contact Chief of Army to attend the last session this afternoon.

Mr SNOWDON—Thank you.

Mr HAASE—I have no specific reference in the report to this, but I am interested to know if we can get an answer in relation to the continued service period for the Caribou. Is there a body of knowledge at the table that could advise in that regard? What are we going to do to replace that particular aircraft when the time comes? What is the strategy?

Lt Gen. Hurley—We have conducted over the last year a study looking at our future airlift requirements and have developed a set of about five different options in where we might go with future airlift mixes in the fleet for the ADF. Some of those involve extending the life of the Caribou, re-engining it, doing some avionics work on it and so forth if that becomes feasible. Others involve removing it from service. We have not got to the point yet of making a recommendation to government as to what our preferred way ahead is but, again, that should occur this year to give them advice on that.

Mr HAASE—To improve our understanding, would you care to comment on your belief of the current significance in operation of the aircraft?

Lt Gen. Hurley—It has reasonable utility in non-combat environments. Where you are not going to be shot at, use a Caribou. If you are going to go into an operational area and you think you are going to be shot at, you would not take it, because it has no EWSP and no protection. It is a good little cargo hauler, but it does not do the role in a more dangerous environment. That is one of the aspects we will have to take into account.

Mr HATTON—The Sea King helicopter has been in the news, naturally, because of the accident on the island of Nias. What is the current situation in terms of Defence's assessment of its continued suitability or being taken out of service. Is there a solution or an understanding of what the problems are?

Lt Gen. Hurley—I just went through the phases of Air 9000 before. Phase 6 is looking at the Sea King replacement. We are in the process right now of putting together a submission to go to government that looks at running considerations of phase 4, which is the replacement, upgrade or refurbishment of the Black Hawk, and phase 6, a Sea King replacement, together to take a number of business cases to government to say, 'You've got options to stick with Sikorsky; you've got options to choose for more MRH 90s.' In those sets, we would look to address replacing the Sea King as one of the higher priorities in the shorter term.

Dr Gumley—There is a strong cost benefit of tying together phases 4 and 6. It would be advantageous for the overall budget if that could be done.

Mr HATTON—Have we still got Sea Kings flying now?

Lt Gen. Hurley—Yes.

Mr HATTON—How many?

Lt Gen. Hurley—Of a fleet of six, five are flying, and the sixth is in deep-level maintenance.

Mr HATTON—What was determined to be the cause of the Sea King accident?

Lt Gen. Hurley—The board of inquiry is still under way.

Mr HATTON—What precautions have been taken with the others that are in service, given the difficulty of exactly what happened? I imagine there was a pretty quick assessment that something needed to be assessed.

Air Vice Marshal Rossiter—I will comment on behalf of Chief of Navy, because it is not a DMO issue. Basically, the Navy have embarked on a very thorough review of all maintenance practices across every one of their fleets, and are involved in not only reviewing maintenance practices, procedures and data but also the competency and training of the squadron maintenance personnel. On the basis of that—and there were a number of things discovered during that process that needed remediation on the basis of that—the Chief of Navy has authorised Sea King to be reintroduced back into service and is flying today.

Lt Gen. Gillespie—I can reinforce that. There is very close attention being paid to the issue by the Chief of Navy and the Chief of Defence Force. Anything that we glean from the BOI as we glean it that needs remedial action is happening.

Mr HATTON—What is a DMO area is that some thought has been given previously to changing large troop transport and new aircraft in the future. Our role has changed significantly since 1997 or so. What is the current state of thinking with regard to that? Is that just something that we have to look at later?

Lt Gen. Hurley—Large troop transport?

Mr HATTON—Yes, transport that is a bit faster than what we have at the moment given the deployments overseas—for instance, the one in respect of the tsunami where we had to get people to that area quickly.

Lt Gen. Hurley—In terms of troop transport, the multirole tanker aircraft, the A300 based, that we are bringing in carries about 280 packs—I could be corrected—and eight Hercules sized pallets inside the aircraft. That is the major new asset that is coming into play with regard to quick movement of personnel to an area.

Dr Gumley—We hope to take delivery of the first green-tail aeroplane—that is where it comes out of the Airbus factory unpainted and we fit out the refuelling boom and so on—in June this year, so that is moving quite nicely at the moment.

Mr HATTON—So that will be a pretty big transformation of the way in which troops are moved.

Lt Gen. Hurley—From a 707 to this and on top of Hercules, yes.

Dr Gumley—It will be another year after that until it gets into service, but the project is going through its milestones quite well.

CHAIR—Can I ask about the deployment to Afghanistan. We have increased our numbers there. Could you describe what we are doing now in Afghanistan and the competencies that we have there?

Lt Gen. Gillespie—Right now we have some 200 people deployed in a special operations task group in southern Afghanistan. The 200 people are operating in a task area, with small numbers of them dotted throughout the country in various headquarters so that we have strong liaison and coalition support. That group is made up of special forces, commandos, logisticians and headquarters personnel. They will shortly be joined by two CH47 aircraft, with 110 crew and support staff. That deployment will start in the next couple of weeks, and those aircraft will be operational in Afghanistan towards the end of March.

As you recently would have heard, the government has made an announcement that we would provide about 200 people to support a Dutch provincial reconstruction team deployment to Afghanistan sometime in the second half of the year. The issues to do with that deployment are still being worked out. A planning team is currently in Holland working with the Dutch to

ascertain exactly what it is they might want us to do and how we would fit in with their group, but it is our intent that those 200 be focused more at reconstruction and less at tactical operations and that the team will be a balanced reconstruction effort with enough force protection in there to meet our own national concerns that our people are properly protected.

CHAIR—Where is the Afghanistan deployment's headquarters?

Lt Gen. Gillespie—Our national headquarters are in a base outside Kabul.

CHAIR—So the operational—

Lt Gen. Gillespie—That is where our headquarters are; we do not comment on where our troops are operating.

CHAIR—How many are in Kabul?

Lt Gen. Gillespie—A handful.

Mr SNOWDON—You said you have sufficient aircrew and technicians to meet the current requirements. Has there been a need to call back into service people who have been retired from the services to fulfil some of these jobs?

Lt Gen. Gillespie—Not in the sense of bringing back retired people, no, but in bringing back people who had discharged and decided that they wanted to come back in.

Mr SNOWDON—And full-time reservists?

Lt Gen. Gillespie—If they are available. We have a number of areas in Defence where if we can get full-time reservists, we will employ them at the present stage.

Mr SNOWDON—This may not be the time to answer the question or even to delve into it, but I am interested in the recruitment for future demand and how that might be going.

Lt Gen. Gillespie—We have a session on recruitment this afternoon. I think it would be appropriate if you were to ask General Evans, Head of Defence Personnel Executive.

Air Vice Marshal Rossiter—Mr Chair, my apologies for being late. I was not aware that we were talking about the Chinook engine upgrade. I understand there was a question on notice about the engine upgrade. If you were to repeat it, perhaps I could answer it.

CHAIR—Please go ahead.

Air Vice Marshal Rossiter—I am not sure what the question was.

CHAIR—Mr Thompson is not here.

Lt Gen. Hurley—We will take it on notice.

Air Vice Marshal Rossiter—I can give you an update on where the program is at the moment, if that is of any interest to you.

Mr SNOWDON—That would be great, thank you.

Air Vice Marshal Rossiter—We got second pass approval for the project in December 2004. This is a relatively straightforward project in comparison to many that we take on. The design is based on a modification that has already taken place on the US fleet. We are buying the engine and the modification kits through the FMS system, so there is not a lot of commercial activity associated with it. The main commercial activity is with the Australian contractor, who will carry out the modification work in Australia. The FMS case is on order; we are running to schedule at the moment. I could give you dates of the expected delivery of particular engines and mod kits, which mainly centre around September of this year, which is in accordance with the project schedule. So far, it is on track.

Mr HATTON—I have a question about one of the design elements of Air 9000. When I read through the various sections, part of the choice is that you can buy an off-the-shelf solution and that limits what you are able to do in providing support to industry here and so on. A number of sections state that they try for maximum commonality of components with other aircraft configurations, either in the ADF or in others around the world. With most of what you are doing with the Black Hawks and the others that is what you are trying to achieve and get some synergies with Australian industry so that we have that input. Given the fact that we have different platforms, and in the case that we have gone to the French one with the reconnaissance helicopters, the Black Hawk and others, what do you really mean by trying to increase the synergy by providing that commonality? Is it at the component based level and with through-life support or is it in putting the project together, as we have done with building our ships here and providing the others or actually making them part of the process?

Air Vice Marshal Rossiter—I will have a go at answering the question. It is a genuine objective to try and have as much commonality as possible with the existing in-service equipment because it reduces life-cycle costs. In terms of the broad objectives for the project, before we have even selected the equipment that is one of the objectives we look at. The extent to which we can satisfy that objective varies significantly depending on where you end up in terms of the preferred option that is going to be taken up. We had that aspiration, if you like, for the Tiger but you then end up in a situation where, for every change that you might want to take, there is a design cost, technical risk and scheduled risk or consequences associated with that. So you have to look at every one of those and effectively have a mini business case decision that says, 'Is it worth pursuing commonality on that given the consequences of it?' As a result of that, you quite often find that you end up with quite limited but more essential elements. They tend to centre around things such as electronic warfare equipment, self-protection equipment, where we like to retain a fair degree of commonality in Australia. There is also secure communications equipment not only for interoperability with our allies but also amongst our own forces. We will often take a European helicopter but we will want a particular radio set in it that fits with everything else that we have. You tend to end up looking at those things.

The other area of major opportunity tends to be in the ground support systems—mission planning systems, training systems, those types of things—and we certainly are pursuing those

sorts of synergies in the helicopter program. At the more strategic level, you end up looking at things like fleet rationalisation options, which are the basis of the Air 9000 sort of approach.

Mr HATTON—One of the key goals is also to help build up Australia's aerospace industry. Through this program, have you been able to make steps towards doing that? Do you have some practical examples of the steps along the way?

Lt Gen. Hurley—Yes, the fact that we are assembling both the Tigers and the 12 MRH90s indicates that in the arrangement we were able to make in that contractual process we got those benefits, and we would seek to continue to do so.

Air Vice Marshal Rossiter—Before those contracts came on board, Australian Aerospace had a footprint in Australia of maybe about 50 people. It is up around 450 people today with both those programs.

Mr CAMERON THOMPSON—I asked before about the operating costs of the Chinook and apparently you can shed some light on that, Air Vice Marshal, before and after the impact of this program that is talked about in our briefing notes.

Air Vice Marshal Rossiter—The business case for the project was based on obsolescence and life cycle cost, and the expectation was that upgrading those engines would not only provide improved performance and deal with the obsolescence problem but also result in savings of around \$28 million through life support costs. What I do not have is the detail underpinning that here today.

Mr CAMERON THOMPSON—Can you tell me the operating cost of a Chinook?

Air Vice Marshal Rossiter—I cannot; I do not have that information. I could certainly get it for you. What I can tell you is that, because most of the material support is provided through FMS cases, my personal view is that the cost of supporting that platform compared to most other helicopter platforms is very good. It is a very economically supported platform. I was quite surprised to hear comments made about a tripling of costs, because I am not aware of that.

Dr Gumley—I might have something here, Mr Thompson: \$8.4 million is the annual sustainment cost—the DMO portion. You have to add pilots, fuel and other things, but in terms of looking after the aircraft itself it is \$8.4 million this financial year.

Mr CAMERON THOMPSON—That is an aircraft, is it?

Dr Gumley—No, that is for six of them. That is for the fleet.

Mr CAMERON THOMPSON—The reason why I am interested in the operating costs is that there has been talk of getting rid of Caribous and using Chinooks in that role, and I am interested in comparing the operating costs of one with the other. Can you give me the operating cost of a Caribou?

Dr Gumley—The DMO portion is \$13.1 million.

Air Vice Marshal Rossiter—Can I just update that. There are two components of the Caribou costs at the moment, because we have a project 5190 that introduced, several years back, about \$100 million to rebuild the Caribou capability. You may recall that there was a light tactical capability project that went all the way through to almost the final stages and then the decision was made not to proceed with it; that was the Caribou replacement. In the years leading up to that point, we had started to wind down support to Caribou. When that decision was reversed and it was decided not to proceed with that, there was a project 5190 that was approved, and that injected \$100 million to supplement the baseline costs that Dr Gumley has just provided you with. My recollection of it, off the top of my head, is that you are talking about around \$25 million a year in aggregate.

Lt Gen. Hurley—The other aspect of that is that I referred earlier to looking at the fleet mix for future airlift, which is part of what you were talking about, Mr Thompson: do you keep Caribous? Do you get rid of them? Do you buy more Chinooks or not? When we make those business cases and do the option comparisons, we will be looking at life cycle costs for this, not just acquisition costs. So an understanding of lift capacity, closure rates, acquisition costs and life cycle costs all go into that comparison. It is not simply a matter of saying, ‘How much does it cost to run this one and that one?’

Air Vice Marshal Rossiter—Unfortunately they are operated differently and a dollars per flying hour comparison between the two does not really tell you which one is the best capability to have for the need.

Mr CAMERON THOMPSON—If you are saying that they are operated differently now, the point is that they are not going to be operated differently if one takes over the other’s role. What I am trying to get to the bottom of—it has always interested me—is how the comparative merits of the Chinook can be equated with those of the Caribou. We have seen it doing these fodder drops ad nauseam.

Lt Gen. Hurley—That may not be the right comparison to be making. The alternatives to the Caribou are other aircraft, fixed wing, not necessarily more Chinooks. So, if you look at the fleet mix, we might say, ‘Js or A400s, C27Js, Chinooks,’ or we might say, ‘Js and Caribous,’ or, ‘A400s and Caribous.’

Mr CAMERON THOMPSON—I accept that; I am just saying that one of the arguments in this whole exercise is that the Chinook can take over the Caribou role. There is obviously a massive disparity between the cost of running a helicopter and the cost of running a fixed-wing aircraft.

Mr HAASE—How many Caribous do we have still in service and where are they deployed?

Air Vice Marshal Rossiter—There are 14 in service today. The majority of them operate out of Townsville.

Mr HAASE—What about approximate flying hours per unit annually?

Air Vice Marshal Rossiter—You’re stretching my memory. Off the top of my head, if you are prepared to accept that, I think it is—

Mr HAASE—I am simply angling to establish how frequently they are being used, because they are being requested on numerous occasions and a standard response to the request is that they are just far too busy.

Air Vice Marshal Rossiter—I think their flying rate is somewhere between 4,000 and 5,000 hours a year.

Mr HAASE—Per unit?

Air Vice Marshal Rossiter—Per year, for the whole fleet.

CHAIR—If there are no further questions, I thank members of the defence department for your attendance here today and for making yourselves available. We know you are busy people and we do value the time you have made available today. If you have been asked to provide additional material, would you please forward that to the secretary. I think some of you have been asked for some additional material or you may have brought the material forward in that last period answering questions.

Air Vice Marshal Rossiter—Could I clarify something: it appears on page 202 of the annual report.

Lt Gen. Gillespie—One of the questions on notice is why we did not make the CH47 hours last year. That is described on page 189 of the report. The reason that it achieved only 92 per cent is that we have a finite resource of test pilots. Those test pilots were being used in the Tiger program. It was not that we did not make them because there were not enough pilots for CH47s. The issue was test pilots, not the number of pilots for the aircraft.

CHAIR—Thank you.

[11.26 am]

DARBY, Commodore Campbell, AM, DSC, Deputy Australian Defence Force Commander, Joint Offshore Protection Command; and Commander, Northern Command, Department of Defence

GILLESPIE, Lieutenant General Ken, AO, DSC, CSM, Vice Chief of Defence Force and Acting Chief of Defence Force, Department of Defence

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

Topic 3: Joint Offshore Protection Command: roles and responsibilities

CHAIR—We will resume the public hearing on topic 3 with representatives from the Department of Defence for the Joint Offshore Protection Command. 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 the proceedings of the respective houses. Do you wish to make an opening statement to the committee?

Cdre Darby—No.

CHAIR—We will open up the batting with Senator Ferguson.

Senator FERGUSON—Operations Relex and Cranberry have been under way for some time now; it is several years since they first started. During the time that they have been in place, the tempo of operations has increased significantly right across the ADF. As part of the national security job, how much are those operations impacting on the ability of the ADF, for instance, to maintain platforms or to meet other operational commitments such as those in the Middle East? When we started Cranberry and Relics, we were not involved in all of these other things. Is it still possible for us to maintain the ongoing work that is required up there at the same level into the near future?

Lt Gen. Gillespie—I am probably best placed to answer that. One of the principal tasks as the Chief of Joint Operations is to balance our preparedness requirements and the concurrency issues that affect the current deployments and possible or contingency deployments that we would look at with the ADF. I am comfortable at the present time that the oversight we pay to preparedness is that we are capable of sustaining the current effort for operations like Relics and Cranberry and their not having an adverse impact on what we are doing in the Middle East or Afghanistan. Nor do they prevent our being able to reassure government that we are capable of reacting to contingency requirements that we have been asked to be prepared for.

Senator FERGUSON—What about things like shore leave for Navy personnel? Last year, when Senator Johnston and I were up at Rimpac, one of the most often talked about issues was the difficulty that people—certainly bosuns and chief petty officers—had in getting shore leave. As a matter of fact, I ran into one chap who, after 24 years, resigned because it was the only way he could get some shore leave, and then he re-enlisted six months later. It does seem to be a

problem partly because, with the restructure in the forces and the contracting out, there are very few shore jobs left for Navy personnel. If you have people involved in Relex, Cranberry, the Middle East and everywhere else, is it a problem for personnel in the Navy to get time back in Australia or time on shore?

Lt Gen. Gillespie—Again, we are talking about a capability management issue which belongs to Chief of Navy. The issue for us is that our people are our prime resource. The sorts of stories that you have just related are stories that we work really hard on. The balance between work, recreation, family support et cetera is really important to us. But it is true that in some of the highly technical areas where we have very few people with those skills we work some of our people particularly hard. Then it is a leadership and management issue between the Chief of Navy and those people in Navy about what we can do to alleviate the pain that might come from that. We have a number of initiatives in place, particularly in Navy, to look after people.

Cdre Darby—I can add to that. You are probably aware of a number of initiatives: extra crewing, building up the numbers of people on board a ship to 130 per cent or so and, with the new patrol boats coming online, multicrewing. My current rule under which I operate the vessels under direction from the Chief of Navy is that for the crews of the Fremantles, for example, who work particularly hard, I am only allowed to use them for 70 per cent of the time that I have them at sea doing the job. So 30 per cent of the time they have to be alongside getting a little respite from the arduous operations they carry out—the movement of small vessels, boarding a lot of vessels, long hours and those sorts of things. When the newer patrol boats come online, I will have a little more flexibility in that regard because they are multicrewed and I will be able to use them 90 per cent of the time at sea. They are the sorts of restrictions that are placed on me to make sure that I do not burn out the people. I am very aware of how hard they work and I try to manage their programs accordingly.

Senator FERGUSON—Do you think the constant operational tempo has had a further effect—I guess this is a judgment you have to make—on retention rates?

Cdre Darby—It is my judgment that probably not. If people are out there doing a job that they see as worth while, particularly in my area in a national security, national sovereignty type role, and they are apprehending a lot of vessels and getting recognition for that, then that builds them up, they see it as being very worth while and they stay—as long as we do not push them too hard and burn them out totally.

Senator FERGUSON—As long as they can get some time onshore, particularly if they are young married people with families.

Lt Gen. Gillespie—That is one part of the management problem. The other part is really for people like me in how we conduct the operation. We have had a history of combating fishing, say, for all of the year. We have got a lot smarter about that and you work out that fishing is seasonal and happens at certain places at certain times. So we use our assets much more wisely than we have done in the past, and that is aimed at providing the same sorts of outcomes that you have by making sure the ships are inshore for a percentage of the time.

CHAIR—Could you describe multicrewing for me, please?

Cdre Darby—With the new Armidale class patrol boats coming online we will have, in the mature state, 14 vessels and 21 crew. Essentially, they will be broken up into divisions of four. I am not too sure how Navy will manage the extra two vessels—hulls 13 and 14—but the first 12 will have divisions of four. Six crew will rotate between those four vessels to give a minimum of 250 days at sea on patrol.

CHAIR—Those crew could be rotated from anywhere around Australia. They would be flown to join the patrol boat?

Cdre Darby—Yes.

CHAIR—They do not just board, come back and change—they join it wherever?

Cdre Darby—Yes, if that was the operational requirement we could do that. Essentially, those six crew will remain with that particular division of four patrol boats and rotate between them.

Mr HAASE—I am interested to hear the comment in relation to getting smarter with the deployment of vessels and, rather than deploying for 12 months, deploying for a lesser period of time. I seem to be getting contrary advice from the area—foreign incursions of illegal fishers are part of my ongoing problem. The intelligence I am getting is that the fishing incursions are being spread more evenly across the whole of the 12 months, especially with the improved long-range weather forecasting facilities that they possess, and they are able with their high-speed capability to spend two days moving to the area, one day fishing and two days back out. With a five-day weather window of opportunity, they can do that 12 months of the year. The tendency to not make these incursions during the cyclone season is now a thing of the past. Would you care to comment more specifically and tell us just what focus you are putting on that operation today, given that Relics previously was focused primarily on the arrival of vessels carrying illegal immigrants? How has that operation been tweaked most recently, given the incursions of illegal fishers?

Lt Gen. Gillespie—Relex and Cranberry are two separate operations. Relex is focused on protection from illegal migration and Cranberry is about the surveillance of our coastline, and fisheries are part of that. Another key word you mentioned is ‘intelligence’. One of the reasons we are smarter is that our intelligence is so much better and we are making far better use of it. The other way that I gain flexibility is that internally in Defence we are looking at the assets in Relics and the assets in Cranberry more fully so that we can swap assets between one and the other as the pressure needs to go. That allows us to cover a broader area with much quicker reaction times to the sorts of issues that are out there. We do not have an issue with surveillance—we have our surveillance picture pretty well covered. If you want to go into the fisheries patterns and things like that, I am sure Cam, who lives this on a day-to-day basis, can elaborate on that.

Cdre Darby—You are right, the peaks have broadened. There are not the very fine peaks that we used to see a couple of times a year in April-May and then again in September-October. We do have a constant threat throughout the year. But you are talking about three different sorts of vessels. There are the fast, high-speed, cheap-to-build vessels coming out of the areas around West Timor, which can get in and out fairly quickly. Yes, they are there and they can look at that weather window and get in and out. They are a fairly constant sort of threat.

The other types of vessels, what we call the smaller type 3 boats, have further to travel and are a little more weather restricted. They are the ones that probably have the standard peaks around the March-April period and then again later in the year. The other major vessels which are a concern are the larger ice boats. They tend to follow more when the fishing is better. They are following the improved fishing conditions rather than the weather conditions. We tend to see them in periods when we know that conditions of moon, the tidal situation and everything else is right for them. We tend to be able to pick those reasonably well. But you are right about the smaller vessels—the ones that can get in and out quickly. They are a constant threat.

Mr HAASE—I have another matter to pursue. There is discussion presently—and you may not be happy about the criticism—about there being insufficient RAN vessels deployed to take the apprehended vessels under tow and to attend to that towage capability. It is currently being considered that we will use underdeployed civilian fishing vessels for that task. Would you like to comment? Are there any criticisms of that becoming the routine and are there any possible shortcomings of such a proposition?

Lt Gen. Gillespie—I would prefer not to go too much into it. The reality is that this issue is high on the government's agenda at the present time. It involves several agencies, and we are looking very hard at a number of different options that we might have to proceed forward and to recommend to government on the way forward. I think none of the options that we are looking at at the present time is underresourced from a defence perspective.

Mr HAASE—Thank you very much.

Mr SNOWDON—I want to give recognition and support to the work which the Naval personnel and other armed defence personnel do in this work, because it is extremely arduous and, as Commodore Darby pointed out, there is a need for time alongside. These characters do a lot of cycles and work very hard, so we should recognise that and give them praise for that work. I want to ask a question, which you may not be able to answer or may not be able to answer, about Operation Relex. I wonder, with the introduction of the Armidale, whether there is a capacity to rethink the use of a frigate on Operation Relex and whether it is possible that we might be looking at another way of doing that job.

Lt Gen. Gillespie—That issue is clearly in our mind. We will put forward a number of options to government to look at that issue, and we should be doing that in the not too distant future.

Mr SNOWDON—I want to ask about the positioning of people on Christmas Island in relation to Relics and whether or not that is an option for, say, some of the boarding parties on a more ongoing basis so that when we know a vessel is there we can just pick it up and take it out as opposed to keeping it sitting on the frigate.

Lt Gen. Gillespie—This is tied up in the same sorts of things that we are looking at, and we will put a position to our minister in the not-too-distant future on where we think we should be going with it.

Mr SNOWDON—I am interested in the interoperability between you and Customs and whether you are satisfied with the way that is working.

Lt Gen. Gillespie—I think that the creation of the Joint Offshore Protection Command was a masterful stroke. The organisation that Admiral Russ Crane commands—he works, if you like, in dual function for me and for the CEO of Customs—is a handy organisation in our current defence and security construct. It is an organisation that we have been practising with and have done a lot of work on. It can almost move seamlessly from worrying about fisheries—working with Customs and fisheries organisations like that—through to taking on a greater security role when fishing vessels end up as a concern for us because of terrorism, right through to moving further into combat operations. This organisation has the ability to morph fairly seamlessly from one extreme to the other.

I am absolutely delighted with the interagency work so that everybody in the interagency environment is comfortable with how that might work and where the shift points come—where does the emphasis come when Crane works for me rather than for the CEO of Customs? I think that is going particularly well. I am quite happy with that. I think there is still some way to go, but we are in the early stages of it and I think everybody sees the utility of this organisation and how much better the coordination of a whole range of maritime security issues can be.

Mr SNOWDON—I want to ask about the issue of the defensive posture of some of these vessels. We know that they are now doing things to try and prevent boarding parties. How has the risk changed over the last, say, 18 months? Do you anticipate further sophistication in their methods of countermeasures, if you like?

Lt Gen. Gillespie—We are concerned that we are starting to see this trend. It was not a trend that was apparent in years before. It has not yet reached levels that really cause concern, but we do note that there is a trend there. In our way of developing tactics, techniques and procedures to deal with those sorts of things, we are certainly working through those and working out what they mean for us.

Cdre Darby—We have not seen anything in the recent term, for about three or four months, along the lines of what we saw in two or three instances back in September and October. Going back to the interagency thing, there is a constant flow of information between us and Customs vessels to make sure that we get the information about the tactics and techniques we use to get on board some of these more difficult ones to Customs vessels and their information comes back to us. The coordination is much better.

Mr SNOWDON—What difference do you think the introduction of the Armidales is making or has the potential to make to the job?

Cdre Darby—It will give me, as I mentioned before, more days at sea. They have larger inflatable boats, which have a far better boarding capacity and capability—and that is really their weapons system. That is probably the biggest advantage. They can put those boats in the water in far higher sea states; they have two dedicated boarding teams; and they have a space on board where they can take apprehended people, either fishers or illegal immigrants, and keep them safe and looked after in good conditions. But the biggest advantage is the boats and their ability to board. The boats are bigger and faster. Some of the issues that we see with getting on board some of these more aggressive ice boats at the moment will be far less of a problem for us when we have the Armidales out there working.

Mr SNOWDON—The crews are not posted to the vessel; they are posted as a crew, which might—

Cdre Darby—They are posted as a crew to a division of ships. That introduces a few of its own problems. There is not quite the ownership that you have when you belong to a particular ship, but it is something Navy will work through. We have tried it before with our hydrographic ships, where we have three crews amongst two ships. After a while they become associated as either red crew, blue crew or white crew, and that is where their ownership and belonging lies.

Mr SNOWDON—What sort of time at sea would you expect a crewman in one of these vessels to do per year?

Cdre Darby—For the actual time at sea, I think they are planning on—

Mr SNOWDON—Or time on board.

Cdre Darby—about 130 to 140 days a year. I will be using them for probably eight to nine days at sea and then one day alongside for a logistics visit. They will then go out again for a patrol period of a maximum of six weeks. Then they will come back in, there will be a crew change, another crew will take over and they will have three weeks alongside to do some training, clear some leave and get ready for the next patrol.

Mr SNOWDON—I was leading to the question: do you anticipate that crews will all be located in Darwin or that you might have crews' shifts located in Cairns?

Cdre Darby—Navy is intending to home port four vessels in Cairns and the remainder will be home ported in Darwin. There are no plans to home port those people somewhere else. If we need to move them around they will be flown in and out as required.

Mr SNOWDON—So they will all be posted at Darwin or Cairns, effectively.

Cdre Darby—Yes.

CHAIR—To extend on that, when they are back on shore and their home is Cairns they will be ported out of Darwin.

Cdre Darby—Yes. If, for example, a patrol boat out of Cairns was working out of Darwin and we had to rotate the crew, we would fly those crew who got off in Darwin back to Cairns.

Senator JOHNSTON—Are you based in Canberra or Darwin?

Cdre Darby—I am based in Darwin, but I am the deputy to Rear Admiral Crane, who is the Commander of the Joint Offshore Protection Command. We work very closely.

Senator JOHNSTON—Have you come down here today for the committee hearing?

Cdre Darby—No, I have not. I was down for a joint commanders meeting with General Gillespie yesterday and some other work.

Senator JOHNSTON—Good. I was going to say we were very flattered if you had just come to see us. The Fremantles are being decommissioned. The general has commented that we do not want to get into too many operational issues, but do we have any capacity to slow the decommissioning of the Fremantles whilst we bring online the Armidales such that in the high operational intensity of this illegal fishing evolution we increase our capability?

Cdre Darby—It is really a question for Navy, but I would surmise that I do not believe there is that capacity. It is a matter of numbers and a matter of taking those crews from the Fremantles and getting them trained up in Armidales. We need to get into the Armidale game as soon as possible. I do not think Navy believes they will drop below their 1,800 patrol day commitment, but we will be getting close to that line while the phasing of this goes through.

Senator JOHNSTON—I accept that. Turning to radar effectiveness with these small fishing boats: Mr Haase and I are both Western Australians and this is an issue, as I am sure you are aware, that is of tremendous significance to us—particularly to the local member, who is sitting next to me. These little vessels are not able to be detected other than by sight. If I can take you through what I understand to be the process: when they are detected the RIBs are deployed and we then wait for AFMA to advise the commander of the vessel what has to happen to those apprehended vessels that are inside our economic zone. In my experience, it takes a very long time—and we have our personnel sitting on the water for many hours—for AFMA to make a decision. Have we tried to rationalise this so that we have a stock standard protocol? Often these vessels are a very long way from port and to tow them would mean that the vessel is diverted from further surveillance activity for a number of days. It strikes me that we need to have some interdepartmental rationalisation. How is that coming along?

Lt Gen. Gillespie—The process that you describe is correct. When I say that we are confronting and looking at options at the present time, that is certainly part of the process about how we streamline it and how we give the crews greater surety, and whether or not the crews can apprehend and pass off to other craft.

Senator JOHNSTON—Exactly. We are looking at evolving a proper standard protocol for that. My experience is that Navy is confronting bureaucracy back in Canberra. We confront bureaucracy back in Canberra quite often, but when you have men in high temperatures—36 degrees—on the open RIBs with these little boats floating around, it strikes me that there has to be a better way of doing this. I trust we are starting to get to the nub of the problem.

Lt Gen. Gillespie—We are deeply engaged in what we can do to improve our performance interdepartmentally, with each department looking to improve their performance. I think we will see evidence of that in the not too distant future.

Senator JOHNSTON—Very good.

Cdre Darby—I am very aware of some of those issues. While it might seem a simple solution for the people out there at sea, there are always the complexities as to where you are going to process the people, what capacity there is, whether port reception facilities are available, whether you can do health checks in certain ports. Some of these things take a bit of time to resolve before you can give an answer.

Senator JOHNSTON—From our point of view, as Western Australians, we are only concerned about Darwin or Broome. It is not very difficult. Thank you for those answers.

Mr CAMERON THOMPSON—You just touched on an issue I wanted to raise—that is, the number of locations at which these people can be brought onshore, the changes regarding the number of locations, the administrative requirements and steps that we place on the operators of the crews in relation to where they can bring people onshore, whether there are suitable anchorages, and what the standard of accommodation is. There is a requirement to take crews off the illegal vessels and stick them into some sort of accommodation. I understand that the constraints on the operation of those crews has increased significantly in recent times—or that is what I have been told. Can you flesh out the arguments and give us an indication as to whether we are getting more or less flexibility in relation to our ability to cope with the flow?

Cdre Darby—That is not necessarily a defence type issue.

Lt Gen. Gillespie—I would reinforce that it is not a defence issue; it is something for you to address to AFMA and DIMIA. We are simply an agent—

Mr CAMERON THOMPSON—I accept that, but I am asking whether we are getting more flexibility or less. Are there more or fewer locations? Are there more or fewer locations for accommodation? Are there more or fewer anchorages?

Cdre Darby—We are having some increase, where we are now able to take vessels into Thursday Island, which we could not for a while. I think the numbers and the flexibility to take vessels to port is about the same, given the increased numbers that we are apprehending. I think probably there is actually greater flexibility. There have been improvements in the system but, because we are apprehending more, the ability and the flexibility to take them have remained fairly constant.

Mr CAMERON THOMPSON—Can you give us a rundown of how many locations you are working to—anchorages for a start and then places where you can unload those vessels?

Cdre Darby—We do not work to anchorages per se; we work to four main ports—Broome, Darwin, Gove-Nhulunbuy and Thursday Island—at the moment.

Mr CAMERON THOMPSON—What happened at Thursday Island that made the change that gave you access to it?

Cdre Darby—Again that is an issue for AFMA and Customs, but I understand they managed to find somewhere where they could actually detain people. It is a particularly difficult area because of the quarantine issues in taking vessels in there. There is really nowhere you can actually safely hold a vessel which might represent a quarantine risk in an anchorage which is sufficiently sheltered and maintain that separation from shore.

Mr CAMERON THOMPSON—Can you comment about the conditions in which these illegal people live on board their boats? Typically what kind of accommodation do they have? Can you expect them to stay on board for more than a day or do they need to be immediately evacuated?

Cdre Darby—They live on board, supposedly quite happily, for weeks at a time, but you have only got to smell the boarding crews when they come back from a vessel to know that you would not want to live there at any time. It is very rudimentary accommodation. On a typical shark boat, you will have anything from six to nine people, sleeping on the deck, with a small cooking facility down one side and no toilet facilities as such. It is very rudimentary. Even worse might be the boats which are used to collect trochus shells, where a 14- or 18-metre vessel will have anything up to 20 or 25 people on board, in even worse conditions.

Mr SNOWDON—Anything is an improvement is the answer.

Mr CAMERON THOMPSON—I would say so, yes.

Lt Gen. Gillespie—But it gives you some idea also of why we have a problem with the quarantine issues when we are trying to land them in Australia, and the conditions that Commodore Darby was just describing on Thursday Island come to point.

Mr CAMERON THOMPSON—Commodore, is it the practice when you intercept them at sea to take them straight off their vessels, put them aboard our patrol boats and then tow the empty vessels? What happens?

Cdre Darby—It depends on a number of things, and two things in particular: the seaworthiness of the vessel and the weather conditions at the time. The Navy practice is that, wherever possible, we will try, as the first priority, to get the vessel to steam under its own power with a small steaming party aboard. If it cannot be steamed and it has broken down, we will tow it. If we believe it is unable to be towed due to the state of the vessel, or it is going to sink, then we will go through the process of destroying it at sea. If on our first boarding we determine that the vessel represents a serious quarantine risk—and there is a range of things we have people look for—then we will request permission to destroy it at sea as well. That is the same for Customs.

Mr CAMERON THOMPSON—Is the steaming party you referred to our steaming party or do we just leave one of their people on the vessel?

Cdre Darby—It is our steaming party. We leave the people on the vessel with a steaming party. That is our first priority, because it is easier to manage it that way and it is probably better steaming under its own power, in terms of seaworthiness, than being towed. They do not have very good strong-points for towing. It is hard, depending on the weather conditions, to tow them in such a way that they can ride well in the sea conditions. So, if a vessel can be steamed under its own power, it will be steamed under its own power with a small steaming party, generally of three Navy people, on board.

Mr CAMERON THOMPSON—Also, could you comment on the extent to which you are seeing an increased number of temporary camps being set up on our shoreline and on the islands to give support to the foreign vessels? Is there an increasing number of those and what do they generally contain when you encounter them?

Cdre Darby—There is a view, expressed more often in the media than elsewhere, that those sorts of things are increasing. Our statistics do not necessarily indicate that there are major

increases in onshore incursions and, when we do find them, they are generally caches in which to hide fishing equipment, or the people in question have been ashore to gather firewood and water, generally.

Mr CAMERON THOMPSON—What sort of numbers are there? You said that the numbers do not indicate an increase. What sort of statistics do you have on that?

Cdre Darby—I will need to look it up; if you will give me a moment I will try to find that information. We believe that in the last year there were about 18 onshore or near-shore incursions.

Mr CAMERON THOMPSON—And over what area were they? Did they stretch right from the west right over to—

Cdre Darby—It was basically from Cape York all the way through to the west.

Mr CAMERON THOMPSON—On the eastern side of Cape York?

Cdre Darby—No, that would not be included in that.

Mr SNOWDON—Would you accept, Commodore Darby, that there would be a number that you would not know about?

Cdre Darby—Yes, but I would not expect that there would be too many that I did not know about.

Mr SNOWDON—I just want to ask you a question about your command position. Are you still NORCOM?

Cdre Darby—Yes, I am.

Mr SNOWDON—Who do you now report to?

Cdre Darby—Operationally, I report to Admiral Crane as the commander of the Joint Offshore Protection Command, who then reports to General Gillespie for the military side of things. I still have a direct command chain back to the joint operations command direct into General Gillespie's area for my shore-based interaction with the Northern Territory government for defence assistance to the civil community across the north, and those sorts of issues. But 70 or 80 per cent of my work is operationally going back through the offshore protection command.

Mr SNOWDON—But you still have the same area of responsibility?

Cdre Darby—Yes.

Mr HATTON—The Joint Offshore Protection Command is relatively new and you have been tasked with an enormous array of things to do. But what we have not yet discussed, or discussed closely, is one of the things identified very strongly in the Defence Update of 2005. I want to

concentrate on the whole-of-government approach and particularly on questions of maritime terrorism and also our critical infrastructure. I will quote from that update. It says of the JOPC:

This Command ensures that Australia has the capability to respond immediately to an emerging offshore maritime terrorism incident and to otherwise protect our borders and critical infrastructure. Defence, the Australian Customs Service and the Australian Federal Police working together provide Australia with the highest level of border protection.

I have been to the engine-room of Australia's resources sector, Western Australia, most of which is represented by Mr Haase, and been to the Burrup Peninsula and the North West Shelf to look at the critical infrastructure there, through the Reps Standing Committee on Industry and Resources, and also to the Harold E. Holt communications facility. It occurred to me, as it could have occurred to just about anyone, that the significance of the critical infrastructure there, and also the significance of the communications facility, demands a response in terms of how we will protect that and how we will do it in a multi-layered way. How central is that to the concerns you have, or is the brief so big that that is only one sector of it? We have not only got the close-to-shore situation in terms of the Burrup Peninsula and the liquid natural gas, which we are exporting to Japan and shortly to China, but there are also the offshore oil platforms and so on.

Lt Gen. Gillespie—I don't actually think that the mosaic of tasks has changed. JOPC has not been given a whole lot of new things to do; we were always doing those things. JOPC has allowed us, with a Navy admiral working in Coastwatch, as we have had for years, to set up a process whereby, instead of running the military side of what were basically civil support operations through NORCOM, I have actually given the assets to D-G Coastwatch as commander of JOPC and he conducts business on my behalf. So I give him the assets, he does it and I don't get too concerned about day-to-day issues relating to fishing unless we have some issues with it. Before, under the old construct, I was worried about fishing, and I didn't need that.

Because he has Defence assets, and if we have to move very quickly into the counter-terrorism role because we have a concern in the North West Shelf or something like that, equally, the skill sets and the resources are there for him to then focus on me and what it is that I need to do to provide protection under the Commonwealth government's responsibilities in that area. So, in essence, the creation of JOPC allows us to coordinate in a far more efficient way than we used to do. There are no more tasks, really, but there is that coordination.

The other issue that people sometimes miss in this is that when we are talking about the broad gamut of security not only do we talk about federal agencies which are involved but also, if we are talking about the protection of, say, the Harold E Holt facility, that has a Western Australian police dynamic. One of the issues that we gain out of having this unified organisation which is looking at all of the crossover points is that we have a much more focused ability to look at those issues and to talk to all of the agencies, including the Western Australian government and the Queensland government, because they have their own sovereignty rights in terms of what part of the water they are responsible for, and they guard those pretty selfishly, as you might imagine.

What JOPC has enabled us to do is to put emphasis into an organisation, get unification of coordination and therefore far better engagement with a whole range of agencies. Under the previous construct, D-G Coastwatch would have been negotiating with the Western Australians on things to do with fisheries and those sorts of things and I would have been negotiating with

them on issues to do with security. He now does both of those negotiations and both organisations feed off a single entry. It is working magnificently, I think. Great credit should go to Admiral Russ Crane, who I think is doing a fabulous job in leading us down that path.

Mr HATTON—With respect to the security of the offshore oil platforms, is that within your purview because they are in Commonwealth waters? You do not have an interagency situation there?

Lt Gen. Gillespie—No, it is not that simple.

Mr HATTON—I didn't expect so!

Cdre Darby—It is not quite that simple. There are obviously a range of other government departments which have responsibilities, DOTARS being one. Essentially, we have the role of providing security in the offshore zone and we do that through a number of means—through security patrols at the moment and also, as General Gillespie was saying, through building the links with both industry and the other state governments to develop the understanding of who has responsibility and where.

Mr HATTON—How planned is this—and not only in terms of the offshore platforms? The situation has changed significantly since September 11 2001.

Lt Gen. Gillespie—It is planned. We spend a lot of time at it. We war-game issues to do with a whole lot of facilities and assets around the country that are of national importance, such as the oil platforms. We are quite focused and we have a number of contingencies. We do that in a multi-agency environment. So not only does Defence have a view of what it would do and who it would do it with but also we work on that with other agencies. I think it is coming along well. I am not saying that it is totally mature yet, because it is not. JOPC was created last year and people are becoming comfortable with it, but they are becoming comfortable in a really rapid line of succession. So I am very happy with where it is going.

Mr HATTON—With respect to the Burrup Peninsula, the LNG facilities and so on, in terms of proximity and frequency, do we have a naval presence that is close by, apart from the rest of what you are tasked with doing? When I visited there did not seem to be any at all. I could not work out how often it was occurring. When I first went there, we had not had the major incidents, but all the planning coming after those would indicate that a presence at least at some frequency would be useful, because if you are not close by it is difficult to respond.

Cdre Darby—We do have a presence but we do not advertise that presence and we do it at irregular intervals so we do not forecast when we are going to be there. As the member for Kalgoorlie would know, we are looking to actually have a continued presence down there when we mature the Armidale class patrol boat a little bit further.

Lt Gen. Gillespie—We do not go just for presence in these things; we actually use intelligence a lot. Sometimes we might be in areas to show physically that we can be in areas and other times we might not be visible at all but be there. We work really hard at understanding the intelligence of our maritime protection zone and where we should be. We work really hard to make sure that our assets are in the right places at the right times.

Mr HATTON—The terrorism groups that we have been dealing with have not yet made attacks on critical infrastructure like that. That does not mean that the next thing that they are going to try to do is not going to be just that. That is fundamentally important, which is why I directed the questions to you in the first place. We have got \$25 billion of resources just in one contract with China, for instance, coming out of there, so protection of that region is critically important. It is good to see that you are covering that in an unspecified way, which would be the most effective way to do it.

Mr CAMERON THOMPSON—I want to ask some questions about the origin of the fishing vessels. I wonder if you have any data on that or any information on trends in relation to the origin of the vessels. Do you have anything on the ownership of the vessels?

Cdre Darby—Most of the incursions that we see are of Indonesian origin. Very rarely do we see other nationalities in our waters. If you are looking to ask the question of whether they are syndicated as to company or corporate links and those sorts of things, we have limited information about that. The Australian Fisheries Management Agency are the ones who are responsible for collecting and analysing that information. I do not believe they necessarily have a lot of information that these—especially the larger ones—are all syndicated vessels. There are some indications that they may be Chinese companies but I think most people believe that they are Chinese companies within Indonesia and not Chinese companies operating outside of Indonesia.

Mr CAMERON THOMPSON—Are there trends in their type and configuration?

Cdre Darby—The trends have been fairly standard and relate very much to the economic gain that they perceive. For example, a lot of the smaller vessels are after shark fin because of the price of shark fin. That trend has not changed recently. The rest are what we call ‘ice boats’, the larger boats that are there taking reef fish—redfin—for resale in Indonesia.

Mr CAMERON THOMPSON—How much time is effectively spent on the effort to deal with and dispose of the vessels—apart from the crews—that you intercept?

Cdre Darby—I could not actually give you a figure on that.

Lt Gen. Gillespie—That is not an issue that we deal with. Once we hand the vessel over—

Mr CAMERON THOMPSON—If you have got Armidale class boats and you are able to take the fishing boat crew on board after you intercept their vessel, how much time and resources are then spent on putting the steaming crew on the intercepted vessel, getting it to where it is going to go and dealing with it there? What I am saying is this: if they were sunk straight away how much time would you save?

Cdre Darby—Undoubtedly you would save some time, but we are signatories to antidumping conventions. Our default position is that, wherever possible, we will bring those vessels back in. You would save some time, but it is a complex mosaic, as General Gillespie said. If you were to do that all the time sooner or later your crews anyway would be so tired they could not do any more. There are also the requirements of handling the people, handling the evidence. You need to

keep the people and the evidence together to then hand them over to somebody else. So it is not necessarily as simplistic as some people would make out.

Mr SNOWDON—Can I ask two questions. In regard to P3 Orion availability, have you any difficulty getting the aircraft for enough hours?

Lt Gen. Gillespie—I think we had a responsibility last year to provide 250 P3 hours. We provided 1,745 hours. We do not have any difficulty generating the hours. It is our responsibility as part of this deal.

Senator JOHNSTON—Are they hours from Edinburgh or are they hours from Darwin?

Lt Gen. Gillespie—From Darwin. We have a P3 available in Darwin to support the operations.

Cdre Darby—While they are nominally Relex hours, the areas they are flying are contributing to the overall surface surveillance picture for Cranberry type tasks.

Mr SNOWDON—I have two questions. The second question is about the use of the Regional Force Surveillance Units and how integral they are to what you do. What are their functions defined as, in terms of Operation Cranberry?

Lt Gen. Gillespie—They contribute to the surveillance operation in the same way that the ships and aircraft do, except that they are shore based. We work with the agencies to focus Regional Force Surveillance Unit patrols on areas of interest to either gain intelligence or to observe activities that might be going on to provide evidence. Again, we have an obligation there for about 240 patrol days a year. Last year we doubled that—so strong support. One of the reasons that Commodore Darby was able to say that we have 18 sites on shore and we don't think there are many more is that these guys and their extended families in the communities throughout the north of Australia actually keep a pretty good handle on what is going on in that part of the world—far better than people would expect that we could do in an area so vast.

Cdre Darby—Their community engagement network is one of the real pluses for me in terms of my intelligence.

Mr SNOWDON—We are great advocates of the RFSUs for a number of reasons—mine because I live in the electorate and know a lot of people who work in them, and have known them for some time. My colleagues and I went up there and spent some time with Arnhem Squadron last year. Apart from being bitten by midges, I think everyone was very impressed with the level of professionalism and dedication of all those involved. They get nothing but support from us. I am interested in pursuing this a bit further. They are intelligence gathering, primarily. I want to explore the issue of rules of engagement, including for the vessels. If an RFSU, for example, sighted someone on land, would they have the potential to apprehend them or interdict them in some other way? Is there an issue about vessels escaping into shallow water for Navy?

Cdre Darby—I would say our rules of engagement are very appropriate and quite robust for the roles we have to play. I think that also applies to the Regional Force Surveillance Units, who

very much see themselves as surveillance units—and rightly so. They do not want to get into the enforcement game, firstly because they are not trained for it. They believe that would be counter to what they are trying to do in terms of building community networks and their surveillance plans. There are issues with shallow water and there are issues where both Customs and naval vessels cannot go. In most of the areas across the north they are not particularly widespread. There are some areas off the Arnhem coast which do cause us a little difficulty. I don't know of any where we have actually been chasing somebody who had gone into shallow water and escaped that way. There have been some who have been in those areas and we have not been able to get in and get them, but that is generally in the Torres Strait area. But in most cases where we do pick up sightings or hear of sightings in shallow water or in littoral areas, we can get patrol boats there to intercept them when they come out.

Mr SNOWDON—Are you able to fire weapons on a naval vessel?

Cdre Darby—I would not like to comment on that because it goes to our operations.

Mr SNOWDON—Let me put it another way. Do the rules of engagement, which allow them to fire, prevent them from doing things they might otherwise do to vessels fleeing from them into shallow water? I am talking about propulsion systems.

Cdre Darby—It is really the same answer. Our rules of engagement are a sacred document to us because it would tell the other person what we would do in a given set of circumstances—and that is what we want to protect.

Mr HAASE—I want you to give me advice on some of the legal aspects if you can. There are a couple of issues. With regard to the strategy of engaging communities as marine rangers in the Northern Territory, I would like to hear any comments on how you think they stand legally if they were to discover a vessel. Can they board a foreign fishing vessel? What powers do they have? You referred to the expectation that you would take a vessel under tow and not quickly take a decision to sink a vessel. What are the legal requirements there?

Lt Gen. Gillespie—Let me clarify, firstly, who we are talking about in the apprehension. Are we talking about the Regional Force Surveillance Units or about their extended families?

Mr HAASE—I am talking about the employment of community members as marine rangers. I am looking to the efficacy of such a plan. There is an expectation that they will be funded by the Commonwealth government. Do we believe there is any effectiveness in that resource funding?

Cdre Darby—The legislative arrangements fall under other departments—Customs, Quarantine or Immigration. It would be up to those departments how they would enact those officers under that legislation to take that action, and I would not want to go into that. There are certain duty of care arrangements in how all this might play out in terms of the safety of those people who would be doing the enforcing and the back-up they may have. That is the military caution side of me coming out. I would not want to make determinations on the legislative arrangements because they lie with other departments and not necessarily with us.

Lt Gen. Gillespie—I think Commodore Danby is saying that we will not be employing them; they are not Defence assets. They will belong to other departments. The department and their employment status will depend on whether their legal status is under the fisheries act or the Customs Act.

Mr HAASE—Does JOPC have a point of view about their efficacy in the total mosaic of deterrence for these fishing incursions?

Cdre Darby—What I was saying there was that we urge caution going down that line because it needs to be under a coherent framework where you can control and ensure their safety and all those sorts of things.

Mr HAASE—I am pleased to hear you say that. You commented on not wishing to act hastily in sinking vessels. I believe there is a consensus of opinion in lay groups that sinking is the quickest, best and cheapest solution. Could you comment specifically on the costs and the determination process? We have heard of how ineffective administrative apprehension is—because they can pick up another set of gear and proceed to fish again. Can you comment on that. A lot of the public believe that these vessels ought to be effectively sunk there and then before we move on to the next apprehension.

Lt Gen. Gillespie—Can I approach it in this way: a lot of the people who make commentary on this are not bound by the law and we are—

Mr HAASE—Granted. This is a wonderful opportunity to inform them, I would have thought.

Lt Gen. Gillespie—That is exactly the case. Under our current laws, if we apprehend vessels we have an obligation to bring them to shore so that they can be dealt with appropriately. Under some of the maritime legislation that we are covered by, if we think a ship is going to break up or become a maritime hazard and all the rest of it—and there are a number of steps that we go through there—under certain conditions we can sink the vessel. But we cannot sink the vessel without those conditions having been made or we would end up in front of the next Senate inquiry explaining why we did not conduct ourselves in accordance with the law.

Mr CAMERON THOMPSON—Why a Senate inquiry?

Senator JOHNSTON—The Reps do not do that.

Mr CAMERON THOMPSON—There was passing reference earlier to aggressive tactics being adopted by some of the fishing vessels in their incursions and that the Armidales, for example, would be better equipped to be able to deal with those aggressive tactics. Can you run through what is happening in relation to the aggressive posture they are adopting—what sorts of tactics are they using and is this a trend towards more aggression from them?

Cdre Darby—I would not like to go into the specific details again, for the same reason that when it gets on the public record it becomes something for other people to do to see how we deal with it. Most of the methods I would describe as passive resistance methods which make it very

difficult for us to get on board. But we take appropriate risk mitigation measures with our people to ensure that their safety is paramount.

Mr HATTON—We now have two pieces of kit that were heavily criticised when they were in their initial stages, where there was great difficulty in development—JORN, the Jindalee over the horizon radar, and also the Collins class submarine. Given what you are tasked with to protect such large areas in general, are both those assets useful to you in carrying out our tasks?

Lt Gen. Gillespie—We do not allocate submarines to fisheries issues.

Mr HATTON—I am not talking about fishing, but general patrol stuff.

Lt Gen. Gillespie—I think that both capabilities are essential parts in our overall armoury. I can sit here as a Navy officer and tell you that I think the Collins class submarine has a fabulous capability second to none. So, yes, it is an important part of my arsenal as Chief of Joint Operations.

Mr HATTON—That is an excellent answer; just the one I wanted.

Lt Gen. Gillespie—We use JORN every day of the year—365 days, 24 hours a day—and it fits in. It is not a system in itself, but it is one of many capabilities that enhance our surveillance and knowledge of what is going on to the north of our country.

Mr HATTON—So it is an integral part of your capacity?

Lt Gen. Gillespie—It certainly is.

Mr HATTON—In terms of the surveillance operation, it would make it much easier for you to allocate resources rather than blindly—

Lt Gen. Gillespie—It is one of the several things that Commodore Darby and others use in creating their surveillance picture to understand what is going on.

Mr SNOWDON—I want to make an observation and then ask a question. The observation is about the RSU training and how successful it is in incorporating a whole range of activities for Indigenous soldiers in particular. Can you see some capacity for expanding what NORFORCE does in terms of training; and is there a capacity for it to, say, contract to do training for other agencies?

Lt Gen. Gillespie—I do not know that there is a capacity in the organisation to take on other tasks other than what it is doing at the present time. I think it is an outstanding model that I would invite any agency that wants to work out how to train, work with and get incredible satisfaction and performance from working with the Indigenous community to use. I think it has a world-leading capability. In fact, when we look at some of the issues of how we might train and work with people in Afghanistan when we join the Provincial Reconstruction Team over there, many of the lessons that we learnt from NORCOM in working with Indigenous communities and cultural issues will form the basis of a lot of our work in that area. I am really pleased with it. Whether or not it has the capacity to grow to support other agencies, I do not

know, but certainly it could be used as a model for other agencies to visit and to garner support from.

Mr SNOWDON—I am thinking more of the skill sets, because it seems to me that there are skill sets which are developed within NORFORCE which are readily adaptable to other agencies. For example, I can see that, with the ranger issue, some of the surveillance questions which you talked about, some of the issues to do with the use of communications equipment et cetera and small boats—which they are very adept at using—would seem to me to fit quite snugly with the proposition about ranger development, not going to the question of what that jurisdiction might be but going to the question of the skill sets they might require in the context of that emerging role, if it actually is funded.

Cdre Darby—Certainly you could envisage a role where they could be a part-time soldier and also a part-time ranger, but with the roles being separated.

Mr SNOWDON—I guess what I am asking, though, is: could we augment their training budget and allow them to train people who are not necessarily directly involved in NORFORCE?

Lt Gen. Gillespie—We have some capacity. It is in the organisations. I do not think it is a matter of budgets and augmenting people. I think there is enough money around to do those sorts of issues; it is a matter of the will of other organisations to do it—

Mr SNOWDON—To participate.

Lt Gen. Gillespie—and confront it and whether or not they want to use our experience.

CHAIR—Thank you, Lieutenant General and Commodore, for your attendance here today. If you have been asked to provide additional material, would you please forward that to our 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, thank you very much for your attendance here this morning. We appreciate the time you give the subcommittee, and we do understand how busy you are.

Proceedings suspended from 12.31 pm to 1.36 pm

BLACKBURN, Air Vice Marshal John Nicholas, Deputy Chief of Air Force, Department of Defence

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

LEAK, Ms Dianne, Director General, Resource Management Personnel Executive, Department of Defence

PRIOR, Mr Phillip, Chief Finance Officer, Department of Defence

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

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

CHAIR—The defence subcommittee will now move to topic 4: remediation of Defence'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. Do you wish to make an opening statement to the committee?

Mr Smith—Thank you. There are a couple of things I think I might helpfully say. The first is that I do welcome the interest of the parliamentary committees, this one in particular, in the subject of our financial statements. It is a difficult and vexed issue and the more opportunities we have to discuss it, the better chance we have I think of understanding what we have to do to resolve it and to enable members to understand the issues as well. In regard to the recommendations from this committee last year, there were six arising from your consideration of our annual report. Several of them went to this issue and we appreciate those. For instance, you recommended that we should try to stratify inventory and inventory price issues to find a solution, and indeed that is what we are seeking to get agreement on.

I just make this small point. The committee's report on the 2003-04 annual report spoke of our budget problems. I should clarify that the financial statement issues are not really budget problems, if budget means cash. They are problems of financial statements—that is, of records of assets and liabilities and the way we manage them. The only real impact on the budget is in the cost of our remediation. Happily, we do not generally have a budget problem. As I have said elsewhere, there is no impact from these statements on our cash management, which the ANAO regularly certifies. My new CFO, Mr Phillip Prior, who has come to us from the Department of Finance and Administration, and Dr Gumley, who of course from this year will be presenting his own financial statements, are very happy to discuss with you the remediation plans.

I would like to highlight three points. The first is that those plans—there are 16 of them; they are in the annual report and there is an update of them in our portfolio additional estimates statements—were developed in consultation with the department of finance and with our audit committees. We have a defence audit committee and a materiel audit committee. Each is chaired

by an independent outside person. We have private sector advisers—a lot of them, but in particular there is a representative of Ernst and Young—on our financial statements project board. They have been involved in drawing up those plans. As well, the ANAO has been very helpful in preparing those plans and trying to help us find a way ahead.

We are always asking whether there is more we can do. I think the answer from all of the people who help us with these things is: ‘Well no, just implement what you’ve planned to do.’ I think they all acknowledge that that won’t be done within a year or two. It is a very big program that we have taken on.

The second point is that I want to emphasise how much effort we are putting into training of people. I think there are serious issues of systems, as you know, within the organisation. There was serious under-preparation in terms of management work for the audit standards we now face. Perhaps above all, there is a very serious issue of training our people, right from the level of awareness of the issues and how important they are through to the actual implementation of the sorts of controls we want. Mr Prior can go into more detail about that. Last year we put some 7,000 or more people through training programs in financial management. In fact, we are doing so much of this that we are now losing some of those well-trained people to other organisations.

The third point is that of the relevance of the highly technical business accounts standards that we are aspiring to to government or not-for-profit organisations. That issue is now on the table. We did not put it there. Of course, if we were to raise that issue, people would say, ‘Well, you would, wouldn’t you?’ Happily, it has emerged in debate in the accounting community. I think that will flush out some quite helpful issues generally.

Mr Chairman, that is all that I need to say by way of opening statement. We are very happy to take your questions.

Mr HATTON—Responding to a couple of the things you said, from memory, at last year’s hearings there was the whole question of the manner in which Defence was being approached to have a commercial structure and a commercial approach. At the time we thought it was inappropriate that that standard be adopted, even though accrual accounting is based on that. Defence’s situation is a terrific example of how you can impose the wrong structure. Associated with that you have mentioned recommendation 2 that we made in regard to stratifying inventory pricing data, and drawing a line under the old inventory so that, instead of spending enormous resources trying to ascertain what the cost of a cog, a wheel, a nut or a piece of ammunition was in 1982, we might simply satisfy that situation by saying, ‘Draw the line; indicate that that’s not completely material but run forward.’

That, together with recommendation 5, I understand, in regard to defence leave, is still awaiting clearance, as you indicated then. It has been a year. It is a bit glacial in terms of, firstly, the people who are waiting for that notification in regard to their leave situation and, secondly, in regard to what was a fundamental auditing problem which we, in conjunction with you, tried to sort out. Have any resources during the past year been dedicated to continuing to try to do this inventory structure, given that that is what you are currently under until we actually get a decision?

Mr Smith—Yes, they have. That work was not done in time, in regard to general inventory, to be reflected in the outcome of last year's financial statements, but it was reflected in the outcome on explosive ordnance. For instance, we successfully established some boundaries for stratification and reduced the area of uncertainty. We now pretty much know what can't be resolved there. We have to settle the figure exactly, but we know the area we are in. That is a case where we will say, 'That's going to be a scar; we'll have to live with it. The cost of discovering the value and certifying it is too great.' In the area of general inventory, we are endeavouring to do the same thing. You can get into an endless argument about where the stratification could start. Do you wish to add to that, Phil?

Mr Prior—No. Indeed, we are looking at a range of stratification approaches. Interestingly—I refer to your comments about the application of accounting standards—one of the issues there of course is the accounting treatment of what we call inventory. We are having some discussion with the auditors about the nature of it, so we may be thinking more about whether it is a consumable rather than inventory, and therefore there is a different accounting treatment. Indeed, as a consumable, it would be written off in the year of purchase, as opposed to being retained on a balance sheet. So those are the sorts of discussions we are having, trying to—

Mr Smith—For instance, an aircraft is obviously an item of inventory. An aircraft engine is an item of inventory. But nuts and bolts are consumables. We think we are trying to audit too far—to take detailed inventory too far down the line.

Mr HATTON—At great cost, and with no real outcome. One of your comments related to the question of the way in which we reported. I will just take a guess at this. When you were talking about budget problems that were identified, I will take a rough guess that we probably meant accrual accounting budget problems that were imposed onto Defence. So, rather than the strict thing between 'This is our financing situation'; the fact that there may have been an inappropriate model, and that is where that may have arisen. I understand from some of my colleagues that some of these matters are being taken up by the parliamentary audit committee, that Defence have been asked to come along and explain how they have promised to be good but, in regard to these matters, although they say that they are going to do a whole range of things, they have not really conformed to what was asked of them and that there is to be an inquiry in relation to that. That is, just roughly, something that I have picked up. Does that make any sense to you?

Mr Smith—We have not conformed with the audit standards arising from accrual accounting; that is true. Incidentally, we will have quite a challenge in conforming with the next step, which is international financial reporting standards, as well. That is not something we are happy about, but that is what is reflected through the financial statements. As I said, I have always felt that I should be the last one to complain about the standards, for two reasons: one is that we are so vulnerable on that question, and, secondly, it is after all a matter of government policy. So, when people like you raise it, I just nod and say 'Yes,' but we must try to aspire to those standards. But they are demanding for a defence organisation—they are for all non-profit organisations which do not, as a matter of course, keep such detailed profit and loss statements, and they do not need to, but they are for our particular organisation, and that is reflected in international experience.

Mr HATTON—With the chair's indulgence, I will just say that, from my experience with this, part of the reason the committee took the attitude it did last year was a recognition that your

prime job is about the defence of the Commonwealth and that the imposition, for whatever reasons, of inappropriate standards could in fact militate against that. So certainly the department and we would be about the appropriate set of standards to be imposed.

As a single parliamentarian, I simply think the move from cash accounting to accrual accounting across the Commonwealth was not well thought through. It has imposed a series of costs that have led to Commonwealth agencies not functioning as well as they might. But that is not from an accounting point of view; that is my observation of the problems you have had—and there have been others—where it is perhaps not—

Mr Smith—That is true, Mr Hatton. The key word there is ‘appropriate’. Some of it might be more technical than we need, but I will readily say to you that there are also standards that we ought to be meeting, just as a reasonable matter of doing business efficiently, that we are not. They do need to be remediated. Where I can find highly technical issues that we would spend money on that are not worth pursuing, I will take that up with the Australian Accounting Standards Board, because after all it is not the Auditor-General who sets the standards; it is the AASB. But I do not want to hide from the fact that there are some realities about what we should be doing better about record-keeping.

Mr HATTON—In finishing, I would just like to thank Dr Gumley for indicating that he has a greater multitask role than he had previously in taking on these extra issues.

Mr Smith—Dr Gumley’s experience in the private sector in this area is immensely valuable to us. He reminds me often of what commercial practice would be. Unfortunately, the auditors he used to work with worked for him, while the ones I work with work for you!

CHAIR—Thank you.

Senator JOHNSTON—Secretary, I suppose it would be remiss of us not to ask you about the category A and B issues with respect to audits. Where are we at with that? I note that in the 2004 figures we had 14 category A and 45 category B issues, of which 10 B issues were resolved and none of the As. Where do we stand with that now?

Mr Smith—I will ask Mr Prior to address that. He has the scoreboard in front of him.

Mr Prior—We are in a position where we have some 71 findings still outstanding that we are currently working on.

Senator JOHNSTON—Are they category A or B?

Mr Prior—That is in total. I can go through the categories if you like. According to the information provided to me, there are 32 findings under category A, 26 under category B and 13 under category C.

Senator JOHNSTON—There is C now? Right.

Mr Prior—That brings us up to date with our most recent audit.

Mr Smith—It is worth saying, incidentally, that not all of the category A, B and C findings are solely about financial matters. For instance, one of the category As we were dealing with recently was a question of reserve force remuneration. The ANAO had concluded that there was an issue to be resolved there, and that is working its way through government. So those As, Bs and Cs are not all accounting or technical matters.

Senator JOHNSTON—I am a little bit ignorant about the C category. I am used to A and B. What are the origins of category C?

Mr Prior—It is a category developed by the Audit Office. If you want the precise definition, I would have to refer to my file. They are degrees of risk and impact on the organisation. So A is something that, broadly, requires immediate attention, if you like, and C is something lower—

Senator JOHNSTON—Much less attention.

Mr Prior—Much less, yes.

Senator JOHNSTON—That is fine; that is all I needed. It is just a further category in terms of priority.

Mr Prior—That is right.

Mr Smith—But a C this year could be a B next year, or an A even, if you do not give it attention.

Senator JOHNSTON—Is this the first year we have had a category C?

Mr Prior—No.

Mr Smith—No.

Senator JOHNSTON—It was there previously, was it?

Mr Prior—Category C has been with the ANAO for many years, as I understand it.

Senator JOHNSTON—But in our response to the audit reports have we been running a C category?

Mr Prior—Yes.

Senator JOHNSTON—All right. My advices have been deficient.

Mr Smith—We will check that. I do not think it is new; I remember them for all three years I have been here.

Senator JOHNSTON—Okay. So, Mr Smith, how do you think we are travelling with respect to the resolution of these matters; are we winning or are we losing?

Mr Smith—We are not winning as fast as I would like. I had hoped that we would be able to resolve the leave records issue last year and that proved not to be the case. We just could not agree on a definition or methodology with the ANAO which would have enabled us to clear that up. We did remove the qualification on lands, buildings and property—

Senator JOHNSTON—Yes, I saw that.

Mr Smith—which was an achievement. We did reduce the number of outstanding category A, B and C findings; we made more progress on that last year than we have made in any previous year. And we did reduce the area of uncertainty on inventory and explosive ordnance. The biggest disappointment, probably, was the leave remediation, because I do think that that is almost a fulcrum in this matter.

Senator JOHNSTON—Do you want to take this opportunity to tell us more about the issues that you are confronting there? I think it is important that we all understand that Rome was not built in a day and the sorts of dimensions you are confronting in seeking to meet these requirements.

Mr Smith—Yes. I will ask Mr Prior to speak in more detail but, broadly, it is a matter of matching what is in the computerised records with documentary records and verifying them, and we are not finding that easy. Phil can elaborate.

Mr Prior—It essentially comes down to the validation of the \$1.7 billion provision on our balance sheet for employee entitlements—long service leave, annual leave and so on. In an auditing sense, the auditors have a job to confirm the truth and fairness of that representation. Auditors ordinarily would rely on internal control processes within an organisation to allow them to come to a view that the number the system generates is reliable. It is a kind of ‘big adding machine’ concept. When the auditors come to the view, as they did some two years ago, that the controls are no longer reliable, they cannot rely on the internal controls and therefore, to form their opinion, they must refer to a different substantiation approach, which is to substantiate the actual transactions—the balances, if you like. That is where the problem arises for us. As you can imagine, with 80,000 people, to rely on individual pieces of paper—the individual sign-offs and checks and balances—to substantiate a balance of \$1.7 billion is a significant task. The problem we face is that, until we get our controls fully functioning again, the auditors will each year have to rely on a substantiation approach. That means checking records. As you can imagine, some long service leave balances have accumulated over many years, so it means going back in time to find the records that substantiate a balance. It is a problem for any organisation: once their controls get to a point where they are not reliable, they have to use a substantiation approach.

Senator JOHNSTON—I take it that these entitlement control audit issues are category A issues. Can you tell me off the top of your head—and I will not be surprised if you cannot—how many of the current 32 As relate to entitlements just so that the committee has a bit of a feel for the magnitude?

Mr Prior—Let me have a look at my score sheet. According to what is in front of me, there is only one category A. It is an all-embracing category and, if that is incorrect, I will come back to you. It is generally saying that the leave provisions are not under control.

Senator JOHNSTON—That is probably one of the bigger category A items?

Mr Prior—Correct.

Mr HAASE—The ANAO remains critical of Defence's internal control environment, which is 'designed to prevent and detect errors in accounting and financial reporting, which contain significant deficiencies due to the weaknesses in internal controls pertaining to financial management, operational systems, inadequate accounting records and poor inventory and asset recording. The deficiencies in controls and accounting records have resulted in significant uncertainties in relation to the material balances described.' Given that in 2003-04 the same question was asked—'What is being done to address the ANAO's express concern regarding the internal control environment?'—is there something specific you can identify for us that indicates we will not be reading this in 2005-06?

Mr Smith—I think you will be reading something very similar to that in 2005-06. I do not think that moving from the environment we had to an environment in which controls are fully effective is possible in less than a number of years. The controls issue has a number of aspects to it. The one that has perhaps been given most attention is the one relating to SDSS—the logistics management system. We have had a separate project running on that, which I would be happy to take you through. We think that is in pretty good shape, but it is now a matter of how well it is used, and that is what the training is about. Phil, do you want to speak about controls in other areas?

Mr Prior—The other area comes back to what I was referring to in terms of employee provisions and so on. As I understand it, the Defence payroll system—that is fundamentally what the employee provision is about—is a combination of an electronic system and a manual system. A manual system, as you can imagine for some of the employees, involves people who are moving around the country and the world on a regular basis. Records that need to follow those people and be maintained is not an insignificant task.

The projects that are under way at the moment involve both the electronic control environment and the manual control environment. Ideally, an electronic system of control is where we will be one day, but it will take time. I do not have the exact numbers in front of me, but they are in the order of magnitude of 20-odd thousand electronic, with the balance of our staff manually based, paper based. It is a very big task, as the secretary said, to move from one to the other. It is a process that is going to take some time.

Mr HAASE—Two questions arise from that. Do you believe that you are making good progress on the conversion to an electronic system?

Mr Smith—The roll out of the electronic employee self-service system has been pretty good over the last year. I believe we have completed the civilian workforce—have we not?

Ms Leak—That is correct.

Mr Smith—Dianne will give some advice on where we are up to with the military workforce. It is okay for civilians in their workplace to work on the employee self-service system, but it is more difficult for deployed forces, not all of whom will have access every day to a computer.

Mr HAASE—That is well understood, but I would like your assurance that you feel you are making good progress.

Ms Leak—The roll out of the electronic self-service system for civilians has been completed. A pilot conducted for the roll-out with our military people within the Canberra region was successful. As a result of that, more roll-out is being undertaken for a limited number of ADF members, with a full roll-out expected by September this year.

Mr HAASE—This goes to a statement/question I have on records that were recently established to exist in relation to personnel involved in deseal-reseal. I believe that exercise underlines clearly the necessity for usable information in relation to records and for the ready compilation and transfer of that information. Be that as it may, I simply make the comment that the final paragraph in the independent audit report, signed by Mr Ian McPhee, says:

As a consequence of the matters raised above, section 48 of the *Financial Management and Accountability Act 1997* has been contravened as the department's accounts and records do not properly record and explain the department's transactions and financial position.

In the light of that statement, your opening remarks about the difficulties you are having in this area and the fact that you are simply trying to abide by legislation laid down by this government, is there cause for rationalisation of the stringent audit requirements that are placed upon the defence forces?

Mr Smith—I do not think it is quite proper for me to comment on that. It is like any other area of government: that is what the position is and we must try to attain it. The government's view is that it should not ask less of its own agencies than it expects of the corporate sector, and that is the framework that we are working in. I would like to think we can continue to aspire to corporate sector standards, but getting there from here will be very challenging—in part because the investment that it will take will not deliver the benefit to our business that it might to a private sector company.

Mr HAASE—And possibly to the people of Australia.

Mr Smith—Yes.

Mr HAASE—Thank you.

Mr SNOWDON—Can I go to the remediation plans. Mr Smith, in March of last year you said there were 14 remediation plans in place to address the problem identified in the 2003-04 Defence annual report. Can you give us an indication of what the results of the implementation of those plans were?

Mr Smith—Yes.

Mr SNOWDON—There are a couple of questions; you might want to take them together. Do that one first, and if you could tell us what the cost was as well.

Mr Smith—While Mr Prior readies himself to answer that, I should just add that we have grown them to 16 now.

Mr SNOWDON—I was going to ask what the additional two were.

Mr Smith—As Dr Gumley likes to say, it is like peeling an onion: once you start on this problem and you peel one layer back and you get to understand a bit more, you find another one. So we have added two more remediation plans.

Mr Prior—I think the answer to your question, Mr Snowdon, is contained in two parts of the annual report. I refer you to pages 42 through 55, where there is an outline of the outcomes achieved against each of the remediation plans which will help you to gain understanding. The other piece of information, just to help you, is within the audit report itself, where there is a reference to the qualifications and the quantum of the qualifications. With each of those qualification points, there is reference to the previous year. So, in terms of the achievements, the audit report of the ANAO talks through how we have managed to reduce the extent of the problem. I could take you through that if you wanted me to, but it is quite clear that there has been quite a reduction in the extent of the dollar value of the problem.

So the remediation plans are generating gains for the department. As the extent of the dollar value continues to decline, it becomes easier to deal with the problem, as we can get it under control. That, to me, is what we look at as our scorecard in a sense as to whether the remediation plans really are biting. As the secretary indicated, this financial year we would again expect to see a further reduction in the quantum of the problem. Inventory may well still be a qualification, but we would expect to see the dollar value reduce. That is how we are approaching it and we think the remediation plans are kicking in that way.

Going back to pages 42 and so on of the annual report, the achievements for each of those areas are listed. They are not so much in terms of the dollar value; they are more about the achievement of particular actions that we plan to undertake. My reading of that and my understanding of that is that we are making good progress in an action sense in some areas. You will also see the plans for 2005-06, and it is clear that we still have work ahead of us, we still have things that we need to do. Unless you would like me to go through each page—

Mr SNOWDON—No, not at all.

Mr Prior—I think that gives the committee quite a good sense of our situation. We do believe we are making headway. We have regular discussions with the ANAO. I am heartened by the strong beneficial relationship that exists between us and the ANAO, and the indication we are getting from them is that they are also seeing the progress. So it is not just a self-assessment; we are also getting the feedback from the Audit Office.

Mr Smith—One of the elements in this that concerns me is that we have a lot of people working on this, we are putting a lot of money and a lot of effort into it, but we do not get the runs up on the board in big numbers, and so our people get a bit demoralised by this. Happily, the ANAO has taken to putting positive references in its reports. These do not get a lot of media attention, but, believe me, we count them and I put them out to our people periodically to encourage them to keep at it. I have 10 or 11 of them that I have gathered up so far.

Mr SNOWDON—That is very good. What is the cost of the implementation of the 14 plans to date in terms of staff hours and financial costs?

Mr Prior—The information I have in front of me indicates that the cost of the department's remediation for the current year—what we expect to spend—is in the order of \$77 million. Of that, \$42 million is staff time. There are opportunity costs as well as additional direct costs. That is where we expect to be. I do not have the 2004-05 figures in front of me.

Mr SNOWDON—Can you take that on notice and provide it.

Mr Prior—Yes, I can.

Mr SNOWDON—What proportion of that \$70-odd million would be allocated to external consultancies?

Mr Prior—We have that information. According to the information in front of me, it is—sorry; I may have misquoted a figure for 2005-06. The table I am referring to now has a 2005-06 budget total \$80.9 million. Total external costs are estimated to be \$29.7 million of that \$80 million—according to this table I have in front of me for 2005-06.

Mr SNOWDON—So total staff costs are?

Mr Prior—They are \$51.2 million.

Mr SNOWDON—And that includes the \$29.7 million?

Mr Prior—Yes, it does.

Mr SNOWDON—It is internal and external?

Mr Prior—Yes, that is right. For employees it is \$51.2 million; for external—contractors and other outgoings—it is \$29.7 million.

Mr SNOWDON—In addition to the \$51.2 million?

Mr Prior—In addition to the \$51.2 million, making a total of \$80.9 million.

Mr SNOWDON—I have a question in relation to assets. I noticed that included in the plus side of the ledger this year were assets that previously had not been counted—Robertson Barracks, for example. Can you explain why it is that those major bases—Williamstown, Robertson, I forget the others which are named—had not previously been listed as assets for Defence?

Mr Smith—Items not in catalogue, is it?

Dr Gumley—No, he said first found.

Mr Prior—Are you referring to a particular part of the annual report?

Mr SNOWDON—Yes, page 13; it is the ‘Explanation of major variations’ section under the heading ‘Assets and inventories now recognised (+\$407 million)’. One item is: ‘land and buildings, including at RAAF bases Townsville and Williamstown, Holsworthy, Robertson Barracks and HMAS *Stirling*’.

Mr Prior—I do not have the history of that, but some of these items would be assets that have not previously been brought to book just for historical reasons. It is not as if they physically have been found for the first time; there would be an accounting reason behind it.

Dr Williams—There are a couple of sources. In the case of facilities, there could be revaluations that have been done. In the case of assets, normally we will pass assets over to units when they deploy on operations. At that time it is assumed they are expensed. However, on occasions—for example, the tsunami relief activity—when the units return they may have some materials still with them that were not consumed. They will be returned into stores and so it will appear as an asset first found.

Mr SNOWDON—I just find it strange that we should be including those particular bases for the first time.

Dr Williams—They were included, and they had a value, but when we gave them to the unit they were then written off. So when they come back into the stores, because they were not in the end consumed, you need an accounting transaction.

Mr SNOWDON—I am talking here about land and buildings.

Dr Williams—My assumption is that it would relate to revaluations.

Mr Prior—It is to do with the revaluation.

Mr SNOWDON—It is reflecting commercial values.

Mr Prior—That is right, yes.

Mr Smith—But not first found in the normal sense.

Mr SNOWDON—I thought not but I wanted to check.

Mr HAASE—I would like to bring the secretary’s attention to an item on page 13. It is the fourth dot point: ‘Assets and inventories now recognised (+\$407 million)’. Even though it is part of a sentence, the last two lines, excluding the brackets say, ‘which identified a number of assets not previously recognised on Defence’s balance sheet’ and it includes a little block called HMAS *Stirling*. It is either an odd way for it to be expressed in the report; it is incorrect or it needs explanation, I would have thought.

Mr Smith—My understanding is that we would have had an inventory with costings against items and for some reason these items were either not on that inventory or were in the wrong place on it.

Dr Williams—As an example, if a stocktake is done—putting aside facilities for the moment and considering an item of inventory—and the number we find and count is higher than the number on the records, it probably reflects some deficient accounting treatment in the past.

Mr HAASE—This is land—I am not counting nuts or bolts or rivets. We are recording land and buildings.

Dr Williams—On the land and buildings side there was a complete valuation done by the Australian Valuation Office. In doing that they may, in some cases with a more detailed process, identify particular buildings or elements that previously were not identified separately. They will also identify commercial value. They might say that the value has increased. What you see in here is the sum of all those effects. When Defence first moved to accrual accounting, in the early years there was some true ‘first founds’ as we were bringing things onto the books and the records were coming up to date. That should now be relatively small and most of this should be simply accounting—revaluing.

Mr HAASE—From an accounting perspective it is logical, you are saying, that the land and buildings, for instance HMAS *Stirling*, were not previously brought to book.

Dr Williams—I would believe that HMAS *Stirling* was brought to book. What is recorded in here would be an increase or variation or there could be a particular building on the site that had not been formerly included. We would have to get details.

Mr Smith—It says, ‘land and buildings, including at’.

Mr HAASE—Well said, Secretary. I missed that. I was looking at the inclusive and wondering how on earth you could miss out HMAS *Stirling*.

Mr Smith—This is the point about the previous qualification. In 2003-04 we had a full qualification on our lands and buildings valuations and records. That was a very bad situation and reflected something that had been carried forward. We put in a lot of effort and spent a lot of money with the Australian Valuation Office in getting it all brought up to date, and that is the effect of it.

Mr SNOWDON—I just make an observation: if you have been to any of those bases you would recognise that they are all worth more than \$247 million.

Mr Smith—Yes, hence the ‘at’.

Mr SNOWDON—Going back to peeling the onion, what were the two new remediation plans and do you expect any further additions as you peel closer to the core of the onion?

Mr Smith—One part of me hopes there will not be but another part of me says that if we do find another problem we will have to tackle it with a remediation plan. That is realism. The last two we added were something about commitments and accounting for leases.

Mr Prior—Yes that is right. It is S13, ‘Commitments and accounting for leases’, on page 55. I may be wrong but I thought it was containment for contaminated land and buildings. It is those two on that same page.

Mr Smith—We have a number of sites containing contaminated land and buildings that we have to value and deal with separately.

Mr SNOWDON—So the implementation of the plans may give rise to additional work as you come across issues?

Mr Smith—They might, yes.

Mr HATTON—I have a question for Dr Gumley, in his new, augmented, multi-task role. Earlier today we had a submission to this inquiry from Mr Peter Goon from Air Power Australia. I have that before me and I provided you with a copy a little while ago. I want to go to two of the aspects of that—one more generalised and then to the specifics of his argument. He noted that the firm’s consultancy group had done a detailed study of the department’s statutory financial statements and the associated ANAO reports and he has provided an attachment to that, which is a compilation of category A and B risks identified over the four-year period. He says:

Notwithstanding the results of the Department of Defence exceed those of all other Commonwealth entities by some degree and are increasing, it would appear that these may be understated from an overall business risk perspective. No mention of the risks associated with major capability acquisition projects (post second pass approval milestone) or major capability development projects (pre second pass approval milestone) was evident in the reports studied.

Can you give us a reply in relation to that general argument before I go to the specifics?

Dr Gumley—The accounting standards require us to measure impairment of physical projects. If there is to be a capability degradation or a cost increase then that is part of the impairment which goes into the valuation of assets under construction or the value of the assets as they are handed over from DMO to Defence. ANAO do two types of audits: they do a financial set of audits, which are in these statements, and they do performance audits. The performance audits handle the projects one by one and evaluate the risks in those projects and whether we are handling them properly or not. Apart from the work on the standards for valuation of assets under construction, there is not a direct linkage between the two types of audits.

I am not aware of any accounting methodology where you would put contingent liabilities onto your balance sheet for something that potentially might happen. When you know there is a reasonable probability it will happen, that is when you take a contingent liability onto your balance sheet. You also have to remember that many of these projects are five and 10 years long. Just because you have a bit of a wrinkle in year 2 does not mean you are not going to fix it up in years 3 or 4. I certainly do not have the concerns that are expressed in this letter.

Dr Williams—I can add to that comment. We have something like \$8 billion—it varies over time—of assets under construction. Essentially, these are incomplete projects that are being progressed. When they are complete the items are handed across. The Audit Office has quite thoroughly reviewed that in each of the last two years and has judged, as we have judged, the value is true and fair. From an accounting point of view, there is not a concern on those issues. That is not to say that issues of impairment do not present ongoing challenges for us. However, we do not have an existing problem there.

Dr Gumley—I can go one step further. The letter goes on to talk about the Super Seasprite, the Hornet upgrades and the Air 6000, which is the new air combat capability, as if we should be booking impairment or liability against those three projects. That in fact is not the case. The Super Seasprite is a fixed price contract and, as I gave testimony to the Senate estimates committee a couple of weeks ago, at this stage we do not need a real cost increase. There is no need to book a liability there. The real cost of it to Defence is not having those aircraft for the war fighters to use. That is a sort of intangible cost. We have probably not needed them in a war fighting situation in the last few years, so what is the amount of money we have lost? I do not think there is a liability there.

Some parts of the Hornet upgrade are going very well—in fact, we will probably give a cost decrease back to government. In other parts of it we will probably need to go for a small cost increase. There are about six stages to the Hornet upgrade and at the moment we can probably measure what sort of numbers we need for that. With respect to Air 6000, at this stage the whole new air combat capability is a series of studies. Government has not actually committed to an expenditure of anything other than the money for the industry development package. So again, I do not see that there is any accounting issues at this phase of that project.

Mr HATTON—So despite that, Mr Goon has actually given you some ticks and some green lights as well as some red lights in regard to the general issue of the remediation of Defence's financial statements. If we look at the maturity score that you have given individual projects and given your experience in the accounting field in regard to Defence's requirements here, could you score that yourself in terms of dealing with this significant problem in regard to the financial statements for the Department of Defence?

Dr Gumley—Where we are on the maturity score?

Mr HATTON—I know this is novel. Where do you score yourself on that?

Dr Gumley—In return let me say that this is purely speculative, because I have not done the full study on it. DMO will be entering its life as a prescribed agency with its own financial statements with some wrinkles to wear from the closing position of Defence last year. If we unscrambled the eggs, we would have a few broken eggshells in the eggs and we will get a few of those coming across to us. Leave liability, in particular, is one that concerns us. I think we will be able to park a number of those issues in DMO, and we will be fighting very hard to try to get an 'except for' type finding from the Audit Office. We hope we will get there. On that basis, our maturity score would be of the order of about 50 out of 70.

Mr HATTON—Thank you, Dr Gumley.

Mr CAMERON THOMPSON—I want to get some figures on the deseal-reseal scheme. I have the cost of the board of inquiry into the deseal-reseal at \$7.2 million. What did the study of health outcomes among aircraft maintenance personnel cost and what is the cost so far of compensation payouts to deseal-reseal people?

Mr Smith—I am sorry, Mr Thompson, I do not have that information. Air Vice Marshal Blackburn may be able to help with that; otherwise, we will take it on notice.

Air Vice Marshal Blackburn—I do not have any costing information with me for the total program as yet. I can take that on notice.

Mr CAMERON THOMPSON—Thank you. So that was the cost of the SHOAMP health outcomes study and the cost of compensation payouts to DS-RS people so far. You could also put in the ex gratia thing, but that is obviously past the year that we are reviewing here.

Mr Prior—Chair, I have the information regarding the estimated cost of remediation for 2004-05. It was \$65.1 million. Employee costs were \$30.5 million and supplier costs were \$34.6 million.

Mr SNOWDON—What were the supplier costs? It was \$65.1 for—

Mr Prior—In total for 2004-05. Employee costs were \$30.5 million and supplier costs were \$34.6 million.

Mr SNOWDON—That included private contractors, obviously?

Mr Prior—Yes.

Mr Smith—In relation to Mr Thompson's last question, some of the answers may lie with the Department of Veterans' Affairs, in which case we will advise you.

CHAIR—That is true—probably mainly, if not all.

Mr Smith—Yes.

CHAIR—Thank you for your attendance here today. If you have been asked to provide additional material, would you please forward that to our secretary. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and of fact. I thank you very much for your evidence this afternoon. The next session is our closing session.

Lt Gen. Gillespie—Could we revisit a couple of the questions from this morning? I now have the Deputy Chief of Army with me, who could talk about the issue that Mr Snowdon wanted to talk about to do with inquiries to do with maintenance in the Northern Territory. Also we are able to clarify a question you asked on Army's expectation of being able to meet its rotary wing rate of effort forecasts for this year.

[2.30 pm]

BLACKBURN, Air Vice Marshal John Nicholas, Deputy Chief of Air Force, Department of Defence

EVANS, Major General Mark, DSC, AM, Head, Defence Personnel Executive, Department of Defence

GILLESPIE, Lieutenant General, Ken, AO, DSC, CSM, Vice Chief of Defence Force and A/g Chief of Defence Force, Department of Defence

GORDON, Major General, Ian Campbell, Deputy Chief of Army, Department of Defence

GOULD, Brigadier, Simon, DSC, Director General, Defence Force Recruiting, Department of Defence

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

PRIOR, Mr Phillip, Chief Finance Officer, Department of Defence

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

WALLACE, Colonel Tony, Acting Director General, Workplace Planning, Research and Retention, Department of Defence

CHAIR—I will open the closing session. I again welcome representatives from the Department of Defence. As you have no opening statement, you might like to continue the answers to the questions Mr Snowden asked before we go on to further questions.

Major Gen. Gordon—I am representing the Chief of Army. I understand that there were two questions. One of them concerned technicians and engineers at the aviation regiment and allegations of Army personnel signing off or forging documents which concerned serviceability of aircraft. There was an instance where a soldier was accused of forging the signature of his trade supervisor from the aviation unit in Darwin. I will specify the two types of documents involved here because it is quite important. He actually used the initials of his supervisor on what you would call his competency logbook or his personal workbook. He was accused of doing that but because we were unable to interview the supervisor we were not able to take it to a charge. The civilian contractor refused to talk to our investigator and so we did not have enough evidence to take it through to a formal charge. That was on the soldier's logbook. We then had a look at the aircraft maintenance documents and found that there were no inconsistencies in those. The soldier had not made any illegal entries on the aircraft maintenance documents and so after the aircraft had been grounded for, I think, one day we found out that there were no aircraft serviceability or maintenance problems and the aircraft were flying again. So it was only on the soldier's personal logbook of all the work that he was doing.

Mr SNOWDON—Isn't it true that there were three soldiers involved in this exercise?

Major Gen. Gordon—After the initial accusation against one soldier, that soldier then made the accusation that other soldiers had been doing similar things to their own logbooks. As it turned out, again we could not proceed because the civilian contractor would not be interviewed.

Mr SNOWDON—Could you explain why the civilian contractor would not be interviewed?

Major Gen. Gordon—Under the defence inquiry regulations, because he is not a member of the ADF, he is not required to talk to our interviewers and so we could not take the investigation any further. I do not know why he chose not to talk to our investigating officer.

Senator JOHNSTON—Could it be made a contractual obligation prior to contractors doing the work that we sign them up that they have to participate in these sorts of things? Shouldn't we have that base covered?

Major Gen. Gordon—I do not know the answer to that. All I know is that under the defence inquiry regulations we cannot compel people to talk to an inquiry officer if they are not a member of the Australian Defence Force.

Senator JOHNSTON—Well, you can if they agree to be bound and it is a condition of their contract.

Major Gen. Gordon—You could if they agree to be bound. I am not aware of the conditions of the contract.

Mr SNOWDON—Can you explain to us why Mr Ian Nancarrow might have been requested to be interviewed by ASIO, the Army and DSO?

Major Gen. Gordon—I am aware that an investigation was done involving a number of agencies. As I understand it, the investigation by the Defence Security Authority is now finished and is with the head of the Defence Security Authority. I don't know what the findings of that investigation are. He has yet to finalise his report and submit it, so I don't know what the outcome of that is going to be. That is up to the Defence Security Authority.

Mr SNOWDON—Would it surprise you to know that Mr Nancarrow might claim that he was harassed by Army?

Major Gen. Gordon—I was aware that there were some claims that he was harassed, yes.

Mr SNOWDON—Is it possible that other ADF personnel may have also been harassed by Army for being involved in whistle-blowing?

Major Gen. Gordon—I am not aware of any of those accusations.

Mr SNOWDON—Are you aware whether there are any other assessments or investigations into possible forgery on other bases, including Oakey and Townsville?

Major Gen. Gordon—No, I am not aware of any of those allegations or accusations.

Mr SNOWDON—You say you could not do anything because this person would not give evidence. You have then said that one of these persons then accused two others. Presumably that was in itself an admission of some sort of guilt. I am just wondering if any further action was taken in terms of the three armed force personnel subsequently. Can you tell me if they are now currently working on Black Hawks?

Major Gen. Gordon—I will go back to the initial question about accusations. As I said at the start, there was insufficient evidence to proceed under the Defence Force Discipline Act against the soldier who was initially accused of forging a signature. That went beyond, to his counter-allegations. So we were not able to take those to any form of conclusion. On the second matter, as to whether the soldiers have subsequently been posted, the answer is yes, a number of those soldiers have been posted to other Army units, but that is as a result of what I would call normal posting action. There was no posting action linked to those particular allegations. They were just normal postings.

Mr SNOWDON—Let me put it another way. Are you satisfied that these persons were not involved in forgery?

Major Gen. Gordon—I am satisfied that at the time they were unable to bring charges against soldiers under the Defence Force Discipline Act. We have to operate under our legal system. I cannot form an opinion myself as to whether they were involved in forgery.

Mr SNOWDON—No—I appreciate that.

CHAIR—You cannot ask for a legal opinion.

Mr SNOWDON—I am not asking for a legal opinion. I am asking if he is satisfied that they were not involved in a forgery—not for a legal opinion. Are you satisfied that this practice has not happened elsewhere across Army aviation?

Major Gen. Gordon—I have absolutely no evidence at all that this practice is going on anywhere else around Army.

Mr SNOWDON—Right. I want to confirm: you are satisfied that in signing off on aircraft there has been no record or history of people forging signatures and signing off on maintenance of aircraft.

Major Gen. Gordon—In this case it was deliberately investigated as to whether there was any evidence that aircraft and maintenance documentation had been forged. It was positively confirmed that there was no evidence of aircraft documentation being forged and we are not aware that there is any evidence anywhere else around the Army.

CHAIR—We will now go to the subject matter of the final session. Do any of the witnesses want to make an opening statement in regard to the final session?

Mr Smith—Not in my case.

Lt Gen. Gillespie—Not in my case.

CHAIR—We will move to questions.

Mr HAASE—The topic escapes me for the moment, but some further evidence was offered, I thought, on a second topic—there had been questions.

Lt Gen. Gillespie—Whether Army would achieve helicopter rates of effort this year.

Mr HAASE—Could we perhaps hear that evidence now?

Major Gen. Gordon—There are two key steps in our rate of effort: estimation and achievement. We have what we call a 10-year rate of effort allocation, which is a long-term projection of the amount of flying we expect we are going to do. It is a 10-year rolling projection. That is really to give us some guidance on logistics planning we might have to do, such as the amount of spare parts we have to buy, the amount of contractor effort we might have to plan for and engage in in order to keep our helicopters flying at the rate we would like to achieve. That 10-year rate is generally consistent across the period.

At additional estimates each year, we refine our expectations for the amount of flying that we are going to have to do. For instance, our allocation at the start of the last financial year was 8,600 hours for Black Hawk. That was refined to 7,500 hours at the point of additional estimates. The sorts of reasons that we might not achieve our full estimate under the 10-year projection are things such as the availability of pilots, the implications of fleet maintenance and these days more particularly operational deployments. We find that when we deploy operationally first we have to give pilots additional time to prepare for their deployments. They have to do pre-deployment training and they might go on some pre-embarkation leave. We find traditionally that we do not fly as much on operations as we do at home because of some of the operational limitations such as weather, and that is typically the case in Pakistan. Then, when the pilots come home, they might go on post-operational leave. So the amount of availability we have for pilots is limited. That causes us to revise our estimates of the amount of flying that we might do. We have found, though, that in no case has any reduction in our flying hours limited our capability. The consequences of any reduction in the amount of flying we do tend to be on our support tasks rather than on our capability tasks.

Mr CAMERON THOMPSON—I want to discuss my serious concerns about what has been happening in relation to the deseal/reseal program. In a couple of recent private hearings with the DVA, we have been told that records about who worked on the planes, who was involved in deseal/reseal work on F111s, were grouped together, placed into storage, potentially for use in an inquiry, and then promptly lost. That is what we heard from the Department of Veterans' Affairs. Of course, following that process, the losing of these documents, we have had the board of inquiry and then the study of the health outcomes. It has been repeatedly asserted during that time that one of the great difficulties in this process is that we can't identify people because of the lack of records. DVA has told us that those same records were found again in October or November. I am aghast at that. I want to get the story on it from the chief about what happened.

Lt Gen. Gillespie—You have picked the wrong person to ask in asking me. Hopefully, Air Vice Marshal Blackburn can shed some light on the issue.

Air Vice Marshal Blackburn—We saw a statement the other night from one of the hearings here saying that last year the service maintenance records for the planes were located in Amberley. That caused us some concern. We have been looking at that and talking back to DVA. There were no aircraft maintenance records accessed in Amberley last year. To the best of our knowledge no Air Force records have been withheld. Everything to do with the service records for the aircraft was provided. We think some of the confusion is arising here because the DVA rely on sets of records to look at an individual's claims when they are coming forward. These are personal history and medical files, a PP179—which is an airman's trade progress sheet of what training they have received or what jobs they have done—and a RAAF record of training and employment.

Normally, these are provided to the individuals when they retire from the service. I understand that, when people have been presenting back to the DVA in this claims process, they have been presenting them. Where they do not have those copies, we have been going back into the personnel records/files and trying to recreate those documents for them. The information on the documents themselves are sourced from the aircraft maintenance records in existence at the time, and these records were put together during their service or training.

Whilst they involve the individual's activities in relevant aircraft maintenance tasks, they are not aircraft maintenance records. So there are no aircraft maintenance records missing; these are case-by-case individual records. So we still cannot quite understand the statement. When I look at the record of conversation from the other night, we are not aware of these records having been missing or found.

Mr CAMERON THOMPSON—The board of inquiry transcript includes a reference to the lost or missing medical records of people—and that apparently did happen. But the straight-up statement from DVA is that they are now in an improved position of being able to assist people with processing deseal/reseal claims because these records have been found. Are you saying that that is an incorrect statement?

CHAIR—I do not think it is appropriate that we refer to the discussions we had in our private meeting with DVA. You can refer to your opinions about it, but I do not think you should be revealing a private discussion that we had in a private meeting of the committee. You can certainly couch your questions—

Mr CAMERON THOMPSON—Mr Chairman, I think the discussions that we had in relation to this matter have been already been reported back to RAAF—

CHAIR—I do not know about that.

Mr CAMERON THOMPSON—What is being said here is that they have heard the comments from our group and are responding to them. Quite independently of that—

CHAIR—We had a private meeting. We did not have a meeting that was recorded. There is no *Hansard* record, unless someone from the meeting has gone out and spoken to the media. That is the only way that there could be public comment. Having said that, I do not want to make it the major focus—

Mr CAMERON THOMPSON—I did not say that it was made public. I said that what had been raised there had been reported back to the RAAF. I am merely trying to resolve this because it is a matter of serious concern.

CHAIR—Air Vice Marshal Blackburn might be able to answer the question then.

Air Vice Marshal Blackburn—I have a DVA summary from their standing committee appearance. In that summary, they say: ‘Late last year the service maintenance records for the planes were located in Amberley. We are now examining these records to finalise the outstanding claims.’ We have gone back and said: ‘There are no service maintenance records or aircraft maintenance records that were outstanding. Everything we have got, we have put on the table.’ We think that, in our initial discussions with DVA, there may have been some confusion about the terms in what was stated by the witness. I have asked my staff to follow it up with DVA, and the only thing that we can think of is that there is some confusion over these records of training and records of maintenance activities performed.

When an individual presents, either we look at those records or we go back into the service records and try and recreate them and then look at some of their pay records to see where they were paid confined spaces allowances to work out where they worked and when and whether they were part of the deseal/reseal program or involved in maintenance activities not within that specified program.

We are doing what we can to help people research those records, but I am certainly not aware of something suddenly appearing. We would certainly like to find out exactly what people are talking about, and we will check into it. But certainly no service maintenance records suddenly appeared last year, to our knowledge.

Mr CAMERON THOMPSON—I am not going to report anything about what was said in our meeting. But quite separately in meetings with me, I have been told that the records we are talking about are the records of individual aircraft and their maintenance and that these records of each individual aircraft have on them the name and signature of every person who conducted an activity in relation to the deseal and reseal of that particular aircraft. The quite emphatic statement that I have been given several times is that those records were grouped together by the RAAF, were put aside to be used or whatever in the future and were then promptly lost and did not resurface until November. Are you saying that did not happen?

Air Vice Marshal Blackburn—We have asked that question and the advice I have got back is that that is not the case. If somebody can give me a specific instance, I will certainly go and investigate that and check that. But we have gone back and checked—and my staff told me this again this morning—and these records did not emerge last year. We had provided it because, in trying to determine the program, we did go back to the deseal/reseal records and photographs at the time, trying to determine who was involved.

Mr CAMERON THOMPSON—Were those records, the individual records of each aircraft, made available to the board of inquiry and the study of health outcomes?

Air Vice Marshal Blackburn—My understanding is they were. The issue I asked the specific question on was a result of the information that we had from DVA relating to the sudden

appearance of this late last year. What I am told is that there was a confusion of terms within DVA relating to what documents they were talking about and that in fact the aircraft service maintenance records were not suddenly found last year. Those records may have been something else, but I am certainly not aware of them. I am told that, in the case of these other training records and experience records, generally the members were coming back with their own copies of them when they were approaching either DVA or ourselves with their concerns.

Mr CAMERON THOMPSON—Early on in the process, prior to the decision to award the ex gratia payment to deseal/reseal personnel, there was an estimate by the RAAF of the number of people who could be drawn into the net and would qualify for such a scheme. I think there were 400 in a core group and about another 150 in a wider group. Can you tell me on what that was based?

Air Vice Marshal Blackburn—I would have to go back and actually get the facts from the people involved in the program. But from the initial information I have, they would have gone back to the aircraft maintenance records, the deseal/reseal records, to see who was working on them and who was involved in that program for the length of time because there were other activities associated with fuel tank maintenance that were conducted outside of the deseal/reseal program. That was quite different in its extent, the type of activity that was done and the chemicals used. They tried to go back and identify who did those major programs based upon, as is my understanding, the aircraft records.

Mr CAMERON THOMPSON—And you are saying that estimate would have come from these very records that we were talking about a minute ago?

Air Vice Marshal Blackburn—That is my understanding. I will certainly go back and check that again.

Mr CAMERON THOMPSON—In subsequent events there has been a much larger number of claims from people. We are already up to 515 that have been awarded ex gratia payouts, with roughly double that number seeking them. Was that estimate inaccurate in any way and why would it have been inaccurate?

Air Vice Marshal Blackburn—My understanding is there are a series of claims now arising for people who conducted maintenance activities on the aircraft in relation to the fuel tanks but were not necessarily a part of what we call the deseal/reseal program, which was a lengthy, quite complex maintenance activity involving chemicals of the nature that has been described in the program. We had other people doing pick and patch type activities, which was going into the tanks on repairing issues but not using the same processes and chemicals which have now been grouped into this deseal/reseal program activity. So a lot more people have been doing that type of activity but it was not as a part of the deseal/reseal program. It is a separate type of maintenance activity.

Senator JOHNSTON—General Gillespie, I wish to raise a recruitment issue. I am aware that many FEGs, particularly naval FEGs, are having manning level difficulties. I take you to table 317 on page 101 of the annual report. You will see that this is an accounting of what applications have been received and the enlistments flowing from those, all benchmarked against the target.

My question—and let us deal with Navy—is: who sets the target, and why are we in the position that I think we are in? I do not want to put too fine a point on it and sound too negative, but I hear out there that we are a bit hard pressed. We have heard about patrol boats et cetera. Where do we get these numbers from, and why do we have the shortage in the face of the fact that we have formal applications of 4,160 and we have only taken 1,500? It is an old chestnut, I think.

Lt Gen. Gillespie—Let me just give a broad overview to your question, and I will ask General Evans to come forward. He is an absolute expert and whiz on matters to do with personnel and recruiting.

Senator JOHNSTON—We look forward to that!

Lt Gen. Gillespie—The reality is that our targets are set through a workforce planning process. There is a workforce planning organisation in General Evans's organisation which works with the services, takes into account lots of processes and builds into algorithms the sorts of targets that we need to keep the organisation ticking over with the sorts of skill sets that we need. So those figures come out of our workforce planning organisation. Having put those figures out and agreed them, the recruiting organisation then attempts to fill the targets. There are many processes involved in the number of formal applications that we get and the number of people that we actually take up, but we filter a lot of them. Because you want to join the ADF does not necessarily mean to say that you are going to get through, for a whole bunch of reasons, from psychological assessment to your criminal background, your medical and your fitness et cetera. If you want to get more specific information in some of those areas, I am sure that General Evans can help out.

Major Gen. Evans—The whole issue of recruiting and retention is quite complex. You cannot look at recruiting without first considering your manpower requirements and then the workforce that you need to meet various capabilities. I have an organisation which is full of bright young people like Colonel Wallace, who actually works through the capability and then the manpower requirements to meet that capability. I will let him just talk quickly about how we derive the figures, and then I can deal in more detail with the recruiting process. Obviously, as the VCDF says, once we have received applicants, they have to meet requirements for different trades and skills, and there is a whittling down process in that. But I will let Colonel Wallace speak now.

Col. Wallace—Further to what General Evans has said, in setting recruiting targets we work out what the need is, for how many people, by category. In working out that target, we also factor in things like how many people might not make it through training and how long it will take us to build to a certain level of capability. That also revolves around what platforms are being brought into service, how long the training is, how difficult the training is and also what the supply of people is that we are going to need to man that capability in the future.

Senator JOHNSTON—I accept that, and I think that is fine. I am comfortable with that, but what concerns me is that, taking everything that the general has said about the filtering process—which I want to hear about; obviously I want to see a filtering process—those numbers tell me that the filtering process is either far too strict. Are you seriously telling me that 3,000 people approximately who are applying get filtered out? In the circumstances, as I understand our manning levels—and I have air warfare destroyers coming over the horizon, which causes

me to be very conscious that now is the time we need to start addressing these things. I think we have a report floating around from the minister's office. These numbers worry me in terms of what I am hearing about the capability of some of our FEGs. I am not convinced that the filtering is delivering what it should be.

Major Gen. Evans—As you would be aware from when we addressed the Senate, at the moment we have a strategic plan on recruiting. There are 27 line items in that strategic plan. Some of the issues address our actual process. If you want more detail on our process, I can get Brigadier Gould, who spoke the other night, to talk in more detail. However, what I would say is that it is important to us that we maintain a robust force. We have high standards, naturally, and we want good people. To meet some of these high-tech requirements, there are high standards to be met.

Senator JOHNSTON—The direct entry for special ops said to me that we have the capacity to just go out there—and I met a number of those young men at Singleton one day. That is in contrast to this filtering process, as I see it.

Major Gen. Evans—No, that would not be correct. We have taken people directly into the special force organisation for particular capability requirements. Notwithstanding that, those people still have to go through a filtering process and they still have to meet the requirements that the Director-General, Defence Force Recruiting would put together. They are single service requirements. They are not my requirements; they are the requirements of the single services to meet the trade needs. The special force people have to go through a filtering process. Where I think we can do better in our process—and we are certainly working towards this—is reducing the time from when a person first makes an inquiry until the time we have that person in uniform. That is certainly something that we need to focus on.

Senator JOHNSTON—I have been looking at the Navy, and the last point I will make is that when you look at the ADF total you see 15,900 formal applications, of which we took 4,000. So 11,000 people applied and did not get there. I find that a curiously high number. Is the bar too high?

Major Gen. Evans—I will ask Brigadier Gould to elaborate further on our processing.

Brig. Gould—Is the bar too high? It is perhaps not part of my ship, if you like, to answer that question. As the general said, the standards, the targets and the policy under which Defence Force Recruiting conducts its recruiting operations are owned by the single services.

Senator JOHNSTON—Owned by whom?

Brig. Gould—The single services. The Chief of Navy is responsible for Chief of Navy standards, policy and the like. I think the point you are making is that, with the number of people who inquire, apply and then enlist or are appointed, the ratio is skewed to the extent that we should be doing better with the number of applications actually turning into people joining the ADF.

Senator JOHNSTON—There were 58,000 inquiries.

Brig. Gould—Yes, but it goes to the way we measure those inquiries. It can be someone ringing a 131901 number while sitting down in Cooma and saying, ‘Can you send me a brochure on how to be an infantryman.’ That is not the same as a hard-edged application, where someone sits down and provides all the details. That said, we are recognising—through the work we are doing within the strategic plan—that there are some standards that the services set that perhaps for a modern day ADF might be worth reviewing.

Senator JOHNSTON—Can you give us an example?

Brig. Gould—It could include things such as asthma, education standards and the requirement to produce a Year 10 or Year 11 certificate and perhaps coming up with an alternative test that would also provide competency. It might include things to do with the non-medical use of drug policy, with visible tattoos poking outside a uniform and things like that.

These have all been set for a good reason. As you point out, it is highly competitive now to get out and recruit. Are these standards still applicable, given the requirement to recruit 8,741 full-time and part-time people to come and join the ADF this year? That is half the size of the New South Wales police force. We have to recruit every year, so they are big numbers. It will not be General Evans’s decision and it will not be my decision to change those standards. It will be the decision of the Chief of Navy, Chief of Army, Chief of Air Force and the CDF. All we will do is put some figures to them, and then they can determine what can be done from there. But that is only one part of the problem. The other part is that a number of people come in either as applicants or inquirers and we are not as sharp as we need to be in terms of candidate management of those people coming through—in other words, keeping them interested, keeping them keen and keeping in touch with those characters.

You would be aware that we have just employed a new national marketing manager, who is working very hard on a new customer relationship management plan so that our defence recruiters, who might in some cases be looking after a database of 400 candidates, will know how best to keep those people interested in joining an ADF career. You can see some initiatives already. For example, in Navy, the service you have quoted, where submarines and ships are coming alongside, candidates are being brought on to have a sea ride for the day, talk to a Navy engineer and talk to an electronics technician and those sorts of things. We are being a lot more savvy now in coordinating all the efforts of the ADF to support recruiting. I am hoping that the current 52,000 full-time and in excess of 20,000 part-timers who wear the uniform now can get out and assist that small band of professional 550 full-time recruiters to do the job.

Senator JOHNSTON—Thank you gentlemen, for those answers.

Mr Smith—During the Christmas-New Year period, one of the national newspapers carried a report on this subject, based on some documents obtained from us under FOI in which a reference was made to us reviewing the standards relating to obesity, asthmatics, colour blindness and so on. The newspaper made it a lead story that said, in effect, ‘The ADF will shortly be led by fat, colour blind asthmatics because they’re so desperate.’ I think that is pretty unfortunate reporting, and it is very unfair. The second point I want to make is that any major employer who is not constantly reviewing his or her employment standards would be derelict. There was a time when being an asthmatic was a serious disability. These days some of our best sportsmen and women have a background as an asthmatic. There is no reason why they could

not be in the ADF. It is the case that some of us a bit overweight but could still perform effectively in some areas of the ADF. It is very necessary to review the standards. I felt sorry at the time that the newspaper had beaten up the story in the way it did.

Mr SNOWDON—They were not describing politicians, were they?

Mr Smith—I am sure they were not.

CHAIR—Once you have these people identified for recruiting, do you have the capacity to bring them straight in for training or do they have to wait around a number of months, if not up to year? I have had some comments to me that, ‘You’re accepted; when are you going to get trained?’ ‘We’ll let you know.’ That could almost seem like the never never. I cannot quote instances or lengths of time, but I have had comments made to me that, ‘It could be another six or 12 months before I’ll get in there’.

Major Gen. Evans—Details.

CHAIR—To meet these targets, can you immediately meet the basic training? If you have your 100 per cent, could they go straight from there? You have the question, I am sure; what about the answer?

Major Gen. Evans—This is a conundrum, and it is one into which we are putting great energy—that is, the alignment of the recruiting system with the training system. It is particularly difficult when you have trades in which only a few courses run each year and somebody wants to come in. Immediately converting that person into an electronics technician is not always easy. It is managed slightly differently by each service. I know Army have almost micromanaged this particular issue. Certainly, it is an issue. It is something that, within our strategic plan, we are trying to close in on, but there will always be some issues with it because of the course requirements.

Lt Gen. Gillespie—The issue on that one is that you can get caught in the lag in policy decisions that are taken on these things. When we were flush with manpower just a few years ago, we had people who complained and wanted to get out because we put them through Kapooka and then they would go and sit at course schools and wait for six months for their particular specialist trade training course to start. That was a cause of people getting out. So we had a policy where we did not enlist them at Kapooka until such time as they could flow through that process and then into the course school and do it. Now that it is harder to get people, it has transposed into us saying, ‘Well, we’re waiting too long before we put them into Kapooka from the initial enlistment period.’ So somewhere in the middle is the agility that we are asking these people to come up with to match those sorts of things. And some of the enlistments that we do are for specialised trades for which we do not need to run 26 courses a year; we only need to run one or two or three. And then, when we run some of those courses, they are so specialised these days that they run for 12, 14 and 18 months. So if you are busting a gut to join the forces to go into one of those trades then the wait can be significant.

Major Gen. Evans—That is all true, and what we know is that, in this environment where a lot of people are after the same skill sets, we cannot afford that gap. We need to get the people in

as quickly as possible once they have expressed an interest in coming and a desire to come here. We know that and we are working to that.

CHAIR—Like businesses outside of the ADF, have you ever looked at the option of school based apprenticeships, which are a similar thing in getting people to focus on the trade areas in particular?

Brig. Gould—We already have world-class apprenticeships, if you like—or New Apprenticeships, as the government calls them now—in the ADF through the various schools, but they start when people are up around the 17½-year-old mark, as opposed to the younger ages that were traditionally targeted for apprenticeships. They are high-quality courses and they lead to fantastic jobs dealing with, for example, 450-foot long sailing vessels, high-tech equipment, helicopters, tanks et cetera. We already have that in place but what we are recognising is that technical trades and skilling is one of the top two priorities in the ADF as an area that needs filling, so we have to do better. Within the strategic plan, there is a task to look at what we can do better.

We have already started some discussions with civilian firms out there and regional TAFEs and the like who do trade training to see how we can enter into some sort of strategic partnership with them. For example, they might take young Australians at 16 or 17 years of age who would start maybe the first two years of the technical training and, having successfully completed that, we would encourage them to join the ADF and finish off that apprenticeship whilst wearing a light blue, white or brown shirt, with the attraction that we are able to pay them a lot more than if they just happened to be studying through the TAFE or one of these private service providers. Plus we have the added advantage that they would be joining a great organisation that is doing a real job, in really tight-knit teams, really well. And I think that will sell. So that is stepping outside the box compared to where we have been before. That work will have to go through the necessary business case process and the like, but I think it is quite a promising initiative for how we do that.

We might also have to look at some golden hellos, if you like, for people to come and join us. We need to be the best option for people to come and join. Instead of just being as good as everyone else, we have to be better than everyone else and therefore there might have to be money or career or development opportunities for these characters to convince them that the ADF is the preferred employer for them.

Mr HATTON—I will ask a related question, Chair. What is the impact in this area of outsourcing maintenance work? In a visit we had to one of the facilities up north—at Oakey, I think—my observation was that maintenance work had been outsourced that previously had been provided by Defence Force personnel.

One of the operational difficulties that had arisen because of the change was to do with people who were technically skilled, who had learnt their craft within the Army and then been deployed overseas—and we have a great deal more activity of that sort now—and had been injured. Once they are injured, either by being shot at or by doing their leg in or whatever else, we have a real problem. We have people with a trade capacity and skills and so on who have no place to go.

My understanding, from what people have told me, is that previously they could go into an area where they could utilise their skills—in the maintenance programs and so on. People could be recycled through that area. You would get their skills coming back in and being updated because they were actively doing that work. Now there is no place for them to go, in those circumstances where an outside company has that kind of work. We have a problem in terms of cycling people through. There is so much more pressure on the defence forces now than there used to be but now there is also a pressure in terms of providing a way station for people while they are getting better from an injury.

Gen. Evans—I can answer the part of the question that has to do with how we deal with our people, but the contracting inside bases is outside my remit. You have raised an important point for us. As I said earlier, recruiting is an issue for us but retention is also an issue. If we have a highly skilled tradesperson, we are going to do the very best we can to make sure that we keep that person in our organisation.

One of our initiatives over the last 18 months has been rehabilitation. We are spending quite a deal of money on making sure that when somebody is injured there is a robust rehabilitation process by which we can make sure that those highly skilled people are returned to the workforce. We are getting better all the time at retaining our people.

Mr HATTON—It seems to be a significant problem that there is nowhere for them to go. They are not incorporated in a program and that presents a problem in terms of people's motivation and morale because they seem like a spare part, almost.

Gen. Evans—You are absolutely right and we have recognised this—perhaps too slowly at times, but we have recognised it—and each one of those people will be case-managed. The other part of that is improving our connectivity with DVA.

Mr HATTON—There is a broader question in terms of outsourcing in particular areas and the concomitant problem of, possibly, not having enough Defence Force people—because you cannot take them all with you—who are widely skilled enough that you can take them from areas in Australia and put them into a combat zone. Has that presented a problem at all? Or do you take the back-up with you—people who are providing an outsourced service?

Lt Gen. Gillespie—I guess that is more of a question for me as chief of joint operations. We do not have any difficulty in manning our first-line overseas maintenance requirements. That may have some impacts on people back in Australia where we take them out of organisations to do that. The question it leads to is whether or not there is a role for contractors in the area of operations. In the Middle East at the present time, anything that is not in the extreme frontline is going back and being repaired by contractors. It is not as though contractors are the bogeymen in this process.

I should also point out that quite often, where we cannot rehabilitate and keep people in our system, they are not lost to us because the contractor who is supporting us is looking for the same skill sets and base that we have, so they end up being employed in the contractor's environment, still working for the military. If they could go back in that way, even after a number of years, then that would be something we would do as well.

There is a fine balance between what we have people in uniform do and what we should be looking for contractors to do. Over the last few years we have learnt that contractors will be engaged far closer to the frontline than we probably had envisaged in years before.

Mr HATTON—To finish on this part, I have an order of magnitude question, which relates to our trade skills problem Australia-wide. Defence, the state railways and Telstra used to be major employers of apprentices and trained people across the board. In comparison, if you look at those other areas now you will see that the country as a whole is suffering from a deficit because those organisations do not train in the way they did. Is that a comparable situation for Defence? I imagine it is, given the way things have changed over time. You are trying to address that. But do you think the training of apprentices—that used to happen in large numbers in the past—is a problem for the country as a whole because, to feed those off to contractors, they have to start somewhere?

Lt Gen. Gillespie—I think the government has identified that we have a national problem there. The fact is that our Defence Force is a microcosm of what is happening throughout our nation, so we suffer the same sorts of cultural, trade and technical pressures that are out there in the system. So there is no doubt that we have the same sorts of impacts. I think many industries, like Defence, are all grappling with how we resolve that shortfall at present. A lot of work is being done and there is a reinvigoration of apprenticeships. In fact, we are now learning through schools in our process that not everybody who goes to school needs to go to university to get a certain sort of degree and that we actually need some people to go off and fill our technical areas. One of the nice things that is happening—and this has nothing to do with us—is that young people are seeing some role models out there at present who are newfound millionaires, who are plumbers and carpenters at quite young ages, and that must be telling people somewhere about where the potential is to be wealthy.

Mr HATTON—I learned quite a while ago, with respect to people who went through school at the same time as me, that the way to make the dough was in the trades.

Senator JOHNSTON—Brigadier, recently, I was most entertained to see the SBS six-part series of HMAS *Rankin* off to the 2004 Rimpac. Firstly, do we have a capacity to benchmark and to understand the impact of a program like that, or even the old patrol boat program of many years ago, where I think many servicemen in Navy probably got the idea from? Do we switch on to whether that is generating any benefit to us in terms of recruiting? Secondly, you mentioned 20 new recruiting initiatives. I would like you to showcase those for the record. If there are new initiatives out there, let us hear what they are. Can you answer those two questions for me?

Brig. Gould—The first question is very topical. I spent yesterday with Commodore Shalders—who is the commander of the submarine force of Australia—on Garden Island, Western Australia. We had a meeting about a new initiative to direct entry recruit submariners. Our goal is to encourage young men and women from Australia, straight from the street, through the recruiting process and straight into submarine training. We are setting the sites at a modest level to start with and then we will see how we go from there. We tried this before in the early nineties. It was not as successful as we wanted it to be, so we are learning lessons from that. Did that SBS program work? Yes. Before we even started advertising for direct entry submariners, we had people knocking on the door wanting to join the submarine fleet.

Senator JOHNSTON—Good.

Brig. Gould—The people who produced that program have also kindly given us permission to use the DVD in our recruiting centres. That will no doubt help to encourage young men and women to look at submarine service. I also think that this will be a great campaign to get around and explain to the 16 recruiting places around Australia what is on offer for the submarine force. So we are on to that. I might add, though, that if JAG is on television, the numbers go up as well. So anything of that sort of flavour—

Senator JOHNSTON—We need to produce our own programs, obviously—

Brig. Gould—We need our own lawyers and F14 pilots.

Senator JOHNSTON—depending on where the shortage is. I can see something like ‘Adventures in DMO’ coming over the horizon.

Brig. Gould—As you know, television is an expensive medium. There are other ways of skinning the cat. What we are finding recently with some of our technical trades is that we are getting more bites of young Australians hitting on annoying banners on web sites of Google and other search engines than perhaps by some of the traditional means of putting big ads in newspapers and things like that. Rest assured that we are trying every means and method, and measuring every means and method of spending money for marketing Defence Force careers.

Mr HAASE—Is any financial assistance made available for travel and accommodation, if necessary, to potential recruits from regional and remote areas? You mentioned the fact that you are taking potential applicants onto visiting naval vessels. That is fine for city kids, who are near the facility, but it is very difficult for inland and remote kids. Is there some provision for that?

Brig. Gould—Firstly, if you are a candidate to join the Australian Defence Force, wherever you come from we will get you to a recruiting centre or get the recruiting centre capability to you. I am sure you would have seen the Regional Force Surveillance Units. They are spread from Cairns, on one side of Australia, all the way around to the Pilbara coast on the other side and down to Alice Springs. We send teams to test and assess—medically, psychologically and the rest—to give every Australian the opportunity to join the Defence Force should they wish to. We will pay for people to move. If you live in Geraldton and we need you in Perth, we will get you down there and accommodate you and the like.

Mr Smith—And Kalgoorlie!

Mr HAASE—Would you get them to Fremantle to look at a visiting naval vessel, for instance, when they are at the pre-applicant stage?

Brig. Gould—Again, it would depend on where that person happens to be and whether they are available. The bottom line is that if that person is applying for a critical trade in the Navy then I am happy to spend taxpayers’ dollars to get that task done. Certainly we are trying not to have people in regional Australia being less advantaged than anyone else. The submarines floating around the east coast at the moment providing opportunities for people to go on board are not just sitting in Melbourne, Sydney and Brisbane doing that task. Wherever they can pull

in, they are getting there. We are doing our best to make sure that keen candidates, particularly for critical categories, can go on one of those ships. I am probably not going to spend money for a rifleman joining an infantry battalion to go on one of those ships.

Mr HAASE—I was thinking of the senior service, actually!

CHAIR—That is a personal opinion!

Mr CAMERON THOMPSON—I want to pick up where I left off. I suppose that means asking questions of Air Vice Marshal Blackburn if he is available. I want to return to the aircraft maintenance records. Do those records identify the personnel involved in the deseal/reseal program?

Air Vice Marshal Blackburn—What my brief shows me is that the deseal/reseal records of the aircraft maintenance were used to identify the individuals who were involved in the program itself. We also had to go back and look at photographs of who was there at the time and who was involved. So we went beyond purely aircraft maintenance records, but my understanding is that that was the starting point. In addition, where retired members presented with claims, we had to refer to their trade records, their training records and their payment documents to try and line that up as well, in case it was not there.

Mr CAMERON THOMPSON—Can the names identified on those records or the relevant parts of the records themselves now be promulgated in an effort to try and assist people who are trying to determine whether they may have been part of the program?

Air Vice Marshal Blackburn—I understand from the information we have from the DVA presentation that that was a request that was proposed to them the other night. We can certainly work with them and find that out.

Lt Gen. Gillespie—I think the point to make here is that if there is anything that we, Defence, can do to bring this matter to resolution, then we will do it. It is not as though we are putting up shutters or trying to stop people. If there are any proposals out there that require us to do more work to bring this to resolution, then we will do it.

Mr CAMERON THOMPSON—But on its face, there is no reason why those records should not be made available in a way—

Lt Gen. Gillespie—And clearly they have been. It is some interpretation of when they have been available that we are going in with here. So we have no resistance in this organisation to doing whatever we can do to bring this to resolution.

Mr CAMERON THOMPSON—As part of the third question, can I just read to you from the introduction to the report of the study of health outcomes in aircraft maintenance personnel which says, under 3.1, Introduction:

Objectively identifying the exposed group, i.e. all personnel who participated in any F111 deseal/reseal activity since 1975, proved to be a particularly difficult task. There was no system of direct notations on personnel files for those who were involved with deseal/reseal and hence no official record of those involved.

The introduction goes on to say:

Several roundabout ways were investigated. However, none of these approaches proved feasible.

Given the existence of these records and the fact that the RAAF itself has in the past used these to determine who may or may not have been involved, I am asking, I suppose, whether or not we can reach some kind of conclusion or assist the claimants more directly.

Lt Gen. Gillespie—I am making the same point that I just made. In 1975, when we were maintaining personnel records, reseal/deseal was not an issue. We did not know about it until several years down the track. We are a much wiser organisation now as a result of issues like this. So if in any of our operational areas or things that we are doing even suspect that there might be a future problem or we start to see scientists out there having a bit of a scientific debate about whether or not there are dangers and they involve us, then we start to maintain people's records as a result of where we have been. But the criticism that in 1975 we didn't maintain who was working on reseal/deseal in personnel records was not the sort of records we kept, and it wasn't an issue until much later. So the stepping back to the aircraft records where people who had worked on it had been named was a good start point, and anything that we can do other than that to help resolve issues, then we will do it.

Air Vice Marshal Blackburn—If there are specific cases where people have not had that information or support provided to them, I would certainly like to know that. From my understanding we have provided the assistance to the individuals involved and to the DVA inquiry with all the information we have available. If there is a shortfall in that, I would certainly like to know.

Mr SNOWDON—Can I go to the issue of separation rates. I understand that in 2005 the separation rate was 13 per cent. How does that square with recent experience, balanced over the last 10 years?

Major Gen. Evans—We are currently running at a separation rate of about 11.1 per cent. The 10-year average is about 11.45 per cent. So that is what we have been running over the last 10 years. Is that good enough? It is manageable if we can recruit the right numbers, but we would like to push down that separation rate. I will give you an example. As I said, we are currently at 11.1. If the current separation rate continued, then we would have to enlist about 6,200 people per annum. Assuming that we can enlist 5,000 people, then the average separation rate would need to be about 8.8 per cent.

Mr SNOWDON—Does that also account for the growth that the government has built into its estimates of future numbers?

Major Gen. Evans—I would have to check on that. But certainly at our current level if we got our separation down to 8.8 per cent, that is what we would have to recruit. So the benefit for us is that, the more people we can retain, the costs and the benefits to us are significant. What we have is a more balanced force across the senior down to the junior ranks whereas, if we are depending on recruiting, the actual flow is in at the bottom.

Mr SNOWDON—What are the major reasons for separation?

Major Gen. Evans—Each year, we undertake a number of surveys. We ask the question: ‘What are the main reasons for separating from the ADF?’ The top three answers are: ‘To make a career change while I’m still young enough’, ‘A desire to stay in one place’ and ‘A desire for less separation from my family’.

Mr SNOWDON—Is there a profile of the ages and skill sets of those separating? I imagine that the separation rates are higher amongst the younger people and in the unskilled and semiskilled areas—is that right?

Major Gen. Evans—Yes. If I were to show you a graph with separation rates, you would see a spike after the first 18 months of a person’s service and then a second spike after four to six years. We know that. We have looked at what we are doing inside the training environment. You would be aware that there is an audit of our training establishments to reduce the separation rate there. We are now targeting people in the five- to six-year period, which is when they come to the end of their enlistment period. There is a decision point there, and we need to target that decision point to try and get more people to stay on for even two or three years longer. I have spoken about an average separation rate. The difficulty for us is that in our critical trades the separation rate is higher than that. We have 25 critical trades out of 213 trades across the Defence Force.

Mr SNOWDON—What sorts of separation rates are we talking about in those areas?

Col. Wallace—Separation rates can sometimes be a little misleading, particularly where you have trades that have very small numbers of staff. One or two people can make those trades go. Also, some of the trades can have high separation rates but can be sustained because we can recruit people behind them. We are also able to train those people and move them through. That is okay. Some of the separation rates in some of our trades are greater than the current 11.1 per cent. I have examples of some technical trades that are causing us problems that run around the 14 per cent mark. In Navy, it is electronic technicians and electronic warfare linguists. In Army, it is technicians for telecommunication systems, which is at 20 per cent. Medical officers within Air Force are around 24 per cent. Sometimes it can be misleading. There are other trades that are not deemed critical that have separation rates much higher than those figures.

Mr SNOWDON—What about people deployed overseas? I think I am right in saying that after East Timor, for example, there were higher separation rates in the units that were deployed than elsewhere. I am not sure whether that is correct, but I think it is. What has the separation rate been like for the first rotation to Iraq?

Major Gen. Evans—In our studies, we have seen operational service as a positive issue. People have enjoyed that experience. If there were an issue of retention, it would be after, as you alluded to, maybe not the first two deployments but maybe the third deployment that somebody undertakes. If you recall, I said that one of the reasons for people leaving is to have more time with families. There is an issue on that. I am not sure whether we have deeper metrics than that.

Col. Wallace—No, we do not have anything deeper than that.

Mr SNOWDON—You are certainly right that deployment is a positive thing, but I was under the impression that there were some who came back cashed up and thought: ‘I’ve done my deployment. I’m not going to go again or, if I do go again, I might go once and I’m out.’

Major Gen. Evans—Anecdotally, there may have been cases of that.

Mr SNOWDON—I am not putting too high a point on it; I am just making the observation. Can I ask about Reserve strength?

Major Gen. Evans—Yes.

Mr SNOWDON—I understand that Reserve component ADF decreased in strength from 22,154 during 2003-04 to 21,968 in 2004-05. Do we know what caused the separations from, or the decrease in numbers of, the Reserve over that period?

Major Gen. Evans—In relation to the numbers in the Reserve, some aspects of that are adjustments within the services. Tony, do you want to talk more on the separation rates?

Col. Wallace—Some of the separation rates in the Army Reserve have run a lot higher, up to around 20 per cent at certain times. Part of it is a matter of counting as well. There are a number of categories of Reserve service, and it makes tracking separations between those elements of the Reserve problematic.

Mr SNOWDON—What about the issue of individual readiness requirement? Has that been an issue?

Major Gen. Evans—If you were shown a graph on Army Reserve strength, you would see that it is quite telling and of some concern in terms of the manning levels of the Army Reserve over time. If you go back in history to when the AIRN, the readiness notice, was placed, that was actually a period which caused quite a movement out of the Reserve. It did impact upon Reserve service.

Mr SNOWDON—What plans are being implemented to revitalise the Army Reserve to make it more attractive, to get people through?

Major Gen. Evans—The actual Reserve is outside my portfolio. However, I can say that we have just concluded a review on Reserve remuneration. We have looked at how to improve the attraction to the Reserve through remuneration initiatives.

Mr SNOWDON—Mr Chair, I have a number of other, quite detailed questions about personnel. I might put them on notice rather than go through them all here, if I may.

CHAIR—Would you like to table them for comment and put them on notice?

Mr SNOWDON—Absolutely. But I do have some other questions.

CHAIR—Thank you very much.

Mr SNOWDON—I have not finished yet.

CHAIR—We will go on to Mr Hatton, while you get your breath back.

Mr SNOWDON—I have my breath back.

CHAIR—Do you have just one question?

Mr SNOWDON—For the moment. I just need to ask one specific personnel question that relates to my electorate. I apologise for the embarrassment this might cause me, but nevertheless I will go on. I wrote to Dr Nelson on 28 February and copied it to Lieutenant General Leahy. It was correspondence about the cost of electricity at Nhulunbuy, where it is 24c a unit. The changing allowance structure did not address this particular issue. Has that come to your notice, and if it has come to your notice are you able to do anything about it?

Major Gen. Evans—The issue of the Nhulunbuy electricity costs was something post the introduction of the new district allowance. Obviously the cost of electricity has gone up for service personnel by I think 40 per cent. I have asked my staff to have a look at this particular issue and see how we can place into that policy some kind of scale for those people. What I would not want to say is that we can fix it, but I am certainly looking at the issue at the moment and I am aware of that issue.

CHAIR—It might be a Territory government issue too.

Mr SNOWDON—No, it is not.

CHAIR—Pricing would be.

Mr SNOWDON—No, it is not.

CHAIR—It is a Territory government enterprise.

Mr SNOWDON—It is not a Territory government enterprise; that is the problem. It is a mining company.

Major Gen. Evans—It is a particular issue to look into.

Mr SNOWDON—Might I suggest, though, that one of the ways that it could potentially be addressed is to do what other government agencies have done—that is, to set a cap to what the purchase price will be for residents. It means that you have to cough up, but you have to cough up anyway.

Major Gen. Evans—We are certainly looking at a series of options.

Mr SNOWDON—And we like these Defence Force personnel to be located and happy in north-east Arnhem Land.

Mr HATTON—This relates to the Joint Offshore Protection Command and more general concerns about our defence posture to the north and the use of JORN and other assets to identify what is out there in a more efficient and specific way so we cut down on the amount of work we have to do to actually find things. Apart from JORN, the visual aspects and people flying and so on, do we have a satellite capacity in place as an adjunct to that and would that be useful not only for getting a reflected response from incoming aircraft and so on but for identifying shipping that we are interested in and other problems that are occurring within that very vast region?

Lt Gen. Gillespie—I mentioned this morning that surveillance to the north of our country is not one of our issues. Our surveillance picture is actually a good picture and JORN and P3s are but two of the elements that go to make up our surveillance picture. We do have other assets, which I will not go into here.

CHAIR—Would commercial satellites provide some support?

Lt Gen. Gillespie—Certainly we can use commercial satellites. We have many sources and it is simply a matter of fessing up with the money to get them. The feeds that we have coming in can include commercial satellite products in the same way that other sections of the community and industry access it, and we have other defence capabilities that we can use.

CHAIR—Is that really a money issue?

Lt Gen. Gillespie—No, money is not an issue.

CHAIR—Do you access some of the data that may come from commercial satellites?

Lt Gen. Gillespie—You have to pay for it, but we do that routinely. Sourcing money to get our surveillance in order is not an issue.

Mr HATTON—I would like to go to some of the elements of the 2005 defence update and the changed environment that we have faced over the past decade or so. Certainly defence has been extremely active over that period. If you contrast that with the demands on the force previously, the extension of the roles and the different kinds of challenges now have demanded a great deal of rejigging and repurposing of what we have been doing. There has also been a lot of activity within the region through to North Asia, and the update quite sensibly states that that provides us with particular challenges. I want to go to what is happening with regional military forces, because latterly that has not been engaging us as much as the war on terror, conflicts overseas and aid matters. Page 5 of that update states:

Regional military forces are likely to also acquire innovative capabilities. Equipment and platforms will benefit from greater use of advanced materials and technology. Unmanned aerial vehicles for surveillance and to deliver weapons and ever more capable fighter aircraft may be increasingly evident in our region.

Given that Army is looking at using unmanned aircraft capacities tactically, have we done much at all in terms of unmanned vehicles and using those as weapons platforms? We are looking at putting a lot of money into very significant assets with pilots in them in the future. How much of our thinking goes to not only what is happening in the region with unmanned vehicles but our

capacity to extend our ability to work within the region militarily by using cheaper, unmanned assets? It would even up the technological advantage, because it is a lot cheaper to do these things than it was before.

Mr Smith—This is a matter that General Hurley could comment on. General Gillespie may wish to also.

Lt Gen. Gillespie—Can I just make one point before General Hurley answers the broader question. The observation you made that we have taken our eye off our local region because we have been busy in other areas is far from true. We have a very good understanding of and feeling for what the developments are in our region and what they are likely to be, and they feed directly into the work that General Hurley does and into the capital program that we have for capability. It is not a fair statement to say that we have been busy elsewhere and we have taken our mind off the local region.

Mr HATTON—I would not want it to be interpreted that way. I may have said it without a lot of felicity of expression. There has been so much dramatic change and our emphasis has had to be directed elsewhere, but part of the picture must concern what is happening regionally. That is not on everyone's radar in terms of the public's perception of what is happening or what we have generally had to be dealing with.

Lt Gen. Hurley—We have two projects in the defence capability plan at the present time that are looking at utilising UAVs. The one you referred to, joint project 129, is a tactical UAV which was approved last year. We are now going to contract to bring that into play. That air platform is primarily a surveillance and reconnaissance platform. We are not looking at weaponising that at the moment. This will be the first UAV of any significance we have operated in the ADF. We need to learn how to use them. It is not just the platform, obviously, because it is the whole ground station system distribution of data. The whole system of ISR, intelligence surveillance and reconnaissance, needs to be put into place there, and this is at the tactical level.

The other project is in relation to Project Air 7000, which is our project to look at eventually replacing the AP3C maritime surveillance and response capability. We are looking at UAVs at the high altitude level, the Global Hawk, and possibly down to Mariner, a medium altitude UAV. Again, from our point at the present time both of those will be purely for maritime surveillance capability, the response element being in the manned aircraft—wherever that may be once we move out the P3s.

So, in terms of delivering a tactical effect with a UAV with a weapon like Hellfire mounted, we are not very far down that track at the present time. In terms of looking at developments in unmanned combat aircraft like those you see Boeing looking at now with the X45 project, that has our interest at the far end of our new air combat capability project. That is a very tightly held project at the present time. We have about as much information as you have, but we have our eye on it.

Mr HATTON—I hoped you would have more.

Lt Gen. Hurley—If we pay the money, we will.

Mr HATTON—More broadly, with countries in our region becoming richer—despite the problems they had with the financial crisis and so on—and also with the dynamic that is happening with manufactured goods of all kinds, we are really running from greater complexity and cost. That actually helped us to have a better posture in the past, because there was a big relative difference not only in income but also in what you could buy in capability. But it is also a question of new weapons being cheaper, which was why I asked about the unmanned vehicles and so on. The cost of components, the cost of manufacture and the cost of capacity can actually decrease just because of what is happening in the general manufacturing area. So we have a bigger problem. It is hinted in here, and obviously that comes from your view that keeping the gap in our capacity over theirs is harder simply because of the technological changes that have happened. That will be something we will have to work our way through and try to manage much more aggressively than we have had to in the past.

Mr Smith—I think that is a very fair statement of the situation. Globalisation of industry has certainly made technology more readily available. I think, overall, the cost of military equipment is still going up. It is unlike the situation, say, with motor vehicles, where the unit cost relative to wages has gone down. In the case of military equipment, it continues to rise. But it is now more generally available, and that does put greater pressure on us in maintaining the capability edge that we have always sought to maintain. To do that, we keep our own defence capability plan under review and adjust it periodically to reflect the new challenges that are out there. Do you wish to add to that, General Hurley?

Lt Gen. Hurley—Only to say that the study that Dr Gumley has done to look at generational growth in the cost of technology and military capability reckons it is running at about three per cent across the board and at 4.5 per cent in the States, and that is above real cost growth. So when you are taking these steps in technology you need to watch that you do not get caught in old paradigms of where the cost of technology, delivery and production is going to go. We are yet to be accused of bringing a project forward to the government that is cheaper than the last one we had.

Mr HATTON—So you get the historical average up. I know we are going to go to air superiority in a different inquiry, but the general problem related to that is that the capacity of people in the region in terms of air power seems to be increasing significantly. Part of that is coming out of the fact that the Russians are willing to make some money by flogging their very advanced aircraft in the region.

Mr Smith—It is certainly the case that some of the more advanced aircraft and other systems in the region have come from Russia. We would recognise that the Sukhoi aircraft is very capable. The question is what numbers they have and their capacity to sustain them, keep them and so on. But you are correct in identifying that issue.

Mr HAASE—We are talking costs now, but a lot has been said about recruitment and personnel generally. I do not think anyone has mentioned the general national shortage of skilled and other defence personnel in Australia. I wonder if the increase in pay rates is becoming a budgeting problem and whether you are looking at increasing budgets and therefore the financial requirement. The other question that strikes me is: what is happening these days in relation to the transfer of defence personnel from other defence forces?

Mr Smith—On the first issue, I think we recognise that in the long term increased costs of technology, an increased requirement for skilled labour and the higher costs of skilled labour are going to drive our personnel costs up. In the immediate term, as we said earlier, rates of pay are not often identified as a cause for separation. When members departing talk about taking career opportunities elsewhere at an early stage, that really is code for taking better opportunities elsewhere. In particular skilled categories we have introduced retention and completion bonuses and so on to respond to that. You are correct; it is a long-term issue for the Defence Force. The personnel sector of our budget will grow proportionate to the rest.

Mr HAASE—It is not a matter of transfers?

Mr Smith—Unless the rest does not grow fast enough.

Lt Gen. Gillespie—On the issue of transfers, I am sure General Evans can provide some figures. We are quite receptive to lateral transfers from certain militaries, and I think we are quite successful in that regard.

Mr HAASE—I would like to know if that is increasing or decreasing recently.

Brig. Gould—We do not actively go out and recruit people from overseas militaries. It is quite a sensitive issue, as I am sure you would appreciate. However, there are some opportunities at the moment in that our exposure and operations overseas have put us alongside our allies. A lot of those soldiers and officers have seen us do our business, seen how well we are equipped and seen our approach to soldiering and would like to come to a sunny clime and join the ADF.

On that basis, for example, the high commission in the UK gets a significant number of people asking to apply. On the Defence jobs website on the internet there is a tab for overseas candidates. They can click on that and follow the process through. We now have permission from Immigration for 300 visas for people to come and join Army. That is an increase from the previous number of 60, so there is quite an increase there. But, again, we are only looking to people who are expressing interest to us. We are not running recruiting campaigns or anything like that in the UK. The way Army approaches it is that they seek to gain people for positions we are currently finding difficult to fill within Australia. In other words, we would only accept people for the critical categories from overseas militaries.

Mr SNOWDON—I have some questions in relation to the P3C Orion. I am conscious of Operation Catalyst, Operation Relex, Operation Cranberry and the requirements for Operation Gateway. Has the Orion fleet been able to achieve all it was required to achieve in terms of our obligations, particularly for Operation Gateway and also in terms of our bilateral relationships in the region and the overflying of the Pacific?

Lt Gen. Gillespie—The issue of P3C availability and where we are going is, I think, principally an Air Force question. As the operator, I ask for them, I get them and they do my job. The reality is that, like the previous answers I have given here, we look at all of our operations in terms of what it is that we are asked to do now, what it is that we have to keep in reserve for the contingencies that we have told government that we will stay prepared for. The answer is that we are currently managing those sorts of issues.

Air Vice Marshal Blackburn—The balance between operations, exercises, commitments and training is being maintained. If, however, we were to increase our commitments to perhaps operations at a sustained level above what we have now, that will of course come back and reduce some of our training, which will have an effect down the line in the next six, 12 or 18 months. Under the current balance between those areas, we are maintaining the skills we need. But if, for example, we do a lot more surveillance operations to the north of us here, that would have a flow-on effect in time.

Mr SNOWDON—I am trying to establish whether there is a reduced rate of effort in some areas because of our operational commitments. I am now talking about the sort of stuff we might do for surveillance in the Pacific.

Air Vice Marshal Blackburn—Certainly the priority has been reduced on Gateway and some of the other surveillance operations because of our other commitments.

Lt Gen. Gillespie—Or we have met those commitments from aircraft—

Mr SNOWDON—In another way.

Lt Gen. Gillespie—that may not have the same capacity as the P3C.

Mr SNOWDON—But do them anyway.

Lt Gen. Gillespie—Some of the applications that we have in the south-west Pacific, for example, do not need a platform of that sophistication to do what we need to do.

Mr SNOWDON—We had four of 74 programmed exercises cancelled in 2004-05. What exercises were cancelled?

Lt Gen. Gillespie—I do not have that with me.

Mr SNOWDON—I will put it on notice.

Lt Gen. Gillespie—I will answer that question on notice.

Mr SNOWDON—With respect to the Seasprite helicopters, of the 1,200 allotted flight hours, they achieved 69 per cent. What was the cause of the inability to achieve the allotted flight hours? I will put that question on notice.

CHAIR—I am sure you can put a few of your questions on notice or they can be asked at the Senate estimates.

Mr SNOWDON—I want to formally table them.

CHAIR—Would you like to formally table your questions?

Mr SNOWDON—Yes, please.

CHAIR—As there are no obligations, that is so ordered.

Mr Smith—To save us having to write a letter to you to correct the record, could Mr Prior do that now?

CHAIR—Yes.

Mr Prior—With regard to questions asked of me about how many category A findings related to leave remediation, I answered ‘one’. In fact, it is one category A for civilian leave and one category A for military leave.

CHAIR—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 may make corrections of grammar and fact. I thank the Department of Defence. We really do appreciate the time you have given us today. It has been a long day for you. We appreciate the work you do, the time you have given us today and the frankness with which you have answered the questions that you were able to answer.

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

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.

Committee adjourned at 4.04 pm