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SENATE

STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE
AND TRADE

ESTIMATES

(Budget Estimates)

WEDNESDAY, 30 MAY 2007

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**SENATE STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE
Wednesday, 30 May 2007**

Members: Senator Payne (*Chair*), Senator Hutchins (*Deputy Chair*), Senators Mark Bishop, Ferguson, Forshaw, Hogg, Sandy Macdonald and Trood

Participating members: Senators Adams, Allison, Bartlett, Bernardi, Boswell, Brandis, Bob Brown, Carol Brown, George Campbell, Carr, Chapman, Conroy, Crossin, Eggleston, Chris Evans, Faulkner, Fielding, Fierravanti-Wells, Fifield, Heffernan, Hurley, Joyce, Kemp, Kirk, Lightfoot, Ludwig, Lundy, Ian Macdonald, Marshall, McGauran, Mason, Milne, Nash, Nettle, Parry, Polley, Robert Ray, Scullion, Siewert, Sterle, Stott Despoja, Watson, Webber and Wortley

Senators in attendance: Senators Mark Bishop, Bob Brown, Chris Evans, Faulkner, Ferguson, Forshaw, Hogg, Hutchins, Joyce, Sandy Macdonald, Nettle, Payne and Trood

Committee met at 9.01 am

DEFENCE PORTFOLIO

In Attendance

Senator Chris Ellison, Minister for Human Services

Department of Defence

Portfolio overview

Rear Admiral Trevor Ruting, Head, Maritime Systems Division
Rear Admiral Russell Crane CSM, RAN, Deputy Chief of Navy
Air Vice Marshal Tony Austin, Head, Defence Health Services
Ms Shireane McKinnie, Head, Electronic and Weapons Systems Division
Mr Neil Orme, First Assistant Secretary, Policy Division
Commodore Mark Campbell, Director General Navy Aviation System
Air Vice Marshal Clive Rossiter, Head, Aerospace Systems Division
Mr John Diercks, Assistant Secretary, Technical and Facilities Services, ASM

Major corporate issues

Mr Nick Warner, Secretary of Defence
Air Chief Marshal Angus Houston AO, AFC, Chief of the Defence Force

Budget summary

Defence funding, financial statements, purchaser-provider arrangements

Mr Phillip Prior, Chief Finance Officer
Mr George Veitch, First Assistant Secretary, Budgets and Financial Planning

People

Defence Personnel

Mr Neville Tomkins, Head, Personnel Services
Ms Sue Parr, Acting Head, Defence Personnel Executive
Rear Admiral Mark Bonser, AO, CSC, Head, Military Justice Implementation Team
Mr Geoff Earley AM, Inspector General, ADF

Brigadier Simon Gould, DSC, Director General, Defence Force Recruiting
Brigadier Michael Krause, Head, Recruiting and Retention Implementation Staff

Capability development

Unapproved major capital equipment program

Lieutenant General David Hurley, AO, DSC, Chief, Capability Development Executive

Defence Materiel Organisation

Major General Tony Fraser, Head, Helicopter Systems Division, Defence Materiel Organisation

Outcome 1: Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel

Output 1.1: Management of capability acquisition (including major capital equipment projects)

Output 1.2: Capability sustainment

Output 1.3: Policy advice and management services

Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation

Mr Tim Youngberry, Chief Finance Officer, Defence Materiel Organisation

Major capital facilities projects

Mr Geoffrey Beck, Head, Infrastructure Division

Defence outcomes

Outcome 1: Command of operations in defence of Australia and its interests

Output 1.1: Command of operations

Output 1.2: Defence Force military operations and exercises

Output 1.3: Contribution to national support tasks

Lieutenant General Ken Gillespie, AO, DSC, CSM, Vice Chief of the Defence Force

Outcome 2: Navy capability for the defence of Australia and its interests

Output 2.1: Capability for major surface combatant operations

Output 2.2: Capability for naval aviation operations

Output 2.3: Capability for patrol boat operations

Output 2.4: Capability for submarine operations

Output 2.5: Capability for afloat support

Output 2.6: Capability for mine warfare

Output 2.7: Capability for amphibious lift

Output 2.8: Capability for hydrographic, meteorological and oceanographic operations

Vice Admiral Russ Shalders, AO, CSC, RAN, Chief of Navy

Outcome 3: Army capability for the defence of Australia and its interests

Output 3.1: Capability for special operations

Output 3.2: Capability for medium combined arms operations

Output 3.3: Capability for light combined arms operations

Output 3.4: Capability for army aviation operations

Output 3.5: Capability for ground based air defence

Output 3.6: Capability for combat support operations

Output 3.7: Capability for regional surveillance

Output 3.8: Capability for operational logistic support to land forces

Output 3.9: Capability for motorised combined arms operations

Output 3.10: Capability for protective operations

Lieutenant General Peter Leahy, AO, Chief of Army

Outcome 4: Air Force capability for the defence of Australia and its interests

Output 4.1: Capability for air combat operations

Output 4.2: Capability for combat support of air operations

Output 4.3: Capability for surveillance and response operations

Output 4.4: Capability for airlift operations

Air Marshal Geoffrey Shepherd, AO, Chief of Air Force

Outcome 5: Strategic policy for the defence of Australia and its interests

Output 5.1: International policy, activities and engagement

Output 5.2: Strategic policy and military strategy

Mr Michael Pezzullo, Deputy Secretary, Strategy

Outcome 6: Intelligence for the defence of Australia and its interests

Output 6.1: Intelligence

Mr Stephen Merchant, Deputy Secretary, Intelligence and Security

Outcome 7: Superannuation and housing support services for current and retired defence personnel

Output 7.1: Superannuation support services for current and retired defence personnel

Output 7.2: Housing assistance for current defence personnel

Output 7.3: Other administered expenses and revenue

Ms Sue Parr, Acting Head, Defence Personnel Executive

Business processes

Defence Science and Technology Organisation

Dr Roger Lough, Chief Defence Scientist

Inspector General Division

Dr Ian Williams, Inspector General

Chief Information Officer Group

Mr Peter Lambert, Chief Information Officer

Joint Logistics Group

Major General Grant Cavenagh, AM, Commander, Joint Logistics Group

Defence Support Group (including Legal Division)

Mr Martin Bowles, Deputy Secretary, Defence Support

Mr Mark Cunliffe, Head, Defence Legal

Coordination and Public Affairs

Mr Peter Jennings, First Assistant Secretary, Coordination and Public Affairs

Defence Housing Australia

Mr Richard Bear, General Manager, Development and Construction

Mr John Kitney, Chief Financial Officer

Mr Gary Kent, Company Secretary

Department of Defence

CHAIR (Senator Payne)—I declare open this meeting of the Senate Standing Committee on Foreign Affairs, Defence and Trade. I welcome Senator Ellison, the Minister representing the Minister for Defence, Air Chief Marshal Angus Houston, Chief of the Defence Force, Mr Nick Warner, Secretary of the Department of Defence, and officers of the Defence organisation. The committee will now consider portfolio budget estimates statements for the Department of Defence, beginning with the portfolio overview and major corporate issues. We will then move on to people, outputs and business processes. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions. The questions will be forwarded to the department for response. I remind senators that their written questions on notice to the secretariat should be provided as soon as possible. The committee has resolved that Thursday, 26 July 2007 is the return date of answers to questions taken on notice at these hearings.

Please note that under standing order 26 the committee must take all evidence in estimates in public session and that this does include answers to questions taken on notice. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. The giving of false or misleading evidence to the committee may also constitute a contempt of the Senate.

The Senate by resolution in 1999 endorsed the following test of relevance of questions at estimates hearings. Any questions going to the operations of financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purposes of estimates. The Senate has also resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

An officer of a department of the Commonwealth or a state shall not be asked to give opinions on matters of policy. He or she shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions which ask for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken, and the committee will determine whether it will insist on an answer, having regard to the ground which has been claimed. Any claim that it would be contrary to the public interest to answer a question is one which must be made by the minister and should be accompanied by a statement which sets out the basis for making the claim.

The agenda has been circulated for today's hearing. We will start, when I ask the minister or the chief whether they have opening statements, with questions that go to the opening statement. Over and above that, I am pursuing a lofty ambition this week to consider the agenda in the order in which it is set out—radical, I know, but an endeavour we are making as a committee. It did not kill us in Foreign Affairs and Trade so hopefully we will be able to achieve the same lofty ambition in Defence. Minister, do you, the chief or any other officer wish to make an opening statement?

Senator Ellison—I understand the secretary has an opening statement and the CDF does as well. I certainly join with you, Madam Chair, in achieving that lofty ambition.

CHAIR—Thank you very much, Minister; your assistance may be required.

Mr Warner—During my opening statement at the February hearings of this committee, I indicated that the CDF and I were looking forward to the Defence Management Review report as an opportunity to further improve the way that Defence does business. As the committee will recall, the review team, led by Elizabeth Proust, was asked to examine organisational efficiency and effectiveness across Defence. It looked specifically at decision-making and non-operational business processes, human resource management and information procedures and systems. The report, along with Defence's response, was released publicly on 5 April.

The report acknowledged the significant progress Defence has made over the past decade in a range of areas, most notably in military operations but also in policy development and a range of public sector reforms. Specifically, the report acknowledged that Defence has become a significantly more efficient organisation over the past two decades; has embarked on the largest re-equipment exercise since the 1960s; has progressively refined its command and control arrangements to reflect the essentially joint nature of modern warfare; has achieved a significant turnaround in its financial statements in 2005-06; has become a better place to work, including, because of the service's emphasis on organisational values, extensive reforms to the military justice system and achievements in the areas of equity and diversity; and finally, has a greater sense of common mission.

Having acknowledged these achievements and successes, the review team made a series of recommendations about how Defence can improve its organisational efficiency and effectiveness. The report made 53 recommendations. The CDF and I, in consultation with the Defence service chiefs and group heads, agreed to implement 50 of the recommendations in full and two of the recommendations in part. Of the very small number of recommendations we did not agree on, we did not agree to recommendation 17, which related to the Defence diarchy.

Specifically, the report recommended that there be greater definition of the individual and shared roles of the CDF and the secretary. The CDF and I believe the Defence diarchy operates best when the two principals work jointly across Defence responsibilities. Very few Defence issues relate solely to our individual legal responsibilities. The vast majority require a blend of judgement on a range of matters. That is why the CDF and I meet several times a day to discuss and make decisions about the advice we will give to government on anything and everything from management of the Defence estate to prioritisation of the Defence budget. That blending of public service and professional military judgement must operate at

every level of Defence. That is why the CDF and I did not agree to recommendation 18a, which sought to align direct reports either to the secretary or to the CDF.

For similar reasons, we did not agree to recommendation 19a, which sought to reduce the membership of the Defence Committee. CDF and I consider that the Defence Committee is best able to inform our decisions on the organisation's strategic direction when it includes the most senior representatives of all the groups and services.

Of the 50-plus recommendations we agreed, four key principles will underpin our approach to implementation: accountability and governance, support to our minister and the government more broadly, people management and the need to reform our business systems. Clearer and more streamlined governance and accountability arrangements will assist us in maintaining a high operational tempo while also driving organisational reform and planning for the future.

From 1 June, the deputy secretary who leads the strategic policy development function will also assume responsibility for a much streamlined coordination and governance function. This will ensure a closer linkage between the government's strategic direction and our business planning and performance framework. We will be revising our governance processes and documents to ensure they are simple and that they are fit for purpose. We will streamline our performance reporting and put in place central oversight to ensure that implementation of our key initiatives is well planned, accountabilities are clear and progress is closely monitored, and we will improve the customer-supplier agreements between the Defence Support group and other parts of the organisation to ensure they clearly set out mutual obligations and agreed performance measures.

The Proust report acknowledged improvements already underway in relation to support to the minister. The newly established Ministerial Awareness and Training Team will be piloting courses in June to better equip people with the skills they need to develop clear and concise advice on complex issues, and the new policy development division will work alongside subject matter experts as they frame their policy advice, with the aim of transferring skills and building capability.

On people, Defence, like other parts of the government and the private sector, is faced with significant recruitment and retention challenges. We will be recruiting a deputy secretary-level human resource strategist whose focus will be on developing contemporary policies to help Defence succeed in a strongly competitive marketplace. With a range of important recruitment and retention initiatives already underway in the ADF, we will develop more innovative career management approaches to our civilian workforce.

As one of the largest and most complex businesses in Australia, Defence must commit itself to ongoing business system reform. In line with the Proust report, we will recruit an expert chief information officer at the SES band 3 or three star level. A priority for the new CIO will be development of a comprehensive ICT strategy that ensures we have the management information and levels of service necessary for Defence to deliver in both operational and non-operational areas.

Prior to the release of the Proust report, we had already initiated a review of Defence business process and systems. The first stage of this review is near completion. It involves

development of an agreed Defence business model which, on one page and in plain language, will describe what we will deliver to government, the key functions and processes that enable us to deliver, and how these elements fit together.

These are just some of the initiatives flowing both from the Proust report and from work that was already underway to improve efficiency and effectiveness in Defence. CDF and I agree with the report's conclusion that while periodic external review has its place, it is healthier to have an institutionalised practice of continuous improvement. Genuine, lasting reform is a matter of years, not a matter of months, and it will be a continuing focus of my efforts while I am secretary.

I would like to conclude by updating the committee on two issues in which it expressed particular interest during the February hearings and also to provide an update on progress in our financial statements. The committee will recall media claims that Defence was warned three months before a fatal fire on HMAS *Westralia* of problems with faulty fuel lines. Since the last hearing, the department has had time to thoroughly examine the matter. As a result—as members would be aware—the matter has been passed to the Commonwealth Ombudsman.

Our examination of the allegations suggests that they are unfounded. Nevertheless, to ensure full transparency the CDF and I recommended to the minister that the allegations be independently investigated. The allegation rests heavily on an unsigned 6 February 1998 document—which was a focus of February's hearings—which summarises the outcomes of a meeting with representatives of Baileys Diesel Service. Extensive searches of our files revealed Defence has no record of the document being received, either in draft or final form, at the time. The earliest record of Defence receiving the document was in April 2005.

The allegations stem from claims made by Baileys Diesel Service during an interview with Defence investigators on 6 February 1998. Defence reviewed the transcript of the interview. The transcript shows that the company did not refer to the flexible fuel lines that caused the fire. The flexible fuel lines which resulted in the tragic fire were, in fact, not installed on the ship at the time of the interview. There is no indication that Baileys was aware of the proposal to install the flexible fuel lines. I can now inform you that in April the Ombudsman advised the Minister and me that an own motion investigation into the matter would be conducted. Defence is cooperating fully with the Ombudsman.

Another topic of interest to the committee, when I last spoke to you, was the security of Defence's weapons and munitions—a responsibility that the CDF and I take very seriously. Over the past six months we have continued to undertake an extensive program of internal checks of weapons and munitions held in Defence warehouses and armouries across Australia, to give us confidence that these items are being effectively managed. In addition, the audit into weapons and munitions security policy and practice that the minister announced last December is well advanced. The first phase, which reviewed the security of M72 rocket launchers, was completed in January this year. An important result of that phase was that the full stock of the current M72 variant held by Defence was accounted for with no discrepancies.

The second phase, which addresses weapons and munitions security more generally, is due to report to the CDF and me in the third quarter of this year. The audit is bringing forward

recommendations to enhance security policy and practice as they arise and has already made a number of recommendations on which action is complete or underway.

When I spoke to the committee in February I emphasised the importance I place on continuing the work of my predecessor, Ric Smith, in relation to financial statement issues. As I said at that hearing, the remaining area of focus is on the management and reporting of inventory and repairable items. Much has been done during the year to address these challenges. This has included significant work to document and put in place robust controls in our inventory management systems and processes.

This work, combined with stocktaking and other assurance activity, will provide Defence with a high degree of confidence around its inventory quantities. Of itself though, this will not be sufficient to completely remove the audit qualification. Work will continue into next year to address residual areas of uncertainty, including inventory pricing.

Having regard to the size and diversity of our stock holdings and the legacy challenges confronting us, I am comfortable with the progress we are making in improved management and reporting of our inventory. We will keep working with patience and perseverance to achieve our goal of unqualified financial statements.

CHAIR—Thank you, Mr Warner. Do you have a copy of your statement you can table for the committee?

Mr Warner—I do.

Air Chief Marshal Houston—Thank you. Good morning. Today I would like to update you on operations, specifically commenting on the current security environment in Iraq and Afghanistan, and also inform you of our progress in recruiting and retention. Firstly, in terms of our operations broadly, we continue to maintain a busy tempo, with the government to date approving the overall deployment of about 3,850 people to nine overseas operating locations in 2007. We also have 450 personnel deployed on security tasks in our maritime protection zone and other personnel deployed on international engagement, including participation in exercises and foreign visits. Additionally, in preparation for APEC 2007, a forward headquarters element has been established in Sydney for liaison and coordination of Defence support to the APEC security task force. Each of these deployments are within the capability of our forces, are sustainable for the duration of the deployment and leaves us postured to meet a range of contingency requirements.

I want to specifically address the security situation in Iraq and Afghanistan, where our people are exposed to daily security threats, in what are dangerous and volatile security environments. Progress in Iraq continues to be hampered by the unstable security situation, although I would note that 80 per cent of the violence occurs in only four of the 18 provinces. Iraq now has a democratically elected government that includes representatives from the Shia, Sunni and Kurdish populations. Four provinces in southern Iraq, where we operate—Al Muthanna, Dhi Qar, Najaf and Maysaan—have now been transferred to provincial Iraqi security control. The ADF welcomes the current high level of commitment from the US and the Iraqi security forces as they tend to security in Baghdad. The new security plan for Baghdad is designed, structured and led by Iraqis, with US support. There have been some initial indications of progress in reducing violence in Baghdad. However, you may be aware

from wide media analysis of the latest operation under the Baghdad security plan—operation Fard al Qanun, which is Arabic for ‘enforce the law’—that the Iraqi people are still enduring acts of terrorism by those who oppose continued Iraqi political reform.

Despite the high levels of violence, there are welcome signs of success. Multinational forces have reported that they are recovering a large amount of weaponry and material intended for terrorist use. As a result of the increasing presence of Coalition and Iraqi troops in local neighbourhoods, the Iraqi people have been demonstrating that they are increasingly willing to stand up to terrorists and insurgents operating in their communities. The future of Iraq is closely linked to continued Iraqi political reform that must bring the Iraqi people together in a cooperative community free from sectarian prejudice. The ADF will seek to assist this process where it can. I would add that this is really the key to getting a good outcome in Iraq. ADF personnel are continuing their professional interaction with the leaders of their local Iraqi communities and, where appropriate, they also mentor local officials to improve the governance outcomes for improved development of the Iraqi security forces. I would also like to highlight the outstanding work performed by the second rotation of the Overwatch Battle Group West and the Seventh Australian Army Training Team Iraq, which are both returning home following their six-month deployment. In only six months, both units were able to make significant achievements for the people of Iraq.

Specifically, the Overwatch Battle Group carried out more than 300 patrols across their 72,000 square kilometre area of operations; provided training to about 2,000 Iraqi soldiers; ran training sessions for 200 Iraqi police officers and 80 officers from the Department of Border Enforcement; provided security for projects aimed at building an economic base for Iraqis, including the installation of a massive gas turbine that will eventually provide electricity to the south; and, completed or scoped 55 of their own civil-military cooperation projects, including the largest such project in southern Iraq, the pedestrian bridge in As Samawah in the Al Muthanna province.

The 7th Australian Army training team in Iraq performed equally well. In only six months, Army training team staff were involved in the training of over 15,000 Iraqi recruits and the career and trade training of a further 600 non-commissioned officers.

I could not be more pleased with the performance of these two units and with their enthusiasm and efforts in carrying out their tasks. Without doubt, the men and women of the battle group and the training team have made a significant and lasting contribution to the lives of Iraqis in the south of the country. They can take great pride in their achievements and in being outstanding ambassadors for our country.

Additionally, our contribution to the international fight against terrorism in Afghanistan continues to progress. In response to the increasing threat posed by the insurgency in Oruzgan, we have deployed additional force protection and support elements to assist in the ongoing reconstruction and development currently being undertaken by the Reconstruction Task Force, known as the RTF. The increase in force elements, consisting of a special operations task group, an RAAF mobile control and reporting unit, an increased national command and logistics element and the redeployment of two Chinook medium lift helicopters in early 2008 will raise our commitment in Afghanistan to approximately 1,060 by mid-2008.

The RTF, with its own Australian Army force protection company, has just completed its first rotation of forces. The RTF and the Special Operations Task Group—both in Oruzgan province—are operating in direct support of the NATO led International Security Assistance Force. The RTF is making a valuable contribution to reconstruction and security in Oruzgan. In recent months, it has been involved in reconstruction and renovation works on local schools, health care facilities, mosques, a causeway and wells. It also operates a trade training school from its base near Tarin Kowt. The school provides the local Oruzgan people with essential trade and construction skills, which are enabling them to rebuild their province. They have also been involved in training the engineers that belong to the Afghan national army. The role of the Special Operations Task Group is to enhance provincial security in Oruzgan and provide direct support to our RTF. Both of our deployments in Oruzgan are helping to reinforce the legitimacy of the Afghan government with the local population. The RAAF air surveillance radar capacity will deploy to Kandahar airfield where it will assume control of a portion of Afghan operational airspace from mid-2007.

Whilst on the subject of terrorism, I would like to address the concept of what will constitute a successful outcome in these two countries. It is important to remember that terrorism springs from a wide range of social, ideological, political and economic grievances, both perceived and actual. Thus, combating terrorism is not just about the judicious application of military force; it also requires us to address the root causes of terrorism. Preventing the emergence of failed states and terrorist safe havens means supporting legitimate governments. Undermining the support that terrorist groups enjoy amongst certain sections of the population means not just supporting effective security forces but also encouraging effective, inclusive governance.

In such a situation, success is not defined purely by the defeat of an opponent's forces on the battlefield. In a struggle that is often against non-state actors and competing power structures, achieving success is a long-term endeavour measured by a participatory political process, the fostering of political and social freedoms, education, tolerance, reconciliation, and equitable resource allocation.

While the contribution of our serving men and women and the networks that support them cannot be undervalued, the ADF has limited capacity to address the full spectrum of issues that will constitute lasting success in places like East Timor, the Solomon Islands, Iraq and Afghanistan. In all these places, the ADF must work closely with other forces and agencies in a whole-of-government and whole-of-coalition context if we are to achieve our objectives. While military intervention can serve to effectively stabilise a security situation, more comprehensive assistance is generally required to address the root causes of the instability, such as: incapacity in governance, rule of law and democratic institutions; poor public sector management; and politicisation of ethnic and religious differences. In these environments, the ADF provides a baseline of security and deterrence against further violence in which capacity-building efforts can make progress. However, we continue to work hard—with other Australian government agencies, international partners and, most importantly, the governments of these nations—to best target our assistance. To conclude my statement on operations, I want it to be clear that I remain very, very pleased with the contribution of our

deployed men and women and the way in which they are conducting themselves not only in Iraq and Afghanistan but on all our operations. I believe they do our country very proud.

I would now like to update you on our progress with recruiting and retention. As you are aware, the ADF has been directed to grow to a full-time strength of 57,000 by 2016. Its current strength is about 51,000, so this represents an increase of 6,000, or just over 11.75 per cent, in 10 years. To do this, we have to increase recruiting and improve retention. We have set ourselves a goal of increasing our recruiting intake for our full-time force from 4,677 to 6,500 per annum and reducing our separation rate from just over 11 per cent to below 10 per cent. We began looking at improving our recruiting in some depth in 2005. Already we have seen a marked and improved recruiting performance.

Our recruiting targets have increased and our performance against those targets has improved. For example, if we compare our achievement of our year-to-date targets at 30 April, we see the following: last year our year-to-date target for our full-time force was 4,340 and we had achieved 3,674, or 85 per cent of that target. This year we increased our target by 545 to 4,885 and we have achieved 4,303, or 88 per cent of the target. In practical terms, this means an increase to date of 629 full-time personnel. If we include our part-time force, the result is equally encouraging. Last year our year-to-date target for our total force was 6,965 and we had achieved 5,554, or 80 per cent. This year we increased our target by 650 to 7,615 and we have achieved 6,558, or 86 per cent of the target. In practical terms, this means an increase to date of 1,004 personnel to the total force.

To ensure we complement our improvements in recruiting with improvements in retention, we have formed a discrete staff to implement and report on recruitment and retention initiatives. This staff reports directly to me and the secretary on the progress of our recruiting and retention initiatives within the recruiting and retention campaign plan. This plan was developed last year and is the driving strategy that underpins the \$1 billion allocated by government in December last year and the \$2.1 billion allocated in the budget this year to recruitment and retention initiatives. The strategy and spend looks out over 10 years, so we are in the very early days. I can report, however, that the first initiatives have started and the initial results are encouraging.

Our first initiatives looked at stabilising key ranks and skills within Army and Navy. In terms of Army rank expansion, 4,744 Army personnel were identified as eligible for a rank expansion bonus. This bonus was to keep corporals, sergeants, captains and majors for a further year of service. As at 18 May, 2,218 have made a decision on that bonus and of these 1,950, or 88 per cent, have elected to take the bonus. In terms of Army-critical skills, 370 Army personnel were identified as being eligible for a critical-skills bonus. This bonus was to keep some critical skills for a further two years of service. As at 18 May, 182 have made a decision on the bonus and of these 136, or about 75 per cent, have elected to take the bonus.

With the Navy retention bonus, 113 naval personnel are in the process of being offered bonuses for further service in areas such as submarine service and marine technical skills and to undertake specialist training. As at 11 May, 58 offers have been made and nine have been accepted. I note that this offer is still open. It is important to bear in mind that Navy remains in a difficult situation and we still have much work to do. Doctors, principal warfare officers, submarine warfare officers, underwater medicine qualified sailors, submarine and junior

technical sailors are in particularly short supply, due in part to their attractiveness to private professional organisations and industry.

But it is not all bad and there are some encouraging signs that critical parts of our Navy workforce are on the road to recovery. For example, we had a significant problem in our electronic technician trade, but recruiting of ET sailors now exceeds loss, the acceptance rate for the ET completion bonus being 93.5 per cent. The seaman retention bonuses show positive signs for recovery in this category, with the exception of lieutenants. However, engineers, marine technicians and submariners remain critical. I would caution by adding that these are early results and that this is a 10-year strategy, but these results are pleasing. They show the secretary and me that we are responding to the needs of our workforce and improving the environment in which our people work and live in what is a most demanding employment environment.

I will leave it there. Thank you for allowing me the time to address you. The secretary and I are now ready to take your questions.

CHAIR—Thank you very much, Air Chief Marshal. Would you be prepared to table a copy of that statement so it can be circulated to members of the committee?

Air Chief Marshal Houston—I certainly would.

CHAIR—Thank you. We will take that as a tabled document. I will have someone collect that from you and make copies for members. We will go into questions in portfolio overview that are linked with questions which arise from the opening statements and issues which were referred to. Who is intending to commence? I am seeking volunteers, Gentlemen.

Senator CHRIS EVANS—I will, Madam Chair. Perhaps I can start by asking CDF Houston a couple of questions. I thank both you and the secretary for the reports and for the development of that process—and the committee has always been very helpful in this—in terms of facilitating the committee's inquiries and understanding of defence operations. I want to start with a couple of questions regarding our overseas deployments. I want to check this figure although I do not have a copy of the report yet. We had 3,850 people deployed. Do I take it that that is throughout the year, not all at one time?

Air Chief Marshal Houston—That is 3,850 that have been authorised by government to deploy. Right at this moment, you would be aware that we are in the middle of deploying forces into Afghanistan. For example, the Air Force radar unit is in the process of deploying as we speak.

Senator CHRIS EVANS—Some left the other day, didn't they?

Air Chief Marshal Houston—Yes. In fact, they were farewelled yesterday, and various elements are going forward. We also have a rotation running at the moment. To say right now what the figure is is very hard because it is on the increase. So rather than give you a figure that would reflect what we have on the ground right now, what I have given you is the figure that had been authorised by government for the various operations that we are conducting. I think the figure on the ground right now is more likely to be about 3,300, but, eventually, when all of our deployments are complete, we will be up around that 3,800 figure.

Senator CHRIS EVANS—So you will have actually 3,800 deployed overseas at any one time?

Air Chief Marshal Houston—That is correct.

Senator CHRIS EVANS—And that is without counting the maritime deployment.

Air Chief Marshal Houston—That does not include the people who are on border protection duties in the north.

Senator CHRIS EVANS—It does include those in the Middle East?

Air Chief Marshal Houston—It includes all our people on all overseas deployments, including the smaller United Nations operations.

Senator CHRIS EVANS—What did we get to at the peak of the invasion period in Iraq in terms of our overseas deployments?

Air Chief Marshal Houston—As I recall, we were around the 2,000 mark in terms of Operation Falconer. I can come back and give you the precise figure, but I know it hovered on and around the 2,000 figure in terms of people deployed to Operation Falconer. Of course, at that time we had only a very small commitment in Timor and we had nobody deployed to the Solomon Islands. So whilst we had those UN deployments, we did not have as large a number of people deployed at that time.

Senator CHRIS EVANS—Would it be fair to say this is the largest number we have had deployed at any one time since the Vietnam War?

Air Chief Marshal Houston—No. If we go back 12 months to the end of June last year, because of our response to the crisis in Timor, we built up—by the end of June last year—to 3,200 in Timor. In addition to the forces that we had deployed in the Middle East and all of the people that we had on operational activities, we got to around the 5,000 mark, just over 5,000. But that was only a brief time because shortly thereafter the situation stabilised in Timor and we were able to draw down to a much lower number.

Senator CHRIS EVANS—It certainly means you are operating at an extremely high tempo, doesn't it?

Air Chief Marshal Houston—We are operating at a high tempo. One of the things about a high tempo is it is not just the people who are overseas that are working hard; it is the people that enable those operations. I have to acknowledge and thank the hundreds and hundreds of people—thousands of people—here in Australia who enable those operations: the people in the policy, joint operations and intelligence areas, our people in materiel and logistics—indeed, everybody right across the organisation who enables our ability to deploy these people overseas.

Senator CHRIS EVANS—You, like all CDFs, always say we can cope with the deployment pressure, and I would not expect you to say anything else, and that is admirable, but I am trying to get a sense of what that means. We have the recruitment problems at one end and a very high operational tempo at the other. The evidence is that we have been coping well. I do not dispute that. All the indicators are that the performance level of Defence has been excellent, and that is to be commended but I am trying to get a sense, though, of the

wear and tear. There must come a point where we struggle to maintain that. I know you have had recruitment problems in some of the areas. I have a couple of mates in the Navy who say to me, 'I am not deploying any longer,' in the sense that, 'I have been away; my wife hates it'. A couple of them I know have got out because the old land time they used to have has become a thing of the past. So I am trying to get a sense of the stresses. How many times would some of our people have had to deploy overseas in the last few years? Some of them must be on their third or fourth rotations.

Air Chief Marshal Houston—That is correct; we do have people who have deployed three and four times. But we also support our people by giving them a good break after they have had a deployment. For example, the Chief of Army has a policy whereby people go and do a six-month deployment, they come back and they then go into a 12-month break. Essentially they are not deployed for another 12 months unless they volunteer to do so. That gives you an idea of where we are at. You talk about the Navy. We have a frigate deployed in the Gulf. In that period where they work up to deploying and then deploy to the Gulf they are very heavily engaged in their primary duties, I suppose for about nine months, but then they come back and get a good break before they have to go and do it again. With regard to the operational tempo, I think, as Mark Thomson pointed out in his very good report, his ASPI report, that we are busy and it is demanding but we are not overstretched. We are able to manage the tempo that we currently have and we have enough left in the cupboard to handle any contingencies that might come up in addition to what we are already doing.

Senator CHRIS EVANS—I might put questions on notice to the Army, Navy and Air Force about those rotations and how they are going with the frequency of deployment, because it seems to me a key dynamic for us now is that retention is affected by those issues.

Air Chief Marshal Houston—When I go out and about, particularly when I see Army and Air Force people—and you can ask the Chiefs the same question—I am always getting poked in the chest because they are not deploying. They want to deploy. They want to go and do what they were trained to do. And, of course, when they deploy they get generous allowances. So it is good for them professionally, they develop very well as a consequence of this operational experience, and they are also rewarded very generously for what they do for their nation. I think that with the support they get from the whole community they really do feel that they are making a difference. Whilst there may be the odd person who says: 'I have had enough. It's time to get a bit more stability and spend more time with mum and the kids,' I think you will find that the majority of our people really welcome this high level of operational tempo. At the end of the day it is why most of us joined the Australian Defence Force—to go out there and make a difference in what we are trained to do.

Senator CHRIS EVANS—I understand that, CDF, and I appreciate it. I used to have a lot to do with firefighters and they were never happier than when there was a fire. I understand the professional interest and challenge in being engaged. I must say, though, that I often get a different reaction from single personnel than I do from married personnel in the sense of those pressures. Perhaps later we will come to the exit interviews and how much of a factor that is playing, because we are all conscious of recruitment and that recruitment is linked to retention. While we have laudable aims for building the size of the Defence Force, I know

that in every industry in Australia they are struggling for skilled labour. So we will come back to that.

CHAIR—In relation to questions that were placed on notice from additional estimates, these sorts of questions were placed on notice, and the response was that the information was not readily available and would be—in my words—too onerous to produce to the committee. So we need to negotiate a position between what information the committee can get and what information it cannot. It is no use putting the questions back on notice if the answer is going to be the same, so perhaps we might discuss that further.

Air Chief Marshal Houston—I invite you to ask that same question of each of the chiefs.

Senator CHRIS EVANS—I intend to—and I always find the discussion better than the answers on notice, unless you are after the straight facts. I just want to get an understanding, but I appreciate the chair's advice. Can I take us back to your report on the Iraq deployment—and particularly an assessment of the danger confronting Australian troops in Iraq. It seems to me that there has been a sense of increasing events, incidents and threat. Can you comment on whether that is true, what is our response to it, whether it is based on certain localities or whether it is a general problem?

Air Chief Marshal Houston—You would be aware that, over the years, we have been the subject of a number of attacks. The threat is still assessed as high. That has not changed. We have had a high threat to the people who are in Iraq from the word go. Essentially, that has not changed. I think what has changed is the fact that we are starting to see more and more of the improvised explosive device type attacks. If you look at the trendline from, say, back in 2003, 2004 right through to the present, you will see a gradual increase in the number of improvised explosive device attacks. Another feature of those IED attacks is that the technology that is being applied is becoming more and more leading edge. What we are starting to see, particularly in southern Iraq, is the use of explosively shaped projectile improvised explosive devices. They are lethal IEDs. The slug that is fired by those devices penetrates armour. The Americans have lost a couple of Abram tanks to those sorts of weapons. They have to be fired absolutely right but, if they are properly placed, they can have a devastating effect on an armoured vehicle. The attack that we sustained last month near Nasiriyah in Dhi Qar province was an attack by one of those IEDs. I think that that is the threat that we worry about the most. From time to time, we are obviously engaged by small arms, usually rocket-propelled grenades and normal small arms fire. Our armoured vehicles are very effective against RPGs and small arms fire. That is why we are very happy with the equipment that we field because it is well suited to the environment in which we are operating.

Senator MARK BISHOP—Are these projectile IEDs—which are, I think, now a developing feature of warfare over there—manually sighted on the target or has the technology accessible by the terrorists reached a stage whereby they can use computer targeting?

Air Chief Marshal Houston—They are becoming increasingly sophisticated in the way they are activated. There are a number of ways that they can be activated. They can be activated by command, by radio or even by a mobile phone or infrared traffic on a road—for

example, the infrared radiation from a vehicle could activate some of these devices. There are a number of different ways that they can be activated.

Senator CHRIS EVANS—I guess this is a broad question. We keep getting reassurance—and you provide in your report, which I am looking at now—that things are improving. We have the surge activity. Yet every night on the news we see that 40 or 50 people blown up. I do not have the statistics with me, but I raised them with ONA the other night. The number of civilian casualties is on the increase. So we have civilian casualties on the increase. We have the number of attacks on Australian troops on the increase. We have the number of American personnel in particular being killed standing at very high levels. Yet we keep getting reassured that things are improving. To be frank, it is counter-intuitive when you see those statistics.

I was interested in what you saw as the measures of success. I am not taking anything away from the Australian troops there and what they have achieved, but how do we know we are making progress? You made a very interesting comment—I think towards the end of your contribution; I have not got it in front of me at the moment, but I will find it—basically saying in the end the military solution is not the solution to engagements in any of these regions; in the end, they are political and civil solutions. But what is the measure of military success in Iraq? What should we look to as the indicator about whether or not it is working? We were supposed to be there for a short period of time; we have now been there for quite a long period with no end in sight. What is the military benchmark that you would say we ought to look at to see whether we are making any progress?

Air Chief Marshal Houston—First of all, let me start where we are. We started in Al Muthanna when we first went there. We were protecting the Japanese and we were working as part of the coalition force in the province of Al Muthanna. We have been involved in securing that province. We did a lot of training of the people who are going to take over the responsibility for the security of that province. After being there for an extended period of time—just over a year—we were able to transition that province to Iraqi security control; and I would say that is a very good measure of success. If you look through the south, you see that the other provinces that have been transitioned—Dhi Qar, Najaf and Maysaan—have transitioned to provincial Iraqi control. So I would say that that is a clear demonstration that we are succeeding where we are. I am very, very proud of what we have achieved in the south.

I mentioned the amount of training we were doing—the mentoring; the assistance that we were providing to the Iraqi security forces, the police, the border enforcement people. So all of that is proceeding very well. I think what you really are alluding to is the situation in Baghdad. Of course whilst we are in the coalition we are not directly involved with the battle group in the Iraq security plan. If you have a look at that particular set of circumstances, you see that the surge started back at the beginning of the year. The Americans have put an additional four brigade combat teams in—the fifth one goes in over the next four weeks or so. I guess by the end of June they will be complete on the ground in Baghdad. Now in terms of what is happening in Baghdad, for the first time we are seeing Iraqi security forces and American forces patrolling on the streets of Baghdad.

The results initially were very encouraging. There was a reduction in the ethno-sectarian violence, but unfortunately we continue to see suicide bombings perpetrated by al-Qaeda Iraq,

a well-known terrorist group which is exploiting the situation there to try to trigger further violence by attacking the Shia in and around Bagdad. In terms of the level of violence, it reduced initially. It is now coming back a little bit unfortunately, but it is still too early to tell because the Bagdad security plan is now into the hard part of the fight, if you like. It is in and around Bagdad and it will continue for a while. I think it is still too early to tell whether it is going to be successful or not. General Petraeus will obviously report on that in due course. We await the outcome of his report with interest.

I think the key piece in all of this is the political piece. What we require, I think, is to see a very active and responsive approach to bringing all of the communities together, particularly the Shia and Sunni, in a process of reconciliation—both at the top level and all the way down through their society. Until the government there can achieve that reconciliation, I think we are going to see continuing violence. What is required? We need to see all of that legislation go through and we need to see a very active program of reconciliation. That is really the key to success in Iraq.

Senator CHRIS EVANS—I appreciate that, and I accept the broader analysis. But in terms of Australia's military objectives, it seems to me that it is a little unclear. You make the point that we are only part of a broader force. In that case the assumption therefore is that we have to accept the success benchmarks of the wider force. I think you made the point that Al Muthanna has gone well, but it is one part of the overall picture. I think it is probably fair to say that it was not the worst area before we got in there. The violence has been concentrated in Bagdad and a few other key places. Are you saying to me that General Petraeus's report will be the only sort of benchmark as to whether any of this is working? I take your point about the political solutions, I think that is right. Quite frankly I am a bit sceptical about that given what I have read in recent weeks and months. What is the benchmark for saying whether we are really doing any good there militarily?

Air Chief Marshal Houston—I will give you another example. I started by giving you an example where we were directly involved. I would submit that achieving provincial Iraqi control in the southern provinces where we are working demonstrates success—and the work we are doing now in terms of the overwatch. I gave you some of the vital statistics from the last battle group. They have done a wonderful job, and we are achieving success. The other example that I would throw on the table is Al Anbar. If you go back nine to 12 months, Al Anbar was the heartland of al-Qaeda Iraq. They had virtually taken over the province from the tribes. What has happened since then is that Al Anbar is now in much better shape. Essentially, al-Qaeda Iraq, have been thrown out of the province.

The tribes have come on board with the Iraqi government and the coalition. A town like Ramadi, where you could not have gone 12 months ago, is now a place where you and I could walk down the street. That is because the tribal chiefs—the tribes—have essentially got rid of al-Qaeda Iraq. We now have a province that is much more stable than it was before. The outlook in Al Anbar is much more positive than it was. There is reporting on that in today's media. McPhedran talked about it in an article today; he was reporting from a source that he had in Iraq. So that is going particularly well.

I said in my opening statement that the violence is really in four of the 18 provinces. The other 14 provinces are reasonably settled. Sure, there are tensions and there is occasional

violence. But the big suicide bombing attacks, which have been the main feature of the violence over the last six months, are being perpetrated by al-Qaeda Iraq primarily against the Shia population. We have seen in just the last couple of days two separate bombing attacks. One was on a Shia market, where 25 people were killed; the other attack was on the Shia and 20 people were killed. These are suicide bombing attacks—vehicle attacks—by the terrorist group al-Qaeda Iraq. Clearly what they are trying to do is trigger a response by the Shia against the Sunni to exacerbate the security situation, particularly in Baghdad.

Senator CHRIS EVANS—But the point is, they are being successful in that endeavour, aren't they?

Air Chief Marshal Houston—It has been a couple of months since I saw General Petraeus, but I am able to tell you about the things that they have been able to do with this new Baghdad security plan. They have found lots of weapon caches and a number of the suicide bombing facilities, if you like, where they build up the vehicles with explosives to go out and do the attacks. They have found a number of those facilities and taken them out. That sort of work is ongoing and there is more success in that area than there ever has been before. Unfortunately, we have not eliminated all of those facilities, because the bombing continues. But it is one of the things that General Petraeus and Admiral Fallon are very much focused on—the best way to combat the al-Qaeda Iraq vehicle-borne suicide attacks.

Senator HOGG—What is our long-term commitment in Iraq?

Air Chief Marshal Houston—Clearly, that is a matter for government.

Senator HOGG—I accept that, but what do you understand it to be at this stage?

Air Chief Marshal Houston—At this stage we have got another deployment of the Overwatch battle group. The rotation is going in now. That is authorised for another six months. But our authorisations for Iraq do not go beyond the end of the year. Government reviews the deployments and the situation in Iraq, Afghanistan and indeed all of our operations every six months. So we work on the basis of a six-month window.

Senator HOGG—So you would expect that somewhere in the next six months you will be advised as to whether or not there will be another rotation going into Al Muthanna.

Air Chief Marshal Houston—We will provide advice to the government along with all the other departments and stakeholders. That will be provided at some time in the near future. The government will make a decision based on the situation in Iraq, and on our advice, as to whether we will continue with another deployment.

Senator HOGG—You have not been asked to alter in any way the nature of the deployment in Iraq at this stage?

Air Chief Marshal Houston—The last review resulted in an increase of up to 70 trainers and we are currently deploying those training personnel into Iraq for a six months deployment.

Senator HOGG—Outside of that?

Air Chief Marshal Houston—The number of people we have in Iraq is at a steady state. We have 615 people with the Overwatch Battle Group and the training team.

Senator CHRIS EVANS—Does the UK's announcement about possible acceleration about withdrawal have any direct implications for our troop commitment?

Air Chief Marshal Houston—We keep in very close touch with the UK, because our battle group is actually under the operational control of the general officer commanding MND south east, which of course is the military area in the southern part of Iraq. We have people who are in those headquarters. The reduction in force level by the UK will be to about 5,000 troops and we do not have any concerns about that. They will continue to work closely with us and we are very comfortable with what is in prospect.

Senator CHRIS EVANS—Your judgment of the success in Al Muthanna would imply reduced need for Australian engagement in Al Muthanna?

Air Chief Marshal Houston—The whole concept was that once provincial Iraqi control was achieved it was always envisaged that there would be a need to provide backup, we call it Overwatch, for the Iraqi security forces that were deployed in a province like Al Muthanna. As I indicated in my opening statement, we continue to patrol there, we engage the Iraqi security forces, we train with them, we mentor them and we assist them with the development of their capability and in Al Muthanna particularly it has worked wonderfully well. In Dhi Qar it is coming along very nicely. I also mentioned we are involved in 55 military civil projects and all of those are going along very nicely.

Senator CHRIS EVANS—Sorry to interrupt, but the whole concept of mentoring is that eventually you retire and leave.

Air Chief Marshal Houston—Absolutely.

Senator CHRIS EVANS—I guess I am trying to get a sense of 'when'. We keep getting reassured that this is all going well. Surely the benchmark for that is the fact that we can actually get out and leave them to it. I guess I am asking a direct question about Al Muthanna: when is it that we can get out of there? I am not asking you a broader political question about whether that means we deploy somewhere else, but in terms of the work in Al Muthanna when do we say we have done our job and we give effect to the sentiment that you have been expressing here for some time?

Air Chief Marshal Houston—When there is no further work to be done and at the moment there is plenty of work to be done. It is as simple as that. Our people, as you have seen, are doing a magnificent job. Eventually, yes, there will come a time when we will probably no longer be required, but we have not reached that point yet.

Senator CHRIS EVANS—What I am asking is: when is that time going to be? What is your assessment? We have committed troops to this task. I do not want to get caught up in public service speak about benchmarking but what are your performance outcomes and when do we know or how do we know when the job is done and what is your assessment about when the job will be done?

Air Chief Marshal Houston—I have not given that assessment yet to government and I think it would be most inappropriate if I gave it to you first. We assess the situation, we review it on a six monthly basis and essentially we provide advice to government. It will be

government who decide when the time has come. All I can say is that there is still work to be done and our troops are enjoying doing it.

Senator CHRIS EVANS—I am not disputing your need to advise the government, but I think the Australian public and those approving the funding have a right to know at some stage as well. I suspect the message from you is that it is still some time off.

Air Chief Marshal Houston—For example, we have just increased the number of trainers. We have done that because there is still a need to train more security people to take care of this very challenging security environment in Iraq. At the end of the day, once they are in a position to secure the whole nation of Iraq, that is probably when we will be able to depart. But there is still a lot of work to be done. Bear in mind that this security force was raised from scratch, from a standing start, three years ago. It is an enormous task and one that requires assistance from people like us for a long time to come. I would imagine that, like we do here in our own region, there will be a need for training and cooperation long into the future. That is the nature of these things. Raising a security force several hundred thousand strong is not achieved overnight. There is an awful lot of work that still has to be done. They have the frontline forces, but there is a need for a lot of backup, logistics, logistics training, the development of logistics doctrine, and support in a large number of other areas.

Senator CHRIS EVANS—We will leave it at that, but I want to ask a quick question that goes more into the detail. We see a lot of reports about Iraqi security forces deserting, and some suggestion of ethnic violence led by various elements of the security forces. Have you done any outcome analysis of the success of the training? Can we get figures on how many have gone through and how many are staying and doing the job they have been trained for? What is the sense of stability and loyalty inside the forces that have been trained?

Air Chief Marshal Houston—There are just two examples. In Al Muthanna around Christmas time we had circumstances where the people we trained were faced with a very challenging set of circumstances presented by a militia group—Jaysh al-Madi. It was very confronting and they handled it very well. There was a bit of a fight, and the people we trained came out on top. They showed great discipline and, essentially, they prevailed against a very significant challenge from the militia. That is one example.

Another example is from a couple of weeks ago when there was a similar challenge by Jaysh al-Mahdi to the authorities in An Nasiriyah, the provincial capital of Dhi Qar. Again, the people we were associated with took Jaysh al-Mahdi on. A large number of people were killed in the fight. The people that we support—the people we had trained—came out on top.

We have been pleased with how the people we are involved with have gone. I think both of these sets of circumstances are a clear demonstration that the work we have done in the training field, the development field and the mentoring field has made the difference. In both cases we have seen that we did not have to get directly involved ourselves; we simply provided them with support and advice. We provided them with some logistic support, but in both cases they came out on top without us becoming directly involved at all. I think that, in both cases, that was an incredibly good outcome. It is yet another demonstration of the fact that we are making a difference. The last one happened only a couple of weeks ago.

CHAIR—Are there any further questions on Iraq?

Senator TROOD—I want to ask a couple of questions about the IEDs that you mentioned. Are they being used by all of the parties that are responsible for the violence in Iraq or by only some of the terrorist groups, for example?

Air Chief Marshal Houston—I guess that is a very delicate question. Let me put it in broad terms. Where we are operating they are being used extensively by militia groups—principally Jaiysh al Mahdi. One of the things we have done in response to that is set up a counter improvised explosive device task force here in Canberra. We have a lot of people working very hard in keeping ahead of the technology that is deployed. Indeed, I could organise for you all to have a briefing on that any time you wish, because great work is being done in that space. We have very good connections to the American and British equivalents—their task forces—and our people are doing a magnificent job. So it is a feature of the environment there but, principally, it is the militia Jaiysh al Mahdi in the area we are operating in.

Senator TROOD—They are called ‘improvised’; does that mean they are being locally improvised or are they coming from outside the country?

Air Chief Marshal Houston—I guess there is a little bit of both. Some of the technologies clearly come from other countries. An improvised explosive device can be constructed by a terrorist fairly easily. For example, in Afghanistan we see fairly rudimentary devices being used from time to time. The most dangerous ones are clearly those which have a high technology basis and are produced by people who know what they are doing.

Senator TROOD—In relation to training, you have given some statistics on the numbers, but do they equate to the numbers of units of Iraqi security forces in terms of police units or army units et cetera?

Air Chief Marshal Houston—Whilst I indicated we have done some collective training and mentoring of border enforcement people and also police, the vast majority of our effort—in fact, I would say 95 per cent—has been targeted at the Iraqi army. Indeed, in the early days, we have also been involved in training the Iraqi navy. We continue to take them aboard our frigate in the North Arabian Gulf. Wherever we can, we are providing training opportunities for these people, but the vast majority have been trained by our Army. A lot of the training that the training team does is ‘train the trainer’ type work, so we train the trainers and then they go out and train the new recruits who come into the Iraqi army. We also provide train the trainer courses for people who do NCO and officer training. Very shortly, we will be involved in logistics training and we are also involved in counterinsurgency training. That training is done up in a place called Taji, just north of Baghdad.

Senator TROOD—It is all local, though is it, apart from the training you are obviously doing at sea? It is all within the various provinces in which the Australian forces are operating rather than outside the country?

Air Chief Marshal Houston—No. We have had some Iraqi people trained here at our staff college, but that is very limited—just a few people—whereas, as I told you, we have been involved in the training of thousands and thousands of Iraqis, particularly in southern Iraq.

Senator TROOD—I assume the value is having them trained locally in the circumstances in which they are going to operate strategically more than anything else.

Air Chief Marshal Houston—Yes.

Senator MARK BISHOP—CDF, there are two issues I want briefly to return to. You made the strong point that the activity in Baghdad was al-Qaeda Iraq. In previous discussions over the last two or three years, comments have been made by me and others, and by you in response, that a lot of the activity in Baghdad was ethnic, religious or sectarian based; it was a struggle between the Sunnis and the Shiah—that was the principal, ongoing business, if you like, within the city of Baghdad. Now, for the first time in my recollection, you have highlighted the significance of al-Qaeda Iraq. When you say ‘al-Qaeda Iraq’, are you talking about indigenous Sunni who have joined up with al-Qaeda, or are you talking about insurgents from a whole range of neighbouring countries who are essentially adherents to al-Qaeda but are now geographically located in Baghdad and are forcing the pace?

Air Chief Marshal Houston—The make-up of al-Qaeda Iraq is something I will not get into in any detail, but I think it is true to say that they are supportive of the Sunni insurgency, if you like, and they principally target the Shiah. I think al-Qaeda Iraq are working against the Shiah, and I suppose you could say that they are supporting the Sunni insurgency, but the make-up of the group is quite complex. There are lots of elements that make up al-Qaeda Iraq, including foreign fighters. I might leave it at that.

Senator MARK BISHOP—You do not want to comment in detail on the composition of it?

Air Chief Marshal Houston—No, I do not want to comment in detail. But certainly there are foreign fighter elements within al-Qaeda Iraq.

Senator MARK BISHOP—Just from the general press, we know that there is a level of foreign money and that there are foreign fighters and foreign-trained people participating in the activity. I was just intrigued by your highlighting of this entity, al-Qaeda Iraq.

Air Chief Marshal Houston—Let me put it this way: there would not appear to be any Shiah in al-Qaeda Iraq. It is, if you like, Sunni sympathetic—let me just put it that way—and there would be foreign fighters involved in that group.

Senator HOGG—Are you saying that there are two different levels of insurrection there—that there is one from al-Qaeda Iraq and then another separate one, which may be the Sunni versus the Shiah, as sectarian civil unrest—or are you saying this is all part of the one game?

Air Chief Marshal Houston—Let me put it another way. If we go back, say, 12 months, the violence that we were seeing was ethnosectarian in nature, principally Sunni versus Shiah. You could characterise that as a Sunni insurgency. With the onset of the Baghdad Security Plan No. 3, Fard al-Qanun, we initially saw a reduction in that sectarian violence. It was not the same as it was, say, 12 months ago. But we continued to see large-scale suicide bomb attacks that were perpetrated against the Shiah community. The Shiah were not engaged at the same high level in the violence as they were 12 months ago, but because they were continually attacked by this group with these suicide bomb attacks there has tended to be a bit of a reaction, and that reaction has seen a rising trend of sectarian violence.

Proceedings suspended from 10.30 am to 10.45 am

Senator HOGG—I want to return to your last answer, Air Chief Marshal. I understand your not wanting to go into the make-up of the al-Qaeda force. That is not what I am seeking. I am seeking to find out whether there are two different levels of violence operating in the country: one being an al-Qaeda Iraq force and the other being disparate Sunni groups, who might be waging an ethno-sectarian war. Is that the type of picture you are trying to paint now?

Air Chief Marshal Houston—The situation in Iraq is very complex. The violence has a number of levels. You have an insurgency running at the moment, and it is fundamentally a Sunni based insurgency. You also have a terrorist organisation like al-Qaeda, who uses those circumstances to pursue their objectives—but they are probably sympathetic to the Sunni insurgency.

Senator HOGG—Are they coordinated? Do they work in tandem?

Air Chief Marshal Houston—They are basically working to slightly different objectives but there is some alignment, yes. Having said that, on the other side of the fence you have got the Shia militias—Jaiysh Al Mahdi is the largest one but there are other militia groups. From time to time we see violence between Shia groups. This happens in Iraq from time to time. So it is a very complex situation. You also sometimes get tribal influences in the mix as well. It is a violent country and violence can take many forms. The one I am talking about when I talk about al-Qaeda Iraq is very much a form of violence which has very specific objectives. One of the objectives would be to keep undermining the government of the day.

Senator HOGG—Is it fair to say that that is pretty much Baghdad-centric—as opposed to Al Muthanna, where our operations are, where it may be that there is the different level of violence that I was trying to distinguish between. Is that a reasonable assessment?

Air Chief Marshal Houston—As I said, it is Sunni sympathetic. Al-Qaeda Iraq has some Sunni backing, and the only area of Iraq where it is able to exist is where the Sunni are in the dominant position. You would not see al-Qaeda Iraq being able to operate in Al Muthanna, because Al Muthanna is 95 per cent Shia. So there is no al-Qaeda Iraq influence in a province like Al Muthanna. We certainly have not seen it.

The sort of area where al-Qaeda Iraq was probably most prominent early on was Al Anbar. As I mentioned in response to one of the questions that I got earlier on, they are no longer as strong in that province because the tribes—the Sunni tribes—basically got sick of them and turfed them out. The complexities of the society there are quite profound. We like to think in terms of this group or that group, but very often it is much more complex than that. We are dealing with tribal influences, with religious influences and with other political influences as well.

Senator MARK BISHOP—CDF, I want to return to the discussion we were having about IEDs and your reference to projectiles when the devices are detonated. You told me there were various ways of detonating the devices. I do not quite understand the advance in the technology. I presume the device is essentially a bomb and, when it is detonated, it explodes upwards and outwards. If it is properly targeted on the vehicle going over it—if it is able to penetrate—it will cause damage. What is the change in the technology that makes current generation IEDs much more dangerous and of concern to us?

Air Chief Marshal Houston—An improvised explosive device can be something quite simple. You could take a bag—

Senator MARK BISHOP—A bit of gunpowder and a tin with rocks, yes.

Air Chief Marshal Houston—That is an improvised explosive device. If it is all wired up, it becomes an explosive device. What we are seeing in Iraq is a very sophisticated form of improvised explosive device that contains an explosively shaped projectile. The technology that that presents gives you an explosive device that fires a projectile that is designed to go through armour plating. Because of the means by which that slug or that projectile is initiated, it goes at very high speed. Also, the means by which it is delivered gives it armour-piercing penetration. We can give you a diagram of it. That is the best way to—

Senator MARK BISHOP—That answers the question. Is that new generation IED indigenously provided or is it manufactured from outside and shipped into the operational areas?

Air Chief Marshal Houston—I think the technology is imported technology. I might leave it at that.

Senator SANDY MACDONALD—I think you mentioned in your opening statement that Australia had been involved in training around 15,000 Iraqis and also about 600 NCOs or tradies. You also said in your evidence that we are focused now very much on training the trainers. Is the figure that you provided the total number since our deployment?

Air Chief Marshal Houston—Since we started Operation Catalyst? No. If you like, I can come back and give you the total number of people that we have trained. It is thousands and thousands and thousands and thousands. We are just deploying the eighth army training team. We are now deploying the second logistics training team. We have also had the battle groups training people as well. So, if you take the total sum over all the time between 2003 and now, the numbers are truly impressive. If you like, I would like to come back to you later in the day and give you a total breakdown of the numbers of people that we have trained.

Senator SANDY MACDONALD—I think the committee would find that very useful, CDF.

Air Chief Marshal Houston—Okay.

Senator SANDY MACDONALD—Does Australia have any role in selecting the participants either for the initial recruit-training operational side or for the train-the-trainer side? Do we have a part in selecting the Iraqis who are trained?

Air Chief Marshal Houston—No, we perform a training function, and that training function involves everything from raw recruits right through to quite demanding professional training—for example, in counterinsurgency. So we cover the full spectrum of military training.

Senator SANDY MACDONALD—How are the Iraqis going with their recruiting and retention?

Air Chief Marshal Houston—They are going very well.

Senator SANDY MACDONALD—Why do you think that is?

Air Chief Marshal Houston—I think there is a very high level of unemployment in Iraq and the army provides a job. I think their unemployment rate is in excess of 20 per cent; I am not sure precisely what it is. But there is no problem recruiting young Iraqis.

Senator SANDY MACDONALD—You may prefer not to provide an answer to this question because it does require an opinion from you. What impression do you have of the Iraqi officers, the NCOs and those involved in the initial recruit training? What sort of people are they? Do they provide any encouragement for the future?

Air Chief Marshal Houston—I have met some of them, as have the Chief of Army and the Vice Chief. We have all met Iraqis. But, in terms of working with them professionally, that question would probably be better directed to the people who are on our training teams. Certainly the reports I am getting are that they are very eager to train, they like the training that we provide and they like our approach because we tend to be straightforward—we do not carry any baggage. We give good, professional training which is deeply appreciated by the recipients. The people I have met are very grateful for that training. I think they hold us in very high regard. They respect us because of the way we engage them and because of the high quality of the professional training that we provide.

Senator SANDY MACDONALD—Are we in a position to make an appreciation of the professional performance of those people that we have trained?

Air Chief Marshal Houston—I think so, yes. The two examples that I gave earlier on demonstrate that we have been very successful in inculcating a high level of professionalism amongst those that we have trained.

Senator NETTLE—I first want to ask you about the US troop surge. I asked the department of foreign affairs about this yesterday. I talked with them about the issue of whether or not it has been a success or a failure. I noted some of the comments that you made in your opening statement about this, but I wondered if you could shed some more insight on that.

Air Chief Marshal Houston—I take it you would like to know how operation Fard al-Qanun is going.

Senator NETTLE—I was using the terminology that I have heard, which is ‘US troop surge’. I heard your comments in your opening statement about the operation. Should I take it that that is your answer?

Air Chief Marshal Houston—All I would say is that, as far as the US surge is going, it has not finished yet. They will complete the deployment of the 5th Brigade Combat Team over the next month and that will complete the surge that was announced by President Bush last January. That will bring the number of American brigade combat teams in Iraq to 20 and it will bring their force level to almost 150,000 troops. In terms of how it is going on the ground, I think the government of Iraq and its security force have demonstrated a very high level of resolve in confronting the challenges in Baghdad. I do not think it is easy.

For the first time we are seeing people out there patrolling in the city of Baghdad. We are seeing an attempt to engage the community in a way that we have not seen before. It is very

early days. The American build-up is still not complete. Clearly the insurgents have thrown down the gauntlet to the coalition and the fight is a hard one. We will see how it goes.

As I mentioned, one of the striking things about the operation so far has been the large number of weapons caches that have been discovered, IED factories that have been uncovered and so on. So, whilst the level of violence is still unacceptably high, it is too early to tell how successful this operation is going to be. I anticipate that General Petraeus will be reporting on that later this year.

As I said to your colleagues on the committee earlier on, I think the key piece in all of this is the political part of it and the need for the government to work very hard and very effectively to achieve reconciliation with, principally, the Sunni community. If the Sunni community can be brought on board with the legislation and other initiatives that are out there, I think we can be a lot more optimistic about the outcome in Iraq.

Senator NETTLE—There were reports on the radio this morning that we were at a record high for coalition casualties so far this month. Is that accurate?

Air Chief Marshal Houston—I presume you are referring to the American casualties, which this month are currently at about 110, which is high by comparison to recent months. Again, I would emphasise that, with the build-up of the forces in Baghdad and the approach that they are adopting to this—which requires patrols to go out on foot into the community—the concept of operations is perhaps higher risk than the sorts of operations they have conducted in the past. So I think it is inevitable that there will be a few more casualties than there were in the past.

Senator NETTLE—Can you outline what participation the ADF has in the surge or the ‘operation law enforcement’, was it?

Air Chief Marshal Houston—In terms of our involvement in Iraq, we obviously have a large number of people embedded in the coalition headquarters and agencies in Baghdad. There are about 70 of our people, who are doing great work in a whole variety of different areas. But we are not directly involved in the combat operations in Baghdad. The forces that are involved there are the Iraqis, who are leading it—General Abud from the Iraqi army is leading the operation—and they are being supported by American coalition members.

Senator NETTLE—You mentioned the 70 or so Australians involved in the joint operations. Are any of those involved in the planning for the surge?

Air Chief Marshal Houston—We have people who are involved in planning functions in the headquarters, yes. We have people, for example, who do very dangerous work in terms of working in the counter-IED field. From time to time they go out into the community in Baghdad. So, whilst we are not directly involved in combat operations, some of our people are doing very important support work and very dangerous support work.

Senator NETTLE—Who do we have involved in the planning?

Air Chief Marshal Houston—We have got a couple of officers who are probably involved in planning functions. I think I will leave it at that.

Senator NETTLE—I have asked questions before about a number of individual personnel. One of them, I think, is named David Kilcullen. What is his current—

Air Chief Marshal Houston—Yes, David Kilcullen is an Australian public servant. He is on General Petraeus's staff. He is advising General Petraeus on counterinsurgency. He is an expert in counterinsurgency.

Senator NETTLE—Would it be accurate to describe him as one of the architects of the surge?

Air Chief Marshal Houston—I would not put it that way. General Petraeus has a huge staff. Just to give you some idea of the scale of the way the Americans do things, if you go to the central command headquarters in Florida—and central command are running this—they have a very large headquarters. Over 3,000 people are involved in the planning and monitoring of military operations across a very large area. It involves a large number of countries including Iraq and Afghanistan. So, to call one Australian the architect of the plan—I think that is really not the way it is. Plans are developed in a consultative, coordinated and cooperative way. The person who finally approves the plan is the general. If you were going to put any name to the plan, it would be General Petraeus's name.

Senator NETTLE—You described Mr Kilcullen as the counterinsurgency adviser. Does he have a number of counterinsurgency advisers or would Mr Kilcullen be—

Air Chief Marshal Houston—General Petraeus has a large number of advisers, yes. He has one Australian on the staff and he advises on counterinsurgency. There are other Australians that advise on other areas.

Senator NETTLE—Are there any other advisers on counterinsurgency?

Air Chief Marshal Houston—Well, there are other advisers who advise on operations, yes.

Senator NETTLE—I will go back to your earlier description of him. I do not know if it was 'senior adviser on counterinsurgency'. I am not sure what his title is. I accept that there are a whole lot of advisers, but is his domain of advice that he is heading up the counterinsurgency arm? Is that an accurate way to describe what his role is?

Air Chief Marshal Houston—I think he is a very intelligent, highly qualified person. As I said, he is an expert in counterinsurgency, so I am sure General Petraeus seeks his advice in that area on a frequent basis.

Senator NETTLE—I asked the department of foreign affairs yesterday about a resolution or proposal that is before the Iraqi parliament. I understand it has been endorsed by a majority of Iraqi parliamentarians. It calls for a timetable for the withdrawal of coalition forces. I wondered if you are aware of that or are following the process of that particular proposal before the Iraqi parliament.

Air Chief Marshal Houston—I am aware of the proposal, but I have not been following it in detail.

Senator NETTLE—Is planning going on around the contingency that the Iraqi parliament may pass a resolution whereby a timetable is needed for the withdrawal of foreign troops and that we, as part of those foreign troops, may need to respond to the call that will come from the Iraqi parliament for the withdrawal of foreign troops?

Air Chief Marshal Houston—I think we got into this area at the last hearing. In terms of our planning, we plan for every eventuality and we always plan for the fact that at some stage we might have to withdraw. However, I would stress that that is part and parcel of our normal planning process.

Senator NETTLE—I accept that. I suppose I need to ask whether that resolution is a part of the overall understanding that feeds into your planning for different contingencies that may occur.

Air Chief Marshal Houston—Essentially, this has only popped up on the horizon recently. In terms of our deployment to Iraq, we focus on everything—the political situation, the security situation and the economic situation. Basically, we build that into our consideration for planning. When the time comes for the next review—and it will be part of the next review; it is not something that we will react to immediately—that will be one of the factors at play in that review and it will be considered like everything else that is relevant to our deployment.

Senator NETTLE—When is the next review to be?

Air Chief Marshal Houston—We do reviews on a regular basis. At the strategic level, we do a review every six months; at other times we do a review when we feel there is a need to do one.

Senator NETTLE—Are we at the start or the end of the six-month process for that review?

Air Chief Marshal Houston—We review where we are at. I engage the senior people in Defence on a regular basis—weekly. We engage on any strategic developments that have occurred in any of the areas we are working in currently and, indeed, in other areas where we can see potential for future operations that the ADF might have to engage in. It is a continuous process. It is something that we do all the time.

We would do a formal review of an operation about once every six months. The point I want to make is that, if there is a significant development that will affect our deployment, we will deal with it right away and provide the necessary advice to government. That is the way we do business.

Senator NETTLE—You said previously that, if any kind of resolution were passed through the Iraqi parliament, you would not necessarily respond immediately; you would wait until it was the end of a review period. How does that fit with what you have just said about your responding to something immediately?

Air Chief Marshal Houston—Let us see how it all plays out. The parliament might be doing something, but really how is the Iraqi government going to respond to it? They are the sorts of things that we consider.

Senator NETTLE—Presumably, another part of things to be considered would be the comments being made by Moqtada al-Sadr around the Mahdi army and his group of parliamentarians. Is that also a component of your consideration and planning?

Air Chief Marshal Houston—As you know, Moqtada al-Sadr has been absent from Iraq for a considerable time. He has just come back and he has made one sermon. Again, we will

wait and see how he conducts himself, what sort of guidance he gives to his followers and how he is received. Obviously, we will watch all of that, as we always do, and clearly we will factor that into our consideration.

Senator NETTLE—Is there no reaction at this stage in response to his recent comments?

Air Chief Marshal Houston—Again, it is an ongoing process. One of the things about our organisation is that we have a very good intelligence capability, which is highly effective, and we have people who watch these things closely and report all of the time. It is a continuous process, it is a very dynamic process and it is a process that works very well.

Senator NETTLE—I am asking these questions because there is a motion occurring in the Iraqi parliament and my understanding of Moqtada al-Sadr's speech is that it called for troops to leave. I am trying to get a picture of those factors being part of the analysis. Is it correct that the coalition forces have been fighting with the Mahdi army recently? Is that an accurate portrayal of what is going on currently?

Air Chief Marshal Houston—We have been having clashes with Jaiysh Al Mahdi for the last three years. We clash with them from time to time and so do other members of the coalition.

Senator NETTLE—I understand that his comments called for troops to leave. I might be totally wrong about this, but it is my understanding that, after his comments, there was an increase in the fighting between the Mahdi army and coalition forces.

Air Chief Marshal Houston—No, I would not characterise it that way.

Senator NETTLE—I have questions about the case of Hector Patino and whether you would be able to provide the committee with an update about investigations into his shooting.

Air Chief Marshal Houston—Obviously, you have seen the comments from the family. The first thing I would say is that we deeply regret the death of Mr Patino. However, the circumstances were that he went through a checkpoint and failed to stop. The checkpoint had a large sign, which was very clear, that said 'stop'. He did not stop; he kept coming. Our troops waved furiously to try to get him to stop. He did not stop but kept coming and, essentially, they engaged him. As I think we reported last time around, we investigated this and determined, after a very thorough investigation, that our troops had acted within their rules of engagement.

As you know, vehicle-mounted bombs are a feature of the environment in Baghdad. When a vehicle comes through checkpoints and does not stop and still does not stop when other measures are taken, people are very concerned about their safety. So we deeply regret the circumstances of his death, but I stress that the troops acted within their rules of engagement. I wrote a letter of condolence to the family. Obviously, the family are seeking an explanation about what happened. We have taken all necessary steps to fully inform the family as to what happened from our perspective. Of course, our investigation was focused on the conduct of our soldiers and not on the wider aspects of the incident.

Senator NETTLE—You have said that one investigation has been carried out and you indicated the results of that. Is it correct that there is a second investigation?

Air Chief Marshal Houston—That is correct. The American diplomatic police also conducted an investigation.

Senator NETTLE—But has Australia conducted only one investigation?

Air Chief Marshal Houston—We conducted an investigation that was focused on the way our soldiers conducted themselves.

Senator NETTLE—I am following media reporting about this some weeks ago, which said that an initial military assessment found that the troops had acted appropriately. Following what the media reporting says, a second more detailed inquiry has since been finished. Does that refer to the American inquiry?

Air Chief Marshal Houston—That is a media report. All I can tell you is that we conducted an investigation. The American diplomatic police also conducted an investigation, whose terms of reference, I suppose, had a much wider focus.

Senator NETTLE—Has Defence released the conclusions of that first investigation and, if it has, to what extent has that report been released?

Air Chief Marshal Houston—No, we have not released that report. Essentially, we are taking steps to brief the Patino family on what happened—in other words, the outcome of our report. Until that is complete, that is as far as we will take it.

Senator NETTLE—Who did the investigation and when did it occur?

Air Chief Marshal Houston—The investigation was done by our people in Baghdad.

Senator NETTLE—Is there a section of people who have that kind of responsibility? How does it work?

Air Chief Marshal Houston—As you know, since the Private Kovco circumstances, we have military police deployed in all our operational locations.

Senator NETTLE—So did the military police do the investigation?

Air Chief Marshal Houston—I believe so.

Senator NETTLE—When was that carried out?

Air Chief Marshal Houston—It was carried out several weeks ago, straight after the incident.

Senator NETTLE—When did the investigation conclude?

Air Chief Marshal Houston—I cannot give you a precise date without referring to paperwork, but it was completed within a number of days of starting.

Senator NETTLE—It is my understanding that, prior to the conclusion of those investigations, the Prime Minister made some statements that implied that he was sure that Australian soldiers had acted completely in accordance with their rules of engagement. Are you able to give me a time line? Am I correct in saying that those statements were made prior to the conclusion of the investigation, or am I wrong about that time line?

Air Chief Marshal Houston—I am sorry; I was distracted.

CHAIR—It is quite difficult to hear you, Senator Nettle. I do not know whether the microphone needs to come closer to you; perhaps you could speak a little louder.

Senator NETTLE—Thank you. I note that the Prime Minister commented at the time—I thought he made this comment prior to the investigation that you have just spoken of—that he was sure that Australian soldiers had acted completely in accordance with their rules of engagement. Can you confirm that time line and whether or not the Prime Minister's comments were made prior to the investigation occurring?

Air Chief Marshal Houston—Can you refer to when the Prime Minister made that comment?

Senator NETTLE—No. I am just following up on media reports that the Prime Minister had said that. I am trying to work out whether he said that prior to the investigation occurring.

Air Chief Marshal Houston—Let me put it this way: the Prime Minister's statement would be on the basis of advice from Defence and it would have been after the investigation. By the way, can I just clarify an issue?

Senator NETTLE—Sure.

Air Chief Marshal Houston—We did a quick assessment straight after the incident, so I suppose that would count as some form of investigation. We then did a full investigation, which focused on the conduct of our soldiers. In addition to that, there was the investigation by the US diplomatic police. Bear in mind that the people manning the checkpoint were two Australians and one American, so this was a coalition checkpoint and not an exclusively Australian checkpoint.

Senator NETTLE—When you say that the Prime Minister was briefed by Defence, would that have been after the quick investigation? Is that how that would have worked?

Air Chief Marshal Houston—If you could just give me the date—

Senator NETTLE—I do not have the date.

CHAIR—That makes it difficult for the witness, Senator Nettle.

Air Chief Marshal Houston—I cannot answer a question on the basis of 'it is in the media' because I do not know whether the media is correct.

Senator NETTLE—I will not ask the question on the basis of the media; I will just ask whether the Prime Minister was briefed after the quick investigation.

Air Chief Marshal Houston—In the normal manner of these things, we would brief the Prime Minister on the circumstances as soon as we had the facts available.

Senator NETTLE—Who would do that briefing?

Air Chief Marshal Houston—It is done as part of the normal process of keeping the Prime Minister fully informed, and that would be done through the Minister for Defence.

Senator NETTLE—So you brief the Defence minister and he briefs the Prime Minister. I do not know how it works, and that is why I am asking.

Air Chief Marshal Houston—Absolutely. That is the way it would work.

CHAIR—At this point, there appear to be no further questions on Iraq. We are still in portfolio overview and matters arising from the opening statements of both the secretary and the CDF.

Senator MARK BISHOP—I have a couple questions about Afghanistan. Your written report was quite circumspect, but I note that you make reference to ‘increasing threat posed by the insurgency’. Then you outline the increase in force elements and the types of construction and repair work and protection and security work you anticipate our people doing. My understanding is that our recommitment to Afghanistan was because we anticipated a surge in activity, perhaps even a spring offensive as the weather there became better. Are we still of the view that there will be significant operational demands as the season turns in Afghanistan? At this stage, do you anticipate it being of a similar scale as was reported when our people were brought back some nine or 12 months ago?

Air Chief Marshal Houston—The threat in Afghanistan is very high. In the province where the Reconstruction Task Force is deployed, they are working in partnership with the Dutch. The Dutch obviously are leading the provincial reconstruction team, and we provide the Reconstruction Task Force. I have detailed all of that for you.

In terms of the terminology you use, I do not like to think of it that way. I think what we see in Afghanistan each year is a rise in activity by the Taliban as the weather gets better. So we see increased operational activity by the Taliban, but I would not call it anything like this word ‘offensive’. They have become more active and that is the feature of the environment there. If you look at circumstances over the last four years, that has been a feature of the environment there. Last year we saw much higher levels of violence than we had seen the year before, and I guess that some people were anticipating a higher level of violence this time around. It is still very early in the summer in Afghanistan, but our force of special operations people has been deployed there to enhance the force protection for the Reconstruction Task Force and, obviously, for the provincial reconstruction team that we work with.

Simply put, beyond the provincial capital of Tarin Kowt and the Afghan development zone surrounding it, we see a lot of Taliban sanctuaries, particularly in the northern part of the province. Essentially, those sanctuaries enable Taliban operations into the southern part of Oruzgan and Tarin Kowt, where we are, but also into the provinces of Helmand and Kandahar—Helmand where the British are and Kandahar where the Canadians are. That is really the situation as it stands at the moment.

Senator MARK BISHOP—They have sanctuaries and men and, presumably, local support. They have the ability to project force down south and, when their exercise has been completed, to go back to their sanctuaries. Is that the type of activity we are anticipating?

Air Chief Marshal Houston—We have seen a number of different types of activity. The only recent attack that we have had was on the Reconstruction Task Force about three weeks ago, which was a suicide-vest attack on our people near one of our Bushmaster vehicles. We are also seeing increased use of improvised explosive devices and from time to time we see the Taliban also engaged in more conventional operations. There are occasions when they go

out and fight in a more conventional way, which has been a feature of the environment in recent times.

Senator MARK BISHOP—Fighting in a more conventional way?

Air Chief Marshal Houston—Yes.

Senator MARK BISHOP—Correct me if I am wrong, but a feature of our operation last time was that our special people were essentially going out and searching for and taking the fight up to Taliban forces. Are we engaged in the same type of operation with this commitment, or are the circumstances different?

Air Chief Marshal Houston—One thing I must stress: we have announced the deployment of the special operations task group, but I will not say too much about the way they conduct their operations. As we have seen, the Taliban have a great capacity for gaining information. They exploit the electronic media, particularly the internet, to find out what we are saying here in Australia. So, for reasons of operational security, I do not want to say any more than that our special operations people will be doing operations that will make the Taliban extremely uncomfortable.

Senator HOGG—Are you able to tell us when the SAS went back in?

Air Chief Marshal Houston—The special operations task group is fully deployed. That deployment, as you know, has occurred over the last couple of weeks. It has become a bit more crackly since the first elements went in at the beginning of May.

Senator HOGG—So it is something that has happened in recent times. Will they be there for a period of time?

Air Chief Marshal Houston—They are there for two years. I will leave it at that.

Senator HOGG—I am sorry; I did not want to get down to the micro level of the operation. When you say that they are there for two years, I presume the commitment is for two years and there will be rotations within that commitment.

Air Chief Marshal Houston—Absolutely, yes.

Senator HOGG—I am now seeking to go back in time. That was a re-introduction of that force, as I understood it. For a period of time, that force was withdrawn from operations there. How long ago was that?

Air Chief Marshal Houston—They came out last September. Of course, historically, over the last four years, that is when the level of Taliban activity tends to drop off.

Senator HOGG—But on this occasion it seems as though there is an ongoing commitment, which not only will be on a cyclical basis but also will be an ongoing regular commitment. Is that a reasonable assumption?

Air Chief Marshal Houston—That is a reasonable assumption. We have structured the deployment in such a way that we are able to sustain it through time. Basically, we will take certain measures through the wintertime to ensure that we can sustain the capability for the long term.

Senator HOGG—That raises the issue of rotations. A number of these personnel, I presume, would have been in previous rotations. Again, I am not trying to compromise what you are doing, but is it possible to get an idea of how many rotations people have been involved in? Have people been involved in multiple rotations? This might be given to us in evidence later during the estimates hearing.

CHAIR—Senator Hogg, that was discussed in the broad this morning, flowing from a question from Senator Evans.

Senator HOGG—I understand, but I am looking specifically at the operation in Afghanistan.

CHAIR—I understand that, and everyone is looking specifically at ‘an operation’. The problem we have had is that, in the previous set of responses, Defence indicated that it was actually—and again I use my word here—an ‘onerous’ process to draw that information for the number of operations we had asked for; I think that was Iraq, Afghanistan and East Timor at that time. Now we are asking already about Iraq and Afghanistan, and I understood it to be not information that could be provided today in a matter of half an hour or an hour to facilitate that discussion.

Air Chief Marshal Houston—I can give a response on this issue, if you wish.

CHAIR—Then I am afraid I do not understand the nature of the response to the question on notice, if it is possible to respond in the inquiry process.

Air Chief Marshal Houston—I am not sure what the question is yet, but with your forbearance—

Senator HOGG—I am trying to get some idea of how many people are involved in multiple rotations. I do not want an exact number, but this may well be important in that it will enable me later in this Senate estimates to ask further questions.

Air Chief Marshal Houston—Essentially, the people who are deploying have been on multiple deployments over the last few years—certainly since 11 September 2001.

Senator HOGG—Given the statement that you have made about there being an ongoing commitment for the next two years, there will be a number of multiple deployments, therefore, for a range of personnel in this area over the next two-year period. Is that correct?

Air Chief Marshal Houston—I could not give you a definitive response to that question. Over a two-year period I would hope that basically we were able to rotate people such that we would not have to send people more than once; however, there may be the odd person who goes twice. I will come back to you on that, if you wish.

Senator HOGG—The reason for my asking that question is that I thought you said earlier today that you try to give people that 12-month break over the rotations, and it just seems that this is a more sustained commitment.

Air Chief Marshal Houston—This is slightly different in that the duration of the deployment is shorter; because of the nature of the work they do, they go for shorter periods of time. So they go for a shorter period and it is possible that, in the two-year period, somebody might deploy twice for a total of eight months.

Senator HOGG—Thank you. That has given me a picture of what these people will be doing.

Senator NETTLE—I cannot recall how much of this we discussed last time, but I want to ask about the media reporting of different tactics amongst NATO with regard to the approach to take to Afghanistan. There have been media reports about both a hearts-and-minds approach and a military based approach. Could you outline where Australia fits in the spectrum of tactics with regard to the approach to take to Afghanistan.

Air Chief Marshal Houston—In response to your question, I might address the military strategy that was put in place by General Richards, who was the Commander ISAF until the early part of the year. General Richards was here, by the way, a few weeks ago. He set up a strategy whereby there is a policy action group, chaired by President Karzai, which has lines of operations in security, strategic communications, governance and reconstruction. ISAF is pursuing all those lines of operation. The other thing that General Richards did was to define what he called ‘Afghan development zones’ in various parts of the country. In our part of the country, which is Oruzgan, there is a development zone that is defined around the provincial capital of Tarin Kowt. As you know, we are in partnership with the Dutch. The Dutch have leadership responsibility for the province of Oruzgan and essentially they lay the terms for how we operate in the Afghan development zone in Oruzgan.

We have been getting out into the community and doing reconstruction work in that Afghan development zone in the way that I detailed this morning. Clearly, there are a number of projects, which I detailed in my opening statement, and we are also doing a large amount of training. In fact, if you want a little more detail on the training, we have run five construction tradesman courses, which means that we have trained 42 people; we have run five general maintenance courses, which have been responsible for the graduation of 42 people; and we have also trained 100 Afghan national army engineers. The work they are doing is vitally important. It is the sort of work that really wins the hearts and minds of the people that we support. Of course, the other part of the pie, as far as we are concerned, is that we have a very robust organic force-protection capability.

Senator NETTLE—A media report has described Tom Koenig, the diplomat who heads the United Nations Assistance Mission in Afghanistan, as the ‘UN chief’. Mr Koenig made some comments at the end of last year about the training of the Afghan army and what he saw as the importance of its role. He compared the capacity of the Afghan army with the capacity of the foreign troops to be able to defeat the insurgency. He said that, with an insurgency like that, international troops could not win, but he had a different view in relation to the Afghan army. Is that perspective shared by Australia with regard to the way in which we engage?

Air Chief Marshal Houston—I hark back to my remarks this morning. I do not know whether you were here—

Senator NETTLE—I heard a bit of it.

Air Chief Marshal Houston—but I mentioned what is required in circumstances such as this. What we need here is a comprehensive whole-of-government approach from the Afghan government, which also brings the coalition into play. It needs to be an all-encompassing strategy, which covers all lines of operation. Obviously, they are the sorts of lines I have

already mentioned—governance, economic, security and so on. It needs to involve lots of different agencies. Of course, two of the most important institutions in terms of the security line of operation are the Afghan national army and the Afghan national police. I would agree that it is absolutely vital that sufficient forces, both police and military, are trained to take on the challenge of providing security in that troubled land.

Senator NETTLE—Another issue I want you to comment on is that two weeks ago there was an article in the *New York Times* headed ‘Civilian deaths undermine war on Taliban’. That article reports that Afghan, American and other foreign officials say that they are worried about the political toll that civilian deaths are exacting on Hamid Karzai. They talk about his comment that was then issued about ‘harsh condemnation of American and NATO tactics’ and even of the entire international effort there. Do you want to respond to those issues?

Air Chief Marshal Houston—Yes, I am aware that some concern has been expressed by the Afghan national government about civilian deaths. I think some of those deaths have come as a consequence of close air support that has been provided to NATO troops. I think it is always regrettable when that happens. To the maximum extent possible, I think it is very important that that sort of damage or set of circumstances does not arise in the operations that are conducted in Afghanistan.

Senator NETTLE—Did you say that you thought those civilian deaths had come about—I am just checking that I got this right—as a result of the Afghan troops assisting with the coalition? Is that what you said?

Air Chief Marshal Houston—No. I said that some of those civilian deaths have come about as a consequence of close air support being provided to coalition troops and Afghan national army troops who have been in contact with the Taliban.

Senator NETTLE—Somebody was talking in the hallway behind me, just as you made that point. Would you please repeat how you think those civilian deaths came about?

Air Chief Marshal Houston—I think some of the civilian deaths have occurred as a consequence of coalition air operations in support of ground forces, both Afghan and coalition, in circumstances where they have been engaged with the Taliban.

Senator NETTLE—Are we involved in any of those air operations?

Air Chief Marshal Houston—We are not providing any offensive aircraft in support of operations in Afghanistan.

Senator NETTLE—What about personnel, rather than aircraft?

Air Chief Marshal Houston—In terms of?

Senator NETTLE—I think we have had conversations here before about circumstances where Australian personnel may be in American or other aircraft that might be involved in those kinds of—

Air Chief Marshal Houston—I am not aware of any Australians who are flying air combat aircraft in Afghanistan.

Senator NETTLE—What about Australians who are involved, whether they are flying or not? Are any Australians doing that?

Air Chief Marshal Houston—We are engaged in the coalition and, as you are aware, we have deployed a Royal Australian Air Force mobile control and reporting unit to the airfield at Kandahar. Based at that airfield at Kandahar are air combat aircraft, helicopters and transport aircraft. So, if you like, we provide support to enable them to fly from that base. We are not doing it yet, but we are about to commence that activity.

Senator NETTLE—What is the time line for that?

Air Chief Marshal Houston—We will commence operations there in the next couple of months.

Senator FAULKNER—Chair, I wish to raise two issues. One I have flagged with Mr Warner and it arises from his opening statement to the committee in relation to HMAS *Westralia*. The other issue, if I could, I would like to direct to you, CDF. I certainly will not be offended if you suggest that I ask other officials at a later stage. I raise this matter because, effectively, families of Defence Force personnel have contacted me and it does appear to be an issue that goes to the welfare of ADF personnel overseas. So, as I say, I am more than happy if you suggest that I should direct these questions to another output. The issue relates to working visas for RAAF personnel. I have certainly been approached by the families of RAAF personnel with concerns about the impact on the length of stay or deployment overseas, if you like, because of issues relating to incorrect visas. This specifically has been raised with me in relation to RAAF personnel and visas in relation to their entry to Qatar. I do not know if you are aware of this issue or whether you would prefer me to deal with it at a later stage.

Air Chief Marshal Houston—I am aware of it. I will take it now, if you would like.

Senator FAULKNER—It is up to you. It does go to a personnel issue that obviously is causing concern to families and personnel. I am happy to deal with it now or elsewhere, as you see fit.

Air Chief Marshal Houston—Before we embark on it, I would say that there are some sensitivities involved with this issue. I would prefer to deal with it in a more confidential setting. I would be delighted to engage you on it. If we could do it in camera, that would be—

Senator FAULKNER—I certainly do not want the committee to go into camera.

CHAIR—We cannot in estimates anyway, as it happens.

Air Chief Marshal Houston—Can I put it this way? This is something that is very sensitive between the nation that you mentioned and ourselves. I think an extensive discussion about the issue here could damage our relationship with that country. I do not think that would be an outcome we would want.

Senator FAULKNER—I am certainly happy to respect that. I am a little surprised at what you have said because, from the information provided to me, it sounded as though the concerns related mainly to technical hitches. If you are saying to the committee that effectively these concerns relate to more than that, perhaps I might speak to you privately. However, I certainly do not want to ignore what are quite heartfelt representations coming from Defence personnel, which I am sure you would appreciate is the case. I have no doubt that such concerns have been communicated to Defence as well. In fact, I know Defence has

received representations about these concerns because that has been clearly indicated to me. I do not know whether other members of the committee have received similar representations, but certainly I think some other senators and members of parliament have.

Air Chief Marshal Houston—Perhaps I could put it this way: it is an issue that we are dealing with. It is an issue that is best dealt with if I speak to you privately.

Senator FAULKNER—I am happy to do that.

Air Chief Marshal Houston—I would be delighted to expose all aspects of it, but I do not think it is good if it is out—

Senator FAULKNER—I certainly would not require you to do that—

CHAIR—We will take your guidance on that, Air Chief Marshal.

Senator FAULKNER—but I will raise the substance of the issue as it has been raised with me. I am happy to deal with it that way.

CHAIR—Senator Faulkner, will we go to the *Westralia* matter then?

Senator FAULKNER—Respecting your approach as the disciplinarian of the committee, there were some other matters I intended to raise—

CHAIR—Not in public, Senator.

Senator FAULKNER—there were some other matters I intended to raise in the overview, but I will actually raise them in the relevant output at a later stage. The only other issue—

CHAIR—Now I am confused.

Senator FAULKNER—arises effectively from Mr Warner's opening statement that I want to deal with in the overview is the *Westralia* matter.

CHAIR—Thank you. I thought that was what you said before, so I was just clarifying.

Senator FAULKNER—I am not sure how my colleagues are placed on that.

CHAIR—They will cope.

Senator FAULKNER—Can I deal with that now?

CHAIR—Yes.

Senator FAULKNER—First of all, I thank you, Mr Warner, for addressing the *Westralia* matter in your opening statement. I appreciate that because it was a matter that led to quite a considerable amount of questioning and time of the committee at our last estimates round as you are aware and of course, as you and others at the table know, it is a very serious issue. I note, Mr Warner, in your opening statement you indicated to the committee that extensive searches of Defence's files had revealed no record of the signed February 1998 minute; no record of that particular document having been received either in draft or final form at the time—and indicated that the earliest record of Defence receiving the document was April 2005.

Could you could briefly outline to the committee what steps you put in place in relation to document search—and we have had evidence previously at the committee. Mr Pezzullo, for

example, gave extensive evidence in relation to what I believe was a very thorough search on another matter that you would be aware of. First of all, I will ask if you were responsible for ensuring a thorough search; did you take that responsibility yourself?

Mr Warner—On 14 February the Minister for Defence asked me to undertake such an urgent and thorough search of our records. That search was undertaken. We looked through a decade's worth of records and all key personalities associated with this issue were interviewed. I did take it very seriously. It is a serious matter: four sailors were killed in the fire that went through *Westralia* in May 1998. I asked a very senior officer with years of experience—Steve Merchant, Deputy Secretary, Intelligence and Security—to oversee that investigation. I would be happy for him to talk to you about the process he went through. As you said, and as I said in my opening statement, we did an extensive search of our records. We did not find the 6 February 1998 document that we talked about at the last Senate estimates. The earliest record of Defence receiving the document was on 9 April 2005. We are as anxious as anyone to ensure that Defence handle these matters thoroughly and properly, and because of that the issue, as you know, has been passed to the Ombudsman for her to investigate.

Senator FAULKNER—I am pleased to hear of the thoroughness you speak of and perhaps, Mr Merchant, you might care to outline briefly to the committee how you approached the search within the department and whether you can also give a similar commitment to Mr Warner that the search was indeed a complete and thorough one.

Mr Merchant—As the secretary has just indicated, immediately after our appearance at the last Senate estimates hearing, he requested that I oversee an urgent examination of the issues that had been raised in respect of HMAS *Westralia*. I was assisted in that examination by staff from the Inspector-General's division and also very considerable assistance from staff from the Defence Materiel Organisation, Navy and also the Defence legal area. With particular regard to the search for the 6 February document, there was a search of electronic records in the Inspector-General organisation carried out to identify relevant documents and particularly to see whether a copy of the 6 February 1998 document could be found. There was also a search of computer disks from the subsequent investigation, Operation Majorca, to see whether they included any electronic copy of any draft documents and/or records of documents received and filed.

There was also a search undertaken of all paper records and files held by the Inspector-General division that related to the 1997-98 investigations to try and locate relevant documents and to search particularly for a copy of that 6 February document. There was also an analysis done of the log held by an inspector general's division which records all documentation and other materiel received in the course of an investigation.

Navy, the Defence Materiel Organisation and also subsequently the Australian Federal Police were requested to search files and records to see if a copy of that document could be found. As the secretary indicated in his opening statement, those searches were unsuccessful in locating a copy of the signed document or indeed any copy of the document being received by the Defence organisation before April 2005.

Senator FAULKNER—Is a signed copy of that document now in the possession of the department?

Mr Merchant—No.

Senator FAULKNER—You have an unsigned copy of the minute?

Mr Merchant—That is right. We have got an unsigned copy of that document in 2005, and that is the copy we were able to locate.

Senator FAULKNER—Since that time, no signed copy of that document has been provided to the department.

Mr Merchant—Not that we have been able to find.

Senator FAULKNER—I do find this quite surprising, I have to say. I think the minister may not often agree with me but might agree that I have a reasonable record of transparency on these sorts of matters on Senate committee—and I am going to be very transparent with you. I am never transparent about one element—that is, if a person provides information to me in confidence, I will always respect that confidence. I have a perfect record of doing that and I do not think you would expect anything else. I have, however, received a range of documentation in relation to *Westralia* matter, some of which the source of which I know; some of which the source I do not know. I have received a copy of this document—the signed minute—from what I understand purports to be a Defence source. I do not know the source and I am not going to—I do not say that to you lightly: I do not know the source. I do not know the status of the document. I know allegations that surround the status of the document. Would it be helpful in the interest of transparency if I tabled what purports or appears to be a signed copy of this particular memorandum that also has other received stamps and other markings which may or may not be Defence stamps; I have no idea. I am not pretending to you I know. Would that be helpful so I can ask you some questions about that document?

Mr Warner—I think that would be a sensible and appropriate course. These documents will also be very relevant to the investigation that the Ombudsman is going to conduct.

Senator FAULKNER—I was going to make the point that I would expect, in tabling this document, that Defence would make it available to the Ombudsman. In the event that Defence did not, I was going to make the point that I certainly would. But if I have your commitment that you will do that—

Mr Warner—We would be happy to do so.

Senator FAULKNER—I have no doubt that you would. Chair, I would seek the leave of the committee to table the document. I have asked the secretariat to—

CHAIR—Thank you, Senator Faulkner. It is tabled.

Senator FAULKNER—photocopy a few copies of this. I will just pass them to the secretary who can pass them to senators and witnesses.

CHAIR—You want to hand one up to Mr Warner, I think.

Senator FAULKNER—That is right.

CHAIR—Sooner rather than later.

Senator FAULKNER—I have just pointed out in relation to this tabled document, Chair, and I want to be clear about this, Mr Warner: I do not want you or any witness at the table to understand anything other than that I do not know of the status of this document. I am making that absolutely clear to you, Mr Warner. I do not know where it emanates from. I know, however, that it has come into my possession and I think I know why it has come into my possession. But I do not know whether it is a genuine document or not. Is it fair for me to ask you whether it does appear to be an Australian Federal Police minute paper?

Mr Warner—Firstly—just to reiterate this point—Defence has no record of having ever received this document. As to your question, I can see that it has Australian Federal Police and AFP at the top of the page; that is about as far as I or anyone from Defence can go as to whether it is an AFP document.

Senator FAULKNER—Yes, and I would expect you to be cautious. I hope you hear that I am cautious. I am cautious, but nevertheless this has come into my possession and, as I say, in the interests of transparency, I want to try and understand what it means. I have no idea whether the date stamp ‘received’ is a Defence stamp or not. Could you assist me with that?

Mr Merchant—Not at the moment. Obviously we will take this away and have a look at it and see whether we can ascertain whether that is a Defence date stamp on the document.

CHAIR—Thank you, Mr Merchant.

Senator FAULKNER—Do we know about the signatures? This is a signed minute with a ‘received’ stamp of, I think, a February 1998 date. I have not rung the telephone numbers, by the way, which appear in pen script; nor have I tried to decipher the fax numbers that appear in pen script additionally in this document and what they refer to, or the signatures. I do not know. What I do know is this: someone purporting to allege a cover-up in Defence has provided this document to me because of what they claim is precisely that. That is where I am left as a member of the committee, and while I did not have this document at the last Senate estimates round, it has been provided to me since.

Mr Merchant—Perhaps it might be helpful if I just talk a little bit further about the examination that I undertook after the last estimates hearing.

Senator FAULKNER—I would appreciate that.

CHAIR—Thank you, Mr Merchant.

Mr Merchant—Obviously the primary issue that we are dealing with here relates to what allegations were made by representatives of Baileys Diesel Services on 6 February 1998 to representatives of the Department of Defence who visited their premises on that date to interview them. The two people in question who were working on behalf of the Department of Defence’s Inspector-General’s area were an employee of the Inspector-General, Mr Ryan, and an agent from the Australian Federal Police, Mr Smythe, who had been seconded to Defence to assist with this examination. Our ability to get to the heart and the substance of this issue is greatly assisted by the fact that we have a transcript of the 6 February 1998 interview. That transcript was prepared in 2005 from the tape of the interview that was previously thought to have been broken. It actually was retrieved in 2005 and made playable. The transcript was

prepared at that time. Obviously in my examination I relied a great deal on that transcript of the interview, and of course we have provided that transcript to the Ombudsman.

Just to remind members of the committee: the fire on board *Westralia* was caused by fuel from a burst flexible hose spraying on to hot engine components. The flexible hoses had only recently been fitted to *Westralia*. They had been fitted in place of fixed metal fuel lines. This change had not been made at the time of the interview with Baileys. In fact, the change from the fixed metal fuel lines to the flexible fuel hoses was not made until the period 8 to 10 April during an assisted maintenance period that *Westralia* underwent. That was some two months after the interview with Baileys. There is no indication from the transcript of the interview with Baileys that the representatives of that company were aware of that proposal, nor did they refer to it in any of their comments to the Defence representatives.

The allegations from the company that Navy and its prime contractors and their subcontractors had a history of fitting ships, including *Westralia*, with substandard parts was supported by two anecdotes. One was the concern by the company that there was a company being used in preference to Baileys and that company was operating out of a boot of a car and so was an inappropriate source of labour and parts for work on Navy ships. Actually that company was an authorised agent of the original equipment manufacture for the Alco engines which were fitted on board a number of Naval vessels. That company is still in existence today and remains a financially viable concern.

The second instance—and this related particularly to the allegation that *Westralia* had a history of being fitted with substandard parts—was a reference they made to an incident where *Westralia*, shortly after coming out of refit, suffered a major engine failure where its engine exploded into a million pieces and the ship had to be towed into Darwin. The allegation was that this had occurred in 1996. A thorough examination of the ship's logs failed to reveal any incident of that type. The closest incident we could find was actually in March 1997 when the ship suffered a cracked cylinder. The ship actually entered Townsville under its own power from its second engine for repair. The subsequent repair did not reveal any evidence or information suggesting that the cracked cylinder was as a result of substandard parts being fitted to *Westralia*.

As part of the examination, I asked the Defence Materiel Organisation to search over 10 years worth of records of *Westralia*'s maintenance. That involved over 18,000 files. The documentation that they went through did not reveal any incidents of substandard parts being fitted to *Westralia* or inappropriate work being done on the vessel. In any case, I think to characterise the cause of the fire as the result of substandard parts being fitted to *Westralia* is not particularly helpful. The fitting of the flexible fuel hoses was in fact an unauthorised configuration change to *Westralia*'s engines. This is not quite the same thing as substandard parts being fitted. We are not dealing here with an issue where it was substandard metal fuel lines being fitted in place of the original high-quality metal fuel lines. This was a totally different concept for how to transfer fuel from the main fuel rail into the piston chamber and then to take excess back into the main fuel rail. This change had bypassed the appropriate processes for considering configuration change set up in Defence. This sequence of events is set out in great detail in both the report of the 1998 board of inquiry and the 2003 *Westralia* coronial inquest.

In relation to the components that Baileys did express concerns about and were involved in work on— that is, fuel injectors and fuel pumps, not fuel hoses—there is no evidence or indication from the time of *Westralia*'s fires that would indicate that those pumps or fuel injectors were working outside of their normal designed parameters. I can say that because I consulted quite extensively with the head of the propulsion division in the Defence Science and Technology Organisation. He led much of the forensic engineering analysis that supported both the board of inquiry and the coronial inquest. He undertook modelling, at the time subsequent to *Westralia*'s fires, which showed that, if the engines were operating within their normal parameters, the fitting of the flexible fuel hoses would cause those fuel hoses to fail after about 40 hours of operation of the engines. In fact, the first failure of the fuel hoses came at between 37 and 38 hours, indicating that the engines were operating almost entirely as predicted under the DSTO model. The problem was that this was a configuration change that had bypassed appropriate procedures and had been undertaken by people who did not understand the great fluctuations in pressure that those fuel hoses would be subjected to at very short intervals which caused their failure.

Finally, I just note that Baileys did not raise any of the concerns that they had about *Westralia* to either the board of inquiry or to the *Westralia* coronial inquest. I would add though that, as a result of my examination, I did recommend to the secretary—and he then recommended to the minister—that to ensure transparency and an independent view on this issue the matter be referred to the Ombudsman. All of the documentation that I have spoken about is available to the Ombudsman. Obviously, if anybody, including a member of parliament, journalist or indeed any company, has issues or paperwork that they think is relevant to the Ombudsman's inquiry then clearly it would be very important for the Ombudsman to have access to that documentation.

CHAIR—Thank you. Senator Faulkner has some questions.

Senator FAULKNER—Well, that last comment I think is a reasonable one. It is a matter for any individual to make their own decisions about those sorts of matters. My view about these sorts of things, which I think I have always demonstrated in my many years of public life, is that you try and ensure that there is the utmost transparency. That is why I made the comments I did a little earlier in relation to this particular document. From my perusal of media reports, I would not be at all surprised if a document similar to the one that I have tabled at this committee has also been made available to at least one media outlet. I cannot say any more than that, but that does appear to be the case.

It is entirely up to any other individual, be they a journalist, parliamentarian or anybody else, to do precisely what they wish with these sorts of matters. The way I deal with these matters is, as I say, to be transparent with them and table the document at this committee so you are apprised in relation to this matter with as much information as I have about it. I do not think that is anything other than a very open and totally transparent approach. However, we are not here to argue about whether I am being transparent or not. I believe I am, but it is of no consequence one way or the other. I am much more interested in the transparency of the department, as you would appreciate. Speaking of transparency of the department, are you able to table the transcript that Mr Merchant has referred to?

Mr Merchant—I suggest that obviously the transcript is also now subject to the Ombudsman's inquiry, so we will check with the Ombudsman as to whether there is any issue now as to us releasing that document in terms of their own inquiry processes.

Senator FAULKNER—When was the transcript made? I appreciate your point about the tape being in a less than perfect condition, but I gather the tape is complete: is that right?

Mr Warner—Before Mr Merchant answers that, could I add to his answer. As well as checking with the Ombudsman, I think we need to check also with our legal advisers to see if there are privacy issues or concerns about the release of a transcript of a conversation.

CHAIR—Thank you, Mr Warner.

Mr Merchant—About the tape and the transcript: as I said, it was prepared in 2005. It was actually prepared after we received the unsigned copy of the document purporting to be from 6 February 1998. The tape had actually failed, we understand, at the end of the interview with representatives of Baileys Diesel Services, but it does cover 58 pages and does seem to be a reasonably complete record of that interview.

Senator FAULKNER—I do not quite understand that, so you might explain that to me. You said it covers 58 pages and the tape had failed but it is a complete interview.

Mr Merchant—It does appear that when the tape failed the representatives interviewing Baileys ended the interview—concluded it at that point.

Senator FAULKNER—So you believe it is complete?

Mr Merchant—I believe so.

Senator FAULKNER—As for privacy concerns, take the individuals, whomever they might be, at Baileys who were interviewed. In your view, do they have a privacy interest in this as well?

Mr Merchant—They may well have. That is all I am saying. We should check that. This is a conversation nine years ago that was recorded with their permission and a transcript made. When the recording was made, did they agree that we, Defence, could make this public? We would have to check those elements. Also, an issue that we would need to consider in relation to the release of the transcript is that during this interview the representatives from Baileys Diesel Services made a number of allegations, including naming individuals, so there may well be legal and privacy issues around the release of those particular allegations, particularly naming people. Finally, I suppose to add to my earlier answer to that, there is another issue that we need to consider: generally these interviews are conducted under the understanding that the material from them would remain the preserve of any investigative channels, so that would support Mr Warner's answer that Baileys would also need to be consulted.

CHAIR—Please bear in mind that any material which is provided to the committee during the Senate estimates process must be provided on a public basis. It cannot be provided confidentially.

Senator FAULKNER—Are you able to say who the first parties were in relation to—without going to substance or the content of the transcript, who was interviewing whom?

Mr Merchant—It was the two representatives that I mentioned previously—the federal agent Peter Smythe, who had been seconded to defence from the Australian Federal Police, and a member of the inspector-general's area, Mr Ryan. They interviewed two representatives from Baileys Diesel Services, the head of that company, Mr Bailey, and also Mr Irwin who was employed in the company.

Senator FAULKNER—In your checking processes, have you had any contact with I think it is former federal agent Smythe?

Mr Merchant—Yes, and people assisting me with the examination attempted to contact Mr Smythe. They actually did speak with him and he objected to the call being placed and some information that they had provided to the operator in trying to get through to Mr Smythe. I subsequently wrote to him on 21 February asking him to assist with this examination and particularly in regard to the provenance of the 6 February 1998 document. He responded by letter dated 5 March indicating that he did not wish to participate in an examination being conducted within Defence, but he did indicate that he may be prepared to cooperate with an independent investigation and particularly mentioned the Ombudsman.

Senator FAULKNER—Did he say why he was not willing to cooperate with an inquiry that was conducted within Defence?

Mr Merchant—He did. He thought basically that it was inappropriate that the organisation he was complaining about was conducting the investigation.

Senator FAULKNER—Have attempts been made to contact Mr Ryan who, of course, obviously is a former official in the inspector-general division?

Mr Merchant—Mr Ryan was interviewed as part of the examination and he could not conclusively answer questions as to whether he had signed and recalled such a document being prepared at the time.

Senator FAULKNER—He did not have a copy of the document?

Mr Merchant—He did not have a copy of the document. He indicated that he recalled he thought seeing the document at that stage. He thought it was the sort of document that they may indeed have prepared at the time and probably would have been lodged, although when the log of the inspector general's documentation was shown to him and there was no record of that document, he was uncertain. The log shows that the tape from the interview was lodged in the inspector general's records on 10 February—that is, the Tuesday after the interview was conducted on the Friday. There is no record though in the log at that time of any occurrence report being listed. Also when attempts were made to go out and again interview representatives from Baileys later in April, by that time federal agent Smythe had returned to the Australian Federal Police. His replacement, Detective Sergeant Killmier actually requested Mr Ryan prepare an occurrence report from the 6 February interview suggesting at the time—and Detective Sergeant Killmier confirmed this in an interview that the examining team conducted with him—that he had been unable to locate an occurrence report from the 6 February interview. So Mr Ryan prepared his own occurrence report of the 6 February interview on 15 April 1998, and that is certainly held in the inspector general's documents.

Proceedings suspended from 12.31 pm to 1.30 pm

CHAIR—We are in portfolio overview and Senator Faulkner is continuing with questions pertaining to the *Westralia* matter.

Senator FAULKNER—I was asking some questions about that particular matter. I was asking specifically, I believe, before the break about the transcript of the interview that concerned Messrs Smyth, Ryan, Bailey and Irwin. In relation to the transcript you indicated to the committee, Mr Merchant, that you were confident that the transcript was to all intents and purposes complete. I wondered why you were able to make that statement. Can you just indicate why, even though there was some concern with the tape itself or the recording itself, you are able to conclude, effectively, that all the information relating to the interview was there.

Mr Merchant—Yes, as I said, the tape did malfunction. I understand that that was at the completion of the interview. Certainly that is my understanding of the results of the examination and interview that was done with Mr Ryan. It does end abruptly. But, as I said, there are 58 pages of transcript, so it is not as though this is a short transcript that looks as though it was interrupted midstream. In fact, there is a suggestion that the two individuals from Defence who were conducting the examination then concluded the interview and were going to make arrangements to revisit Baileys and continue the discussion.

Senator FAULKNER—Did they revisit Baileys?

Mr Merchant—Those two individuals did not. As I indicated, Federal Agent Ryan shortly after the interview returned to the Australian Federal Police. He was replaced by Detective Sergeant Killmier, and Detective Sergeant Killmier did revisit Baileys in April 1998. As I said, in preparation for that interview with Baileys, he asked Mr Ryan to prepare a summary of what had come out in the 6 February meeting with Baileys, and Mr Ryan did that on 15 April. Detective Sergeant Killmier prepared an occurrence report from his meeting of 28 April, and that is also held in the Inspector-General's records.

Senator FAULKNER—I assume that you were able in fact to speak to Detective Sergeant Killmier in the course of your own inquiries into this matter.

Mr Merchant—Yes, if I can just correct one statement I made there. It was, of course, Federal Agent Smyth who returned to the Australian Federal Police shortly after the 6 February interview. I might have mentioned Ryan.

CHAIR—I understand.

Mr Merchant—Yes, Detective Sergeant Killmier was interviewed as part of the examination and basically recounted the events that I have just relayed.

Senator FAULKNER—But effectively, to the extent that this purported memorandum is at issue, Detective Sergeant Killmier's involvement postdates the time that that purported memo was drawn up?

Mr Merchant—That is correct.

Senator FAULKNER—Was the audio tape or the transcript of the audio tape presented to the coronial inquiry into the *Westralia* accident?

Mr Merchant—As I said, the tape was thought to be unusable until 2005 when an officer, Mr Riley of the Inspector-General's area, retrieved it and got it to work. The coronial inquest

concluded in 2003, so it was not presented to the coronial inquest. Obviously it was examined in 2005, and basically the conclusion reached then was the same conclusion that I reached from my examination: that the allegations that Baileys made were not germane to the issue and circumstances of the cause of the fire aboard *Westralia*.

Senator FAULKNER—Were the audio tape or transcript presented to the naval board of inquiry?

Mr Merchant—The naval board of inquiry was actually conducted before the coronial inquest. It was conducted in—

Senator FAULKNER—I know that, so I am assuming to that is no, too.

Mr Merchant—Sorry, the board of inquiry was conducted in 1998. So it certainly was not available to the board of inquiry.

Senator FAULKNER—I am going to use the terminology ‘purported minute’ because of the safety in the language. So none of that material—the purported minute in either signed or unsigned form, the tape or the transcript in relation to the Smyth/Ryan conversation with Mr Bailey and Mr Irwin—went to either the coronial inquiry into the *Westralia* accident or the naval board of inquiry?

Mr Merchant—No. And as I said, Baileys did not make any representations or submissions to either the board of inquiry or the coronial inquest.

Senator FAULKNER—No, I appreciate that and I heard that evidence that you gave. Has any consideration been given in the legal areas of Defence in relation to whether any of the information in relation to the *Westralia* accident that has come to light after the coronial inquest and naval board of inquiry? Have legal officers in the department been asked to consider whether any of that material warrants further consideration beyond the Ombudsman’s inquiry itself—which I gather from what you have said, but you may care to comment on this, appears to have comparatively limited terms of reference? I would appreciate your comment on that, because I am not entirely clear on the terms of reference of the Ombudsman’s inquiry. Perhaps you might be able to clear that up for us.

Mr Merchant—Firstly, certainly very careful consideration has been given in the Defence legal area, and not just at the time of the last Senate estimates hearing and the time of my examination, but also beforehand—certainly in 2005, when the department first received an unsigned version of the 6 February document. Its contents and the underlying claims were examined at that time by the Inspector-General’s area in close consultation with Defence legal and subsequently the conclusion was drawn that, because they did not appear to relate to the circumstances that caused the fire aboard *Westralia* there was no cause to seek to reopen the coronial inquest or to hold any other form of inquiry. Basically, my conclusions mirror the conclusions reached in 2005, and earlier, in 2000, when the general allegations and concerns that Baileys raised about their inability to win work on Naval vessels was also examined. They continued to raise these concerns, including by representations from their local member, Stephen Martin, to the then defence minister, John Moore. They were examined and it was similarly concluded that they did not have substance, that they stemmed from a misunderstanding. So certainly there has been a lot of consideration given in the department over those years to the issues raised by Baileys. And our conclusion has consistently been that

this does not warrant an attempt by Defence to reopen the coronial inquest or the board of inquiry. Obviously, though, that is a matter that the Ombudsman will consider in its own inquiry, and we will take advice once we have the decisions and recommendations of the Ombudsman in that regard. The Ombudsman inquiry is not limited, and they made it very clear to us in accepting this own-motion investigation that they would not be limited by any terms of reference or scope of matters that Defence referred to them, that basically they would take the inquiry where it needed to go.

Senator FAULKNER—Just explain to me how we end up with an own-motion investigation by the Ombudsman. Did the original approach to the Ombudsman, or suggestion for inquiry to the Ombudsman, come from Defence?

Mr Merchant—Yes. As I said, I recommended in my report to the secretary that the issues, for transparency and for public confidence, should be investigated by an independent authority to Defence and that I thought that the Ombudsman was an appropriate body to undertake that investigation. The secretary put that submission and recommendation to the minister, who agreed. The minister wrote to the Ombudsman, raising their attention to these issues and asking the Ombudsman to consider an investigation. Subsequently, on 17 April, the Ombudsman wrote back to the minister and to the secretary advising that they would conduct an own-motion investigation into the issues that Defence had alerted them to.

Senator FAULKNER—I appreciate that background as to the process. What I am interested in understanding is what this terminology ‘the issues’ means. I think I possibly understand it, and no doubt you do intimately, but what precisely are ‘the issues’? In other words, what are the constraints, if you are aware of them, on the Ombudsman’s inquiry? You might say to me that this is a matter for the Ombudsman herself, but are you able to assist me in relation to what precisely the Ombudsman’s own-motion inquiry is being conducted into, given that I would expect the Ombudsman has so informed you?

Mr Merchant—Certainly in terms of the letter that the minister sent to the Ombudsman and the subsequent discussions we have had with the Ombudsman, there are basically two areas that we have drawn their attention to. One of course is the primary issue, and that is: did the information provided by Baileys in February 1998 constitute warning of the circumstances that led to the fire aboard HMAS *Westralia*? The second and more general issue is to have the Ombudsman look at the way in which Defence has handled this issue over the period since 1998.

Senator FAULKNER—I appreciate the document and record search that you have been responsible for conducting, Mr Merchant, and you have outlined the basic procedures that have been adopted there. Beyond that effort, have there been any further efforts in recent times, perhaps since 2005, made by the department to identify who might have known about the faulty fuel system on the *Westralia*?

Mr Merchant—If you are talking about the actual flexible fuel hoses that were fitted to *Westralia* and subsequently caused the tragic fire, all of that information is available in the board of inquiry and coronial inquest. Having gone through much of that documentation myself, it is clear that there were members of Defence who actually were lobbying for the flexible fuel hoses to be fitted to *Westralia* and all of that is covered in quite a lot of detail in

the two inquiries. The actual procedures by which those flexible fuel hoses were fitted to *Westralia* was obviously a focus for the inquiries.

Senator FAULKNER—Thank you for that, and I appreciate that that is the case. What I am asking is, is since that time whether there have been any other efforts beyond—it sounds from the information you have provided to be a thorough records search that you have conducted in the context of the concerns raised by the unsigned minute—the departmental level in relation to the *Westralia* incident.

Mr Merchant—Not that I am aware of. The major activities in recent times have been through 2005 after we received the unsigned version of the document that had the date of 6 February 1998 and then more recently the examination that I led.

Senator FAULKNER—Are you able to say whether it was Navy or Defence policy or practise in 1998 that certification of fuel system maintenance or repairs for internal combustion engines be carried out only by the original equipment manufacturer or their authorised agents?

Mr Merchant—No, I am not.

Senator FAULKNER—Would there be any other official who might be able to—if not, I would obviously ask you to take that on notice.

Mr Merchant—I have had my attention drawn to a document that is dated 27 October 1998 on letterhead of the support command Australian Navy, so this is subsequent to the fire on board *Westralia*. It talks about the procedures that have been put in place to prevent a similar reoccurrence and it says that all work appertaining to internal combustion engine fuel system components will require a conformance certificate to be issued by the original equipment manufacturer or his Australasian agent. Two, all future contracts appertaining to work on ICE fuel systems will contain a clause specifying this requirement as a contractual obligation, and there are also current endeavours being made to ensure that the naval stores system repair authorities adopt these requirements similarly. This is a letter from Lieutenant Commander Sheridan from naval support command to Baileys Diesel Services.

Senator FAULKNER—Right. What is the date of that?

Mr Merchant—27 October 1998.

Senator FAULKNER—So it was in fact Navy or Defence policy?

Mr Merchant—This is talking, as I read this document, about procedures that have been put in place dating from October 1998 to prevent a similar recurrence.

Senator FAULKNER—What I do not understand here is how that could have been properly enforced when the then Support Command Australian Navy—to use the correct terminology—Ordering Authority Eastern Australia admitted in writing in February 1999 that it did not then and had never had any such list of relevant original equipment manufacturers or their authorised agents. It is a little perplexing. Can you assist me with that?

Mr Merchant—I am not aware of the documentation that you are referring to. And, as I said, the examination that I conducted was centred on the allegation that, in February 1998,

Defence had received warning of the circumstances that caused the fire on board HMAS Westralia. If I understand it correctly, you are now raising documentation from 1999.

Senator FAULKNER—That is correct. This is an annexure to a document dated 26 February 1999 that has been provided to me. I might say here that it is not from an unknown source like the purported minute that was tabled earlier. So that is true: the information that has been provided to me—

Senator Ellison—As we are moving on to another document, I wonder if it is possible to have another copy of that for the officials to have a look at, and then we can assist Senator Faulkner further.

CHAIR—Is that a document you can table?

Senator FAULKNER—Probably not, at this stage. It is documentation that I intend to provide to the Ombudsman. It is documentation that has come to me, addressed to me in my capacity as a senator of the Commonwealth of Australia and as a member of this estimates committee. I always try to be reasonable about these sorts of things. The basis on which it is provided I am not clear on. I could try to seek guidance from those that have provided it to me, and I am more than happy to table it. But, regardless, I would just indicate to the minister: when material like this is provided to senators, as you would appreciate, Senator Ellison, you treat your responsibilities seriously in that regard. At a minimum, regardless of the views of the individuals who have sent it to me, it is my intention to forward all that material to the Ombudsman. I make that absolutely clear to you. I think that you would accept that that is the proper course of action. At this stage, I do not think I am at liberty to—

CHAIR—I do not think there is any demur from that, Senator Faulkner.

Senator FAULKNER—At this stage I do not think I am at liberty to table it before the committee; I am merely quoting from it, and some of it has been confirmed anyway by Mr Merchant.

CHAIR—Indeed, and I do not think there is any demur from that, Senator Faulkner, and certainly none from your intention to provide it to the Ombudsman for the purposes their own-motion inquiry. I think the minister was simply indicating, and I think he is correct, that it is difficult for the witnesses to respond to questions relating to a document they have not had the opportunity to see.

Mr Warner—I was simply going to add that, even, I think, with the document in front of us, if Senator Faulkner was going to ask us further questions to the question he has asked already, it would be very hard for us here today to be able to provide you with the answers. These are old documents, it seems. Your questions are very specific and detailed, and I just do not think we would have the expertise here to be able to provide the detailed answers you require.

Senator FAULKNER—So what I am going to do in this circumstance, given that I have only asked two questions about this matter and one has been answered by Mr Merchant, on advice from his other colleagues, other witnesses in the room, which I appreciate, I would then ask, if you could, to take on notice a follow-up question. Given the answer that Mr Merchant was able to provide to the previous question, how it is that defence policy in

relation to repairs being carried out only by original equipment manufacturers or their authorised agents can be properly enforced when the then Support Command Australian Navy Ordering Authority Eastern Australia admitted in writing, in February 1999, that it did not then and never had had any such list of relevant original equipment manufacturers or their authorised agents? I would ask you, if you could, to take that one on notice.

There has been much discussion at this inquiry about Baileys Diesel Services Pty Ltd, and I wondered if you had available for the committee or are able to inform the committee, Mr Merchant, how many contracts had been awarded to Baileys Diesel Services by either Defence or Navy prior to February 1998, on what dates those contracts were awarded and what their value was.

Mr Warner—We do not have that level of detail here today. I am happy to take your question on notice.

Senator FAULKNER—All right. I appreciate that. As I look at the evidence from the last estimates round, there is quite considerable criticism of Mr Bailey from Baileys Diesel Service, and I think the suggestion is that Baileys Diesel Services might have an axe to grind in this particular matter—which is fair enough, if someone wants to have that view. But isn't it true that the key issues that are raised by Mr Bailey from Baileys Diesel Services, as far as this matter goes—with regard to the *Westralia*—actually predate a series of complaints, whether those complaints are justified or not? They predate a range of complaints about difficulty in winning Navy contracts. I am drawing a distinction here between concerns raised about *Westralia* and concerns raised about the failure to win Navy contracts subsequently. Do you draw that distinction at all, Mr Merchant? Because it does seem, on the face of it, a reasonable distinction to draw.

Mr Merchant—Certainly, I agree there is a distinction. There was the media allegation that, in February 1998, Baileys provided information which in effect represented a warning of the circumstances that led to the fire on board HMAS *Westralia*, and that was the focus of the examination that I conducted at the request of the secretary. It was clear that Baileys had a range of concerns, not only with Defence but certainly including Defence, about their inability to win contracts and perhaps some concerns about the reasons why they were failing to win contracts. And I think it is true that those concerns predated February 1998 and indeed, from everything I have heard today, I think they probably continue up to this very day.

Senator FAULKNER—We do not want to see issues that may be relevant—I will qualify my language—to the accident on *Westralia* in any way polluted by grievances about contracts after the event, do we?

Mr Merchant—I think it is important, and obviously the Ombudsman I think will pay great attention to ensuring that they come to the investigation of the issues around the alleged warning in an unbiased way.

Senator FAULKNER—See, I don't know whether Mr Bailey has got an axe to grind or not; he may well have, for all I know. He may well not be justified in having an axe to grind, for all I know. But there are a lot of people who have axes to grind in this world, and it does not necessarily devalue in any sense other information a person might have. That is the point, isn't it? One gets the impression, looking at the evidence before this committee—I am not

saying today but at a previous hearing—that it is quite possible that attitudes have been coloured by those views in relation to Mr Bailey or Baileys Diesel Services themselves in relation to contracts that were not awarded.

Mr Merchant—Well, that is a theory.

Senator FAULKNER—It is, I suppose. But it is a concern as well as a theory.

Mr Merchant—If it is a concern you have, what I would say in this regard is that the secretary asked me to conduct and lead the examination into the allegation that we received warning of the circumstances that led to the fire aboard HMAS *Westralia*. As you know, I am the deputy secretary for intelligence and security and for the last years have been running the Defence Signals Directorate, and I have had quite a long career in Defence in the international strategic policy and intelligence areas of that organisation. At the time the secretary asked me to lead this investigation I had had no previous knowledge nor involvement with Baileys or any of these issues, so I certainly came to it without any preconceived notions or prejudices with regard to Baileys Diesel Services.

Senator FAULKNER—And I accept that, Mr Merchant. I do accept that if you say it.

Mr Warner—Can I just add to Mr Merchant's answer, please. In setting up this inquiry we were determined to be utterly transparent and completely open. We wanted all issues examined. I am confident that Mr Merchant did that. I am confident in the process that he went through to do that; it was a very thorough process. I really do not see that we can be any more transparent than to pass our papers, our research and our investigation results on to the Ombudsman for the Ombudsman to look again at this issue in full.

Senator FAULKNER—I do not want to go over the ground again about the significance of what was then described as an unsigned minute, but you would acknowledge, I am sure, Mr Warner, that the completeness of those records being provided to the Ombudsman is also critical.

Mr Warner—We have asked the Ombudsman to look at our processes because we want to be sure that the processes—not Mr Merchant's process but the processes from 1998—were complete and thorough.

Senator FAULKNER—I would assume in relation to this matter—because obviously the minute issue is a critical issue in the Ombudsman's inquiry. I think you would acknowledge that, Mr Warner, wouldn't you, that the purported minute, unsigned or signed, is a critical element of the Ombudsman's inquiry?

Mr Warner—Yes, I do.

Senator FAULKNER—In that circumstance, I would hope that the Ombudsman would speak to Messrs Smyth, Ryan, Bailey and—is it Unwin?

CHAIR—Urwin, from this note here.

Senator FAULKNER—I would hope that she would attempt to speak to those four individuals. Are you able to give this committee a guarantee, Mr Warner, that, if requested by the Ombudsman, the Ombudsman will have complete access to any person, any official or officer—perhaps it might be more appropriate to ask you, or CDF might prefer to answer, in

relation to any uniformed officer—of the Department of Defence? Are you able to give that guarantee as well to the committee?

Mr Warner—As I said before, this is a very important issue for Defence. We want to make sure that it is thoroughly investigated in any and every way. So, yes, of course, we are willing to have the Ombudsman interview anyone from Defence.

Senator FAULKNER—CDF, could I ask you if, similarly, access to any uniform ADF personnel will be facilitated?

Air Chief Marshal Houston—I completely endorse what Mr Warner has just told you, and any uniformed person who is required will be available to the Ombudsman.

Senator FAULKNER—I thank you for that. Can I ask this, please. Did the Navy move away from dealing with the original equipment manufacturer or their authorised agents because they were seeking to save money—in particular, they were unwilling to pay \$80,000 for a solution to persistent fuel leaks as quoted by engine manufacturer Pielstick? Is that the case?

Air Chief Marshal Houston—Admiral Ruting, do you have the answer to that question or not? Take it on notice.

Rear Adm. Ruting—I would have to take the details of that question on notice as the allegation is certainly a new one to me. I was not involved during the 1998 to 2000 HMAS *Westralia* period. I did not have anything to do with HMAS *Westralia* at that time. It is certainly a quite new allegation. Certainly, what we did as a result of the policy that was read out in the letter of 27 October 1998, was move much more to using the engine OEM and require the ship repair contractors and our ship repair panel to contract or subcontract work to the overall engine OEM, and require the engine OEM to assure that all of the work that was performed in repairs and any parts supplied in accordance with that policy statement could be assured.

We moved away from dealing with myriad smaller component repairers who may or may not have been OEMs or licensees to, in fact, work with the likes of the Pielstick engine licensees in Australia, in the case of these particular engines, and similar Pielsticks fitted in other Royal Australian Navy ships. The first part of your statement that we did move to higher level OEMs in that way is correct. It is not correct that we went away from using OEMs. What we did do was to move to the engine OEM, or its licensee, rather than individual component OEMs, but I know nothing of the allegation about an \$80,000 estimate for repairs. I would have to take that on notice.

Senator FAULKNER—Admiral, first of all, thank you for taking it on notice. I only have one comment to make in relation to your response. That is that I have not made an allegation, I have just asked a question. With respect, I put that to you very strongly. It is a question I have asked, it is not an allegation that I have made. I would reference you to the Western Australian coroner's report in this regard. As far as I understand, Rolls Royce Australia was the Australian representative of Crossley's engine, the supplier of the Crossley Pielstick engines that were fitted to the HMAS *Westralia*, but I stress with you that I am asking a question, Admiral, I am not making an allegation. That is important for me to place on the

record given your response, but I do appreciate your taking that element of the question that you wish to take on notice.

Rear Adm. Ruting—May I apologise for the suggested allegation.

CHAIR—Just a point of clarifying the record, thank you.

Senator FAULKNER—In relation to the safety of Royal Australian Navy vessels, is it true that prior to 1998 Baileys Diesel had been involved in previous reports relating to the safety of RAN vessels and that those reports had been provided to the Department of Defence I think around mid 1997? Mr Merchant, can you assist me with that?

Mr Merchant—What came to light in the course of my examination of this issue was commercial documentation between Baileys and another subcontractor, a company called Ches, relating to work that Baileys had done in August 1997 on two fuel pumps from HMAS *Westralia*. This documentation, which appears to me to be standard commercial documentation, listed the assembly items on those pumps, a quote for the work and a list of items that needed to be supplied from the vessel. That documentation from Baileys is then followed with documentation from Ches that talks about the fuel pumps being stripped down for inspection as per work order:

Broken pipe found in housing; bolt broken in one fuel pump. Both items will have to be removed prior to rebuild and test. Pumps currently in New South Wales at Baileys Diesel Service. We have supplied spare parts. Dated 26 August 1997. For transport over. Return date approximately two weeks.

The indication is that that work was completed successfully by Baileys in August or shortly thereafter of 1997. As I said though in my earlier comments, from the work that DSTO did on recreating the circumstances that caused the fire on board *Westralia* their modelling suggested that there were no problems with the fuel pumps at the time of the fire on board HMAS *Westralia*.

Senator FAULKNER—Yes, but when you say the work was carried out ‘satisfactorily’, do you mean carried out satisfactorily by Baileys Diesel Services?

Mr Merchant—That is correct.

Senator FAULKNER—So the work was completed. Has anyone actually thought of going back to Baileys Diesel Services? Have they been contacted in the conduct of your inquiry, Mr Merchant?

Mr Merchant—We did contact Baileys. Unfortunately, they also declined to give information.

Senator FAULKNER—Are you able to share with the committee what your understanding was for that decision on their part?

Mr Merchant—They indicated that they had continuing concerns with Defence and their inability to win Defence contracts and indicated that they were preparing a list of their complaints, which they may take up through appropriate channels, including legal representation with Defence. They suggested that they might talk to us but, unfortunately, that never happened in terms of the examination.

Senator FAULKNER—Was only the one approach made?

Mr Merchant—I am not certain as to how many times we approached them. It may have only been once.

Dr Williams—I can certainly confirm that people in my area contacted them once. At the time they were concerned over an article in the media that had suggested—in their view, wrongly—that they had received work as a result of their actions. They indicated that they had that matter with their solicitor so they did not want to discuss anything until that had been considered.

Senator FAULKNER—I see. So when did that approach take place, Dr Williams?

Dr Williams—During Mr Merchant's investigation; shortly after the last Senate hearing.

Mr Merchant—I actually have the notes here. Mr Bailey, Senior Manager at Bailey's Diesel Services, was contacted by telephone on 20 February 2007. He declined an offer from IG staff to participate in a formal interview until he had sought legal advice. A further attempt to contact Mr Bailey was made on 26 February 2007. A message was left with a member of his staff. No return contact was made with staff of the Inspector-General's area.

Senator FAULKNER—So are this Ches group effectively subcontractors or what?

Rear Adm. Ruting—Yes, Ches were used on a number of occasions for mechanical type of work through being a subcontractor to companies on our ship repair panel contract. Those four companies are the likes of Tenix, ADI, United Group and Forgacs. Those companies are normally awarded whole ship major maintenance contracts for what is commonly known as a refit or smaller maintenance availability work and they then subsequently subcontract the work that is required in that work list to appropriate companies, and Ches is one of the companies which may be subcontracted various mechanical work and they would then subcontract to appropriate companies, including Baileys.

Senator FAULKNER—So what is the full name of the company? Is it Ches?

Rear Adm. Ruting—I believe that is its name.

Senator FAULKNER—Is it true that Baileys Diesel Services acted effectively as a subcontractor for Ches in relation to certain fuel injection repairs on the *Westralia* because Ches had difficulty or wanted to have some fuel pumps evaluated?

Rear Adm. Ruting—I cannot confirm that. One would not be able to without speaking to appropriate officials from Ches itself. However, Ches would have been aware that we had previously contracted work to Baileys on fuel injection pumps on a number of our ship classes. I have information that some nine repair orders were certainly placed with Baileys over the period 1995 to 1999, and they certainly performed work on at least one fuel pump—not from *Westralia*—during that period of time. Ches is a company that I believe does quite an amount of work on marine diesel engine repairs and so it certainly would have been aware of Baileys capabilities as one of a number of companies in Australia doing work on different sorts of fuel injection pumps.

Senator FAULKNER—I have certainly been provided with a signed statement that indicates that what I have said is the case. Effectively, as I understand it or as I read it, this was done by Ches because Baileys had the only bench that would do it to the appropriate standard. I have also received a copy of a facsimile transmission from Ches to Baileys dated 5

August 1997 regarding the testing of the two pumps. I have also received a copy of the job card and documents associated with the job, including a service report dated 24 September 1997. It just seems to me that this sort of information—let me choose my words carefully again—might be quite critical to the matters relating to *Westralia* and certainly to the Ombudsman, because they were obviously provided to the Ombudsman. I am not in a position to be able to make technical assessments about this sort of material, but what I want to ask Mr Merchant whether he has seen that documentation.

Mr Merchant—No. As I said, the documentation that we uncovered during the examination is the documentation between Baileys, dated 22 August 1997, and Ches, dated 28 August 1997. It sounds like it may relate to the same work that Baileys did on the two fuel pumps, but I am certainly not aware of any signed document. Nobody has provided me with a copy of a signed document. All I can do is to support your intention to provide that documentation to the Ombudsman so that it can be examined as part of their inquiry.

Senator FAULKNER—Yes, I have indicated that I will do that. Was there a service or inspection report in relation to these jobs?

Rear Adm. Ruting—The only one that we are aware of is the one that Mr Merchant referred to previously, as being from Baileys Diesel to Ches engine reconditioning dated 22 August 1997. As Mr Merchant read out, it states:

We have stripped and inspected the two fuel pumps as per your order and would like to report as follows ...

It then describes various items related to pumps Nos. 832272 and 877272.

Senator FAULKNER—Who signed that inspection report?

Rear Adm. Ruting—Mr Michael Evans.

Senator FAULKNER—Okay. Would it be possible to table a copy of that inspection report for the benefit of the committee, or are there privacy concerns in relation to that?

Mr Warner—If you would let us check, we will come back to you very shortly. I just want to ensure that there is no commercial-in-confidence issues involved here, and if the legal advice is that we can table it, we will do so immediately.

CHAIR—I think that is prudent, Mr Warner, thank you.

Senator FAULKNER—Yes, thanks for that. I appreciate that. So this is an inspection report. Is it properly described as an inspection report, Admiral?

Rear Adm. Ruting—It does not use that particular title on the document.

Senator FAULKNER—But that is your professional terminology, which is fair enough. That is what you call these things, basically.

Rear Adm. Ruting—Yes.

Senator FAULKNER—And I think you said it is dated 22 August 1997?

Rear Adm. Ruting—That is correct.

Senator FAULKNER—And it is signed by a Mr Michael Evans, is that right?

Rear Adm. Ruting—Yes, he is a field service and sales engineer.

Senator FAULKNER—For Baileys or Ches?

Rear Adm. Ruting—No, this is a Baileys Diesel Services facsimile.

Senator FAULKNER—Okay. What is the thrust of the report, what does it actually say?

Rear Adm. Ruting—As I read out before:

We have stripped and inspected the two fuel pumps as per your order and would like to report as follows ...

And it then lists the two fuel pumps. It identifies an element assembly not serviceable, and it quotes the part numbers against that. Delivery valve service assembly not supplied, and it identifies some further part numbers. A broken pipe in a housing assembly, it identifies that one needs to be drilled out and a broken bolt needs to be removed. Against the second pump it identifies similarly that the element assembly was not serviceable and the delivery valve was not serviceable. It says to remove a broken stud and a broken pipe with a quotation for how much extra that was to be, and lists, as Mr Merchant said before, a number of items to be supplied from the vessel.

Senator FAULKNER—As you can imagine—you may not imagine that, but let me assure you—I know nothing about fuel pumps. It sounds like a litany of problems with them. Is that right or wrong?

Rear Adm. Ruting—It sounds like it could be quite typical of the reason why you would send a fuel pump for an overhaul, that a number of items are not serviceable and need to be replaced. So it does not sound atypical.

Senator FAULKNER—Have any concerns been raised about the spare parts in the inspection report?

Rear Adm. Ruting—It just identifies a number of items to be supplied from the vessel.

Senator FAULKNER—It identified them—but were any concerns raised about them?

Rear Adm. Ruting—There were no concerns at all.

Senator FAULKNER—Were there any concerns for safety or fuel leaks or the like?

Rear Adm. Ruting—There was no mention of fuel leaks. The word ‘safety’ does not appear in this document.

Senator FAULKNER—Was there any suggestion that any of the other fuel pumps in the vessel be serviced?

Rear Adm. Ruting—There was no mention of that.

Senator FAULKNER—Would you take on notice, Mr Warner, whether that document can be tabled before the committee.

Mr Warner—We are looking into that now.

Senator FAULKNER—I appreciate that; thank you. Is Mr Ryan, who was in the Inspector-General’s office previously, still an Australian public servant?

Mr Warner—I think you asked that question at the last Senate hearings—

Senator FAULKNER—Yes, but what is his current status?

Mr Warner—and ‘yes’ is the answer.

Senator FAULKNER—I was not sure what his status was between then and now. Is Mr Smythe still an Australian public servant?

Mr Merchant—I understand that is the case, yes.

Senator FAULKNER—Mr Merchant, have any issues been raised with either of their employers about the somewhat contentious matters we have been canvassing at this and at previous Senate estimates committee?

Mr Merchant—Not to my knowledge.

Senator FAULKNER—I assume you would know. I always worry about the terminology ‘not to my knowledge’. If the answer is no, that is fine. I would not want it to have happened and for you not to be aware of it. That is always the problem with these things. That is my only concern.

Mr Merchant—In the context of the examination that I led, we did not make any contact with their employers in raising concerns with regard to these matters they had raised. As I said, we did try to contact Mr Smythe by phone. He subsequently complained in his letter to me that we had provided information to the operator as to the reason behind the call, and he thought that that was inappropriate. I do not know whether he would regard that as having raised the matter with his employer, but I would not regard that as raising the matter with his employer.

Senator FAULKNER—And nor would I. So, as far as Mr Ryan and Mr Smythe are concerned, the only issue relating to them of interest to the Department of Defence is this current matter before the Ombudsman—is that right? The Inspector-General is perhaps the best person to respond to that.

Dr Williams—Are you asking whether there are any other matters? All I am aware of is the interviews we sought to have with Mr Smythe and had with Mr Ryan in relation to this issue. We had no other connection with them.

Senator FAULKNER—Thank you for that. A press article appeared on 14 February. There is one element of this article that I want to ask you about. I do not often do this. Let me identify the article so that you are clear about this: it was by Ian McPhedran and Amanda Gearing, who are in the News Limited stable, and it goes to the issue of the minute. The article, appearing on 14 February, in relation to the minute said:

Defence confirmed the minute was received and that ‘no issues of concern’ were identified so the document was not passed on to the Navy.

‘That investigation identified that the source of the complaint raised in the document related to the inability of a subcontractor to win work on Defence contracts.’ Defence said.

And so on. There are these words: ‘Defence confirmed the minute was received’—this was back in 1998, and the article was written on 14 February 2007—‘and that no “issues of concern” were identified so the document was not passed on to the Navy.’ Mr Merchant, given that you have done such a thorough search of documents and communications, can you indicate whether you have any knowledge of such information, confirmation or comments

being provided by Defence on this matter at, I assume—and I think it is a fair assumption—around that time, immediately before 14 February?

Mr Merchant—Senator, I am aware, as a result of an examination that I did, that in response to questions received from Mr McPhedran on 2 February this year the Department of Defence did provide him advice which stated that we had received the 6 February 1998 document at the time and, accordingly, advice went on in the way in which you described. My examination confirmed that that advice was in fact incorrect. It was as a result of confusion in Defence—that is my judgement. Having seen a copy of the unsigned version of the February 1998 document, the people who prepared that response to Mr McPhedran assumed that we must have had it in February 1998. As I said, we have now done an extensive search of both soft copy and hard copy records and we have been unable to locate a document of that type being held by the Department of Defence before 2005. This advice was subsequently corrected to Mr McPhedran after I concluded my examination.

Senator FAULKNER—I see. So he has been informed that that original advice was wrong?

Mr Merchant—He has.

Senator FAULKNER—But, when I read that in an article, it was in fact a Defence source that actually provided what you are saying now was incorrect advice?

Mr Merchant—Unfortunately, we gave him incorrect advice on 2 February—yes.

Senator FAULKNER—So it was confusion?

Mr Merchant—That is my conclusion, although, again, this is one of the issues that the Ombudsman will undoubtedly look at and reach their own views on.

Senator FAULKNER—Mr Warner, is this one of the reasons why you have been careful—I was going to say insistent—to indicate that matters relating to the way Defence have handled this issue are also being examined by the Ombudsman? Is that just one of the elements the Ombudsman is going to examine?

Mr Warner—That is correct.

Senator FAULKNER—Are there any other elements, particularly in relation to the way Defence has handled this, that are of concern to you and that you have asked the Ombudsman to examine?

Mr Warner—I have asked Mr Merchant to go into detail. I wanted the whole process of Defence's handling of what was a nine-year period to be looked at.

Senator FAULKNER—Thank you.

Mr Merchant—There are a number of aspects of the way in which Defence handled this issue that I think were suboptimal. That was one of the reasons I recommended the investigation by the Ombudsman. I think the most important issue of principle here is that these complaints in many instances related to the way in which the inspector-general's division had handled the matter.

Of course, one of the problems that raises for Defence is that, when we have complaints about management practice and procedural issues, the inspector-general's area is generally the

one we refer those matters to. That immediately raised the issue as to who inspects the inspector-general. I think that is a fundamental starting point for part of the Ombudsman's investigation and inquiry. We certainly look forward to advice from the Ombudsman on that issue.

There are also other procedural issues that cause me concern. Mention was made of the incorrect advice that was given to Mr McPhedran. There was also advice of a similar nature provided in 2005 to Minister Kelly. That also, I think on any reading, would suggest that she was advised that we had the document in 1998. As I said, my examination shows that we understand that we did not have that document. So there are times when our procedures I think were less than meticulous and, unfortunately, the advice we provided at different times was also not entirely accurate.

Senator FAULKNER—Can you explain to me the wrong advice that went to Minister Kelly? When did that go, and what was the wrong advice?

Mr Merchant—This was advice that was prepared for Minister Kelly in 2005 following receipt of the unsigned document. The indication in the advice to her was that this had been received and thoroughly examined at the time, whereas my examination showed that we had not actually received that document at the time. In fact, the examination we did of the concerns that Baileys had about their inability to win contracts on naval vessels really took place substantively in 2000.

That did not change the advice to Minister Kelly that the result of that examination of their complaints concluded that it stemmed from a basic misunderstanding on their part and that, in specifics, the complaints they raised lacked substance. As I said, I went through those earlier, particularly their concerns about a company operating out of the boot of a car and their concerns about an incident on board *Westralia* where an engine had exploded into a million pieces. Both those allegations did not carry substance. That was the conclusion of the investigation in 2000. It was also, I believe, a valid conclusion to draw to the minister's attention in 2005. But there were some errors there in terms of the timing in which all of that took place.

Senator FAULKNER—What level of official signed off on that advice to Minister Kelly saying that the advice had been received and thoroughly examined at the time?

Mr Merchant—I understand that was signed off at the senior executive service level, band 2.

Senator FAULKNER—Have you done your own inquiries—you have obviously asked the Ombudsman to examine this—in relation to that particular element of advice and why it now appears to be, or you now think it is, so wrong? Have you also examined that in your own review?

Mr Merchant—I did ask those questions of the officers concerned in this episode. I think there was, from the explanation given to me, genuine confusion as a result of the receipt of the unsigned document in 1998. It also appears in a sort of Murphy's law type of way that some of the key individuals who had corporate knowledge about this issue in the Defence organisation were on leave or otherwise unavailable at critical times at which advice was prepared. So, unfortunately, officers who were less knowledgeable about the issue actually

signed off on that advice going forward. But I would not say that those conclusions are definitive. As I said, I think they are issues on which the Ombudsman should properly reach their own conclusion.

Senator FAULKNER—Yes. But do you completely reject a proposition that, in fact, one reason that this sort of advice might be going to Minister Kelly might be that there has been a deliberate decision on the part of someone to actually remove the offending minute from Defence records? Can that be ruled out?

Mr Merchant—That certainly was one of the possibilities that I considered and it was certainly one of those at the forefront of my mind when I started the examination. I could find no information or evidence to suggest that that had happened; nor, indeed, from my point of view, a strong set of reasoning that would lead one to suspect that that had actually been the case. As I said, all the indications, particularly from the log that the inspector-general's area kept of documentation related to their investigations, are that there was not an occurrence report or a similar document to that dated 6 February 1998 at least lodged with the inspector-general's area at the time. As I said, there is a report of the tape being lodged on 10 February—that is, the Tuesday after the interview on 6 February, which was a Friday. Also, on the suggestion that this was deliberately removed from the records: it certainly would have needed to have happened very early, if that was the case, because all the indications are that when Detective Sergeant Killmier went back to visit Baileys as part of his preparations for that—and this was in April 1998, before the fire—he was unable to find any summary that had been prepared and lodged with the inspector-general of the 6 February interview. As I said earlier, he then asked Mr Ryan to prepare a summary of the 6 February 1998 interview, and Mr Ryan did that on 15 April 1998. So the suggestion that somebody had deliberately removed this letter from the file seemed to me to be the less likely explanation.

Senator FAULKNER—You are saying you do not rule it out?

Mr Merchant—As I said, I think this is an issue obviously that the Ombudsman should look at.

Senator FAULKNER—It is, of course, possible that if an effective document weeder has been at work in the Department of Defence, then they might well have lifted more than that document. There is certainly a range of questions that I look forward to seeing responses to from the Ombudsman. In conclusion on this matter, Chair, I want to make it clear that it is my intention to provide certain information that has come into my possession to the Ombudsman. Given that I know the source of this information and that this person has been absolutely transparent and open in communicating or providing documents to me—which is entirely proper and entirely their right to do so; in fact, it is the sort of behaviour I encourage—if there was a view that some of this documentation was of value to Defence I would be happy to suggest to the people involved that it also be provided to Defence. You might want to ponder that, Mr Warner, and just give me a private view about that. But, regardless, I certainly will be providing all the documentation that I have in full to the Ombudsman.

CHAIR—Thank you, Senator Faulkner. Mr Warner.

Mr Warner—Could I just say thank you, Senator. I have pondered your offer already and if you could provide us with copies of all or some of that documentation, obviously it would

be useful to us. Could I also go back, though, to your penultimate point about whether or not the February 1998 document might have been taken deliberately off Defence files and just reiterate what Mr Merchant said, and that is: it is not the result of the investigation, it is not the conclusion of the investigation that that occurred.

Senator FAULKNER—I understand that.

Mr Warner—But, as Mr Merchant said, this is a matter that we are sure that the Ombudsman will look at.

Senator FAULKNER—Yes, but the status of that is that the Ombudsman will look at it—at this stage it is an open question; it is not ruled out. But, in relation to the other matter that you raised, I will raise that with the people who forwarded information to me and act in accordance with their wishes.

CHAIR—Thank you, Senator Faulkner.

Senator FAULKNER—There are a range of other questions I would like to ask on this. There is limited time. I know other senators have many issues they wish to explore over the next day or so. I intend to ask some further questions on notice, and I will be revisiting this matter, I suspect, in other forums.

CHAIR—Thank you, Senator Faulkner. I am not sure whether this question is for Dr Williams or for Mr Merchant. Is the meeting with Mr Urwin and Mr Bailey, to which this February 1998 document goes, a meeting—or an interview, depending on how you typify it—conducted under the auspices of the Department of Defence or the Australian Federal Police?

Mr Merchant—It was conducted under the auspices of the Department of Defence. As I indicated, Federal Agent Smythe was seconded to the Inspector General's area at the time and Mr Ryan was a member of the Inspector General's. It was in the context of work that the Inspector General's were undertaking in regard to allegations of corrupt behaviour by naval police, particularly at the Defence National Storage and Distribution Centre at Moorebank.

CHAIR—So the minute of February 1998 which has been tabled today by Senator Faulkner, which is purported to be signed by Mr Ryan from the Inspector General Division and Mr Smythe, who was operating within the Department of Defence at the time, and is addressed to Mr Leishman in the Inspector General Division is on the letterhead of the Australian Federal Police according to the document we have before us today?

Mr Merchant—That is correct.

Mr Warner—And would seem to be a little improper.

CHAIR—I am sure I am not the only who is confused.

Mr Merchant—I am puzzled by that.

CHAIR—Thank you.

Senator FAULKNER—Just on that, let me say this again. I have made it very, very clear that I do not know what the status of the document is. I have said both formally and informally to the officials at the table—they are absolutely clear on this—that it is of uncertain provenance. I am not going to pretend otherwise. I have described it all through these hearings as a purported minute. I do not think I could use any stronger qualification.

CHAIR—Indeed, Senator Faulkner.

Senator FAULKNER—I want to be absolutely clear on this.

CHAIR—You are absolutely clear.

Senator FAULKNER—I am not aware of its status. I do not know of its status. I do not know its source. But regardless of that, given that it is central to a matter of such seriousness, it is proper I believe that a senator treats such a document seriously and the department treat such a document seriously, which I believe they are, by forwarding it to the Ombudsman. And I would hope that one of the witnesses at the table would acknowledge that, even though it is very uncertain where it might have come from or whether it is genuine or not. I could not be more qualified in the way I have described this document. But I hope, Mr Warner or Mr Merchant, you would acknowledge that, whatever doubts may exist, it is proper because of the seriousness of the issue that it be treated appropriately in the circumstances. I think appropriately it ought to go to the Ombudsman. Would you agree with that?

Mr Warner—Certainly the document should go to the Ombudsman.

CHAIR—Thank you, Senator Faulkner. Thank you, Mr Warner.

Senator Ellison—Madam Chair, if that concludes the questions on the *Westralia* it might be a convenient moment to advise that at four o'clock I have to have a short meeting with the Prime Minister. I seek the committee's indulgence. I will be absent for a short time.

Senator FAULKNER—Only if you tell us what it is about!

Senator Ellison—I must have done something wrong, I think!

Senator FAULKNER—But that happens every day!

CHAIR—I now call Senator Bishop who wishes to pursue some questions relating to the Proust review.

Senator MARK BISHOP—I want to now have a discussion with you, Mr Warner, concerning the Proust review. What I want to do initially is to read a series of quotes from the document itself, and ask you to comment on whether you accept the validity of the assertions and the recommendations and on how you are proceeding to implement change. The first quote goes:

... [Defence] has confused its accountabilities, and ... there is a lack of alignment between responsibility and accountability in key parts of the organisation.

That is a fairly damning comment. Do you accept the validity of that?

Mr Warner—Where in the report are you quoting from?

Senator MARK BISHOP—I do not have a specific reference.

Mr Warner—The report is full of quotations unattributed; we do not know who they are from. If your quote is one of those, and it is not part of the results of Elizabeth Proust's inquiry, then I do not think I would see fit to respond to it.

Senator MARK BISHOP—That is a fair comment. That is a fair call, Mr Warner. We will get the exact source of the quotes and return to that process of discussion. I will ask you some more mundane process questions while we are getting that exact information. The report, as I

recall, was commissioned by Minister Nelson shortly after his appointment as Minister for Defence. Is my memory correct on that?

Mr Warner—I cannot remember the date it was commissioned.

Air Chief Marshal Houston—Minister Nelson announced the review on 18 August 2006.

Senator MARK BISHOP—Yes.

Air Chief Marshal Houston—I guess it had its genesis after the events of April and May of that year, where we had some unfortunate consequences of moving Private Kovco's body back to Australia.

Senator MARK BISHOP—Yes. Some of the issues surrounding the return of the body of Private Kovco raised concerns, and one of the responses that Minister Nelson, in due course, chose to act upon was to commission this essentially managerial review.

Mr Warner—Could I just make a comment there. I was not in this position, of course, in August last year, but it is not my impression, and it is not my understanding, that the issues surrounding Private Kovco's death and the repatriation of his body to Australia were a driving factor behind the minister seeking Elizabeth Proust and her team to do this report. I understand—and this understanding comes out of the terms of reference to the report, which are publicly available—that the minister was concerned about a range of management issues concerning the department. That is why the report is focused around, particularly, the management of Defence—how it works, where it works well, where it could work better.

Senator MARK BISHOP—I think those latter comments of yours, Mr Warner, I do not dispute. In fact, over the whole period of 2006 leading up to August, there had been a series of major issues within the department that had received a range of critical press comment that went to a range of management personnel procurement and human issues and related to important matters.

The CDF properly reminds us that—in fact, CDF did not say that but Minister Nelson was reported at the time as making some critical comments on the internal management of his own department. In the final analysis, only Minister Nelson knows why he commissioned the review. I am happy to accept your comment and also the prior comment of CDF. It is no longer germane. There were management problems, there has been a review, the report has come down and we are part of the way through implementation.

Having said that, I think it is common ground that the Proust review was driven by the minister, for whatever reason. It was not one of the routine reviews that we have been exposed to that have occurred on a number of occasions in more recent years. So it was driven by Minister Nelson. The report was released, and I think the department's response was publicly released, on the afternoon of Easter Thursday. Who made the decision to release the report at such a time, and why?

Mr Warner—Was it the report to the minister?

Senator MARK BISHOP—Yes.

Mr Warner—The minister released the report. On 5 April, I think on the Thursday afternoon, CDF and I spent quite some time talking to the media about the findings of the report and the way forward.

Senator MARK BISHOP—Did the minister inform you as to why he wanted the report released on Easter Thursday. To my untutored eye, it would get lost in the Easter festivities and holiday period.

Mr Warner—The release of the report did not get lost. As I was saying, CDF and I spent maybe an hour or two talking to a number of defence journalists—four, five or six of them. I think they had time to read the report, they had time to ask us questions and I think we were very frank in our responses. After that meeting, CDF and I sat down with some of the key defence commentators in Canberra and went through much the same process. My recollection is that there were a number of reports in the media soon afterwards which went into a lot of detail about the report and about Defence's response to the report.

Senator MARK BISHOP—I tracked the press statement from the minister's office, which was extraordinarily brief, on the Thursday evening. My office was alerted to it when it became public. Then, over the Easter period I tracked the press reporting on the Saturday, the Sunday and the Monday on what is a huge department, as we all know, this year spending \$22 billion. And, yes, there were a series of reports in major east coast papers—in the *Financial Review*, in the *Australian*—but they were remarkably brief in their commentaries on what really is a very significant report. I accept, Mr Warner, that you and CDF briefed senior journalists and interested commentariat during the Thursday, but to release a report of such magnitude on Easter Thursday, when most people who follow this debate are taking a break, are going on holiday, are spending time with family or are in transit, just strikes me as being remarkable.

Senator HOGG—Convenient.

Senator MARK BISHOP—Senator Hogg says 'convenient'.

Mr Warner—Senator, I do not agree with you. I think it got considerable coverage. You are suggesting that we deliberately hid the report, perhaps—

Senator MARK BISHOP—No, I am not suggesting you hid the report. The report was released, there was a press release and there was some commentary. I am really querying the propriety of the timing of the release of a major report late in the afternoon on Easter Thursday when, with due respect, most people have gone home to their families or to spend time in other holiday pursuits.

Mr Warner—Perhaps if I could put it this way. We treated the report as one would Easter eggs on Easter Sunday. We left it out shiny and new where children could find it, devour it and enjoy it.

Senator HOGG—No Easter bunny brought this report, I can assure you.

Senator MARK BISHOP—I think you treated the report like the remaindered Easter eggs in Coles a week after Easter Sunday. I think that is how you treated it.

Senator CHRIS EVANS—Mr Warner, in the trade it is called 'putting out the garbage'. You drop it out when no-one is going to notice. We understand that the decision would have

been taken in the minister's office, but it is putting out the garbage. Bad news stories get tipped out on the Thursday afternoon before Easter. There was one famously done on Christmas Eve last year. Whose was that?

CHAIR—That is a comment Senator Evans. I am sure you are not expecting a response.

Senator CHRIS EVANS—No. I do not want to be disingenuous about it. It was dropped out by the minister at a period when it would receive the least amount of attention and I think as a result it has not received the public debate that it probably should have. I think Senator Bishop has made the point.

Senator MARK BISHOP—The point is made. Let us now go to one of the key recommendations while Senator Hogg is getting that other information for me.

CHAIR—He is doing your hard work, is he?

Senator HOGG—I always do the hard work, Senator Payne! I am known for that.

Senator MARK BISHOP—The report in passing refers to 'a tension'—that is Ms Proust's words—in the ministerial departmental relationship. What are those tensions from your perspective now as secretary of the department, Mr Warner?

Mr Warner—Perhaps if we could just go back to the conversation the committee was having in respect of HMAS *Westralia* and some of Defence's handling, whether it was good, proper, thorough or not, of some of the issues concerning HMAS *Westralia*. In a sense that sums up the concerns that I have, that CDF has, about the quality and timeliness of advice that the department provides to the minister and more broadly to the government. Mostly, the advice that the department provides to the minister and his colleagues is of very high quality and is timely. Sometimes in my experience—I am sure that CDF will back me up on this—the advice is not timely. Sometimes the costings have not been done adequately. Sometimes the details of the advice that we have provided to the minister or to the government as a whole has not been as thoroughly checked as it should be. What I am saying is that the quality of advice from the department to the government has not been consistently of the high standard that you would expect it to be, I expect it to be and the government expects it to be.

Senator MARK BISHOP—Mr Warner, you are secretary of the largest spending department in the Commonwealth. With great respect, you have had a very distinguished career over many years working for government at a range of levels, particularly in more recent years. Senator Payne reminded me you were High Commissioner to a near nation, you have done important work in the Solomons, and you have been a career officer in DFAT.

Regarding the quality and timeliness of advice given to Minister Nelson in the time of his occupancy, is it so qualitatively different from the quality and timeliness of advice generally given to previous ministers whom you interacted with, such that we have a whole set of recommendations from Ms Proust as to building a firm foundation for a solid relationship between the department and the minister in going forward? Is it so qualitatively different?

Mr Warner—Could I answer the question in this way? Many things that the Defence organisation does, it does at an extraordinarily high standard, and I would like to give you some examples. Thirty-four years ago I started work in Defence in the Joint Intelligence Organisation. It is now the Defence Intelligence Organisation. The analytical work that the

Defence Intelligence Organisation does now, and has done in the past few years, is of the highest possible quality—that is, it is better now than it has been, in my opinion, as a constant reader of its product, for 34 years. The intelligence collection operations of DSD and DIGO are world class.

I have been enormously pleased with the quality of the financial work that is done in the department. In my opening statement I talked about the financial statements. I think great strides have been taken there in the last few years, and I was really amazed by the quality of the work that was done in the time I have been there on this year's budget—as you said, a \$222 billion budget. It is big, complex, there lots of moving parts and lots of new policy proposals—it is a very difficult beast to deal with—and the work that has been done, I think, has just been first rate.

DMO, which is nearing its third birthday, does terrific work, I think, in respect of procurement. I could go on and on through the areas, but let me end on the operational side. I am sure you would agree, and all senators would agree, that the ADF, with the support of the rest of the rest of the organisation, has for many years now performed at an extraordinarily high level, but not always does the department provide to the minister, to the minister's colleagues, to the government as a whole, advice that is of a uniformly high quality, or is timely enough.

You ask me about other departments. My experience in other departments is rather limited, but I just do not think it is good enough for the department to provide the government with advice that is not uniformly of a high standard. I cannot compare the six months I have been in Defence with previous years, previous decades in Defence, but I do know that the Public Service—any Public Service department, anyone working in the Public Service—should provide advice to government consistently at a high level.

Senator MARK BISHOP—I concur with your last comment, that any department should be able to provide uniformly high quality and timely advice to government and ministers, and ministerial colleagues. I just recap what you said. You said your assessment was that the analytical quality of work was extraordinarily high, procurement in the DMO had taken great strides in the last three years, the intelligence work was fine and operations clearly were of a high standard. Really, we all know of the problems with the accounts and remediation, and if we are not going to get them signed off this year, I presume that next year they will be in order. I have not backed down on that assumption, and after four years we might have a different round of questions.

What I am hearing you say is that all the key aspects of the civilian side and the operational side are of a high quality. I have been asking questions of people like you for the best part of 10 years in eight or 10 departments. I have dealt with Minister Ellison, Minister Coonan and a whole range of people. I have never had a comment made to me by a senior officer of a department that the advice they provide to their minister, the Prime Minister and to cabinet is not high quality and timely, except as an aberration.

Mr Warner—Uniformly.

Senator MARK BISHOP—Yes, uniformly and of high quality. The mistakes that occurred were really of an aberrant instance in any other department that I have cross-

examined. I wonder whether the fault is strongly on the department's side or whether it appropriately would be laid elsewhere. If intelligence procurement, analysis and reporting are generally of a high quality, I suspect the fault lay elsewhere. From your observation, is there any problem in the operation of the minister's office and his staff as opposed to departmental officials, or are they a fine upstanding group of men and women without fault?

Senator Ellison—I think it is a very unfair question to ask the secretary.

CHAIR—It is very much a glasshouse in which we find ourselves.

Senator Ellison—You could perhaps frame it in a different way, but I think the way it is framed is a very unfair question.

Senator MARK BISHOP—I will; that is fair. I do have some knowledge of mistakes and faults at a departmental level over the last four or five years that I have been in this area. I do not say that it is perfect, not for one minute, but I have noted in the last two years on all fronts—I have said it to my colleagues—significant improvement in the quality of work that has come across my desk from departmental officials. There has been a significant improvement in all the areas in which I have cross-examined departmental officials. I know that you have to protect your minister and that you have to sit there and say the right things, but I do not for one minute accept that all the faults Ms Proust identified, reported on and made recommendations on lay at the feet of you and secretary Smith's senior officers—sure mistakes are made. No other minister or department has found the need to accept a recommendation that ministerial staffers be trained or that new ministers be trained, or that there be induction courses or process courses. Senator Ellison's staff, over many years, have not had to go through that tribulation. Why is it necessary for induction courses to occur for new ministers in this area and for ministerial staff who are generally at a senior level?

CHAIR—I think we should give Mr Warner and/or the minister a chance to respond.

Mr Warner—Thank you, Senator. Any defence department, but including this one, is big, complex and expensive—a lot of money, a lot of procurement, enormous procurement, a lot of people. They are different bureaucratic beasts than you get elsewhere in the Public Service. We have civilians and we have military personnel. We have airmen, soldiers and sailors. We have intelligence specialists. We have different ways of thinking and different ways of doing things. Defence departments do different things. Defence departments and their armed forces go to war and they make peace. We write ministerial submissions and cabinet submissions. We control enormous budgets and we buy, build and decommission submarines and aircraft. By their nature, defence organisations are different and complex. Inherent within them, whether in Australia, the UK, or Indonesia, they have a whole range of tensions and problems.

What I was trying to describe to you before was an organisation—and by that I mean the military side and the civilian side—that together does an extraordinarily great job for Australia in a whole range of areas. But I was deliberate and careful in the words I used. The defence department that I have seen over the past six months does not perform at a uniformly high standard all the time. Often it does, mostly it does; sometimes it does not. There are a range of reasons that it does not, and those reasons are to do with the defence organisation. Those reasons are partly articulated in the Proust report, and they can be acted on. They can be remediated, and that is what CDF and I are determined to do.

Air Chief Marshal Houston—I think the organisation is one of the biggest and probably the most complex organisation in Australia. We give advice to ministers on a very regular basis. There is probably 30 or 40 submissions that go across every day. The total number of submissions that go to the minister is in the order of 6,000 a year. I might give you the exact figure later. I wish I could say that every submission was perfect. I wish I could tell you that every question time brief that has to be produced gets to the minister on time and is of a uniformly high quality. Unfortunately I cannot give you that assurance. So we have been putting an emphasis on lifting our game. Elizabeth Proust and her team—I might add that one of her team was Admiral Ritchie, who has retired, who knew the department well—identified that our processes of informing the minister in a uniformly high-quality and timely way was sometimes lacking. When we have our QTBs across by 10 o'clock every morning and we have a 100 per cent success rate, I will be happy. When we pass all 6,000 submissions to the government and every one of them is received as a high-quality product, I will be happy. We have considerable work to do and essentially that is where the secretary and I are focused. So we are not just saying these things. The fact of the matter is, an independent review had a look at us and found us wanting in that area. The secretary and I see this as an opportunity to lift our game in the four areas that were identified. Now there are only four areas which have been identified, and we see this as a great opportunity to further the reform the secretary detailed a few moments ago. We will take the opportunity and we will improve the way we do business.

Senator MARK BISHOP—Thank you, CDF. I do understand the point you are making about uniformly high quality and timeliness and deficiencies identified, which are to be rectified in due course. 'The problems are identified, solutions found in the process of implementation and hoped for significant improvement over time,' is what I am hearing you say. Has part of that remediation on the quality and timeliness of advice involved the department having a close look at the way the minister's office and his senior people operate and receive advice? I say that because there are induction courses planned. There needs to be some instruction given at that level as to how I presume they should be conducting themselves. What problems do we have there?

Mr Warner—CDF and I, and probably everyone in this room behind us, works very closely with the minister's office. It is a good and seamless relationship. On the induction program, and this is my recollection, this is not a new idea. It may be a new idea for us. It may be a new idea for Australia, but I think it is a model that the United Kingdom has been following for some time. It strikes me to be a good idea.

Senator MARK BISHOP—It may well be a good idea. I do not criticise in any way the fact that there are induction courses for new ministers, assistant ministers and senior political staff, which probably are going to add value over time, but I am not aware of any precedent at a Commonwealth level in this country of such procedural implementation. You make reference to, perhaps, such a practice in the United Kingdom. What specifics are sought to be imparted in those induction courses for new ministers and for senior political staff?

Mr Warner—We have not got to that stage yet, but clearly we want to ensure that there is a complete understanding of the complex organisation that is Defence. The best way to do that

is to sit down with people who are new, as I was not too long ago, to go through it in great detail and allow the new minister and his staff to ask questions.

Senator MARK BISHOP—So the induction courses are not yet designed?

Mr Warner—Proust, as you know, made 53 recommendations. The CDF and I have worked to develop a very strong and precise implementation program for those recommendations that we have accepted, which is the vast majority. But the fine detail, the precision is, on some of them, still to be worked out.

Senator MARK BISHOP—Does that fine detail and that precision, go to the design of the induction courses for ministers and senior staff?

Mr Warner—Yes.

Senator MARK BISHOP—Do we have someone allocated to doing that design work, Mr Warner?

Mr Warner—Yes. A First Assistant Secretary has been appointed to look after the implementation of the Proust report and its recommendations as a whole, and it is her responsibility to go into each of the recommendations and to divine the way forward.

Senator MARK BISHOP—Is this First Assistant Secretary responsible for generally the implementation of all recommendations accepted arising out of Proust, and that includes the recommendations as to training and induction for ministers and ministerial staff?

Mr Warner—That will include all the recommendations that we have accepted, yes.

Senator MARK BISHOP—Are you aware of any time lines as yet for that training and education process for Dr Nelson and his staff?

Mr Warner—No, I am not. We are not up to that yet.

Senator HOGG—Why did it have to get to the Proust report to discover these problems? I have sat through a large number of estimates, additional estimates, and so on. It seems to me Defence must be one of the most inquired-into departments I know, whether it be through this committee through estimates, or inquiries of this committee held otherwise, through the Joint Public Accounts Committee, through the efforts of the Australian National Audit Office, or whatever.

I am wondering why, in such a large organisation, these things have not become evident previously? Why does it take something like this to sensationalise the position, in my mind, of Defence and the deficiencies that might exist there? Does it mean that the rest of the system is failing—your own internal audit processes, the ANAO, these committees? Whatever it might be, something seems to be simply failing and lacking that these things have not been picked up previously.

Mr Warner—I will hand over to the CDF, but let me just say this. It goes back to Defence being inherently a large, complex and expensive organisation with many different facets and a wide variety of roles. Defence organisations are always unique. What we require—and I made this point in my opening statement—is a program of continuous review of itself and continuous improvement. That is what CDF and I are planning to, have already begun to, put in place.

Senator HOGG—I accept that, Mr Warner. I have been through a few CDFs, I have been through a few secretaries of departments and nothing seems to change. It seems to me that fundamentally what is wrong at the centre of this is the culture. I do not want to go into another inquiry that was done by this committee that looked at the issue of culture in respect of a particular aspect of Defence, but it seems to me that unless the cultural problems are fixed up, we just keep going back to inquiry after inquiry after inquiry. You really do not resolve the difficulties and issues at all.

CHAIR—Mr Warner, you may wish to respond to that, but I also want to invite the CDF to have an opportunity to respond as well.

Mr Warner—Can I have just a quick respond and then hand over.

CHAIR—Yes.

Mr Warner—The Proust report has identified some of the issues, some of the problems concerning Defence. CDF and I have identified others. Putting the two together we have summarised them into four key areas that require reform. They are accountability and governance; support to the minister and to his colleagues, to the government as a whole; the need to look after the people who make the defence organisation better; and, the need to reform our business systems. So having identified the issues, having identified the problem, all I can say to you is that we are determined to push through a very wide-ranging program of reform that has started. That will certainly be my focus while I am secretary of Defence and I know it will be Angus's as well.

Senator HOGG—I am not doubting your good will and your intentions. It goes to the issue, Mr Warner, of what I have experienced over a long period of time on this committee in either this form or other forms before it or on the joint public accounts committee. I accept what you say, but I am just looking for some real solace in where we are going.

Air Chief Marshal Houston—Senator Hogg, I think I have probably been around the department longer than you.

Senator HOGG—I think you and I have met on many occasions.

Air Chief Marshal Houston—When I first went into that department many years ago, there were some cultural problems, but all of those cultural problems are behind us. We now have a fully integrated organisation. All the members of all the tribes get on wonderfully well. They cooperate, they coordinate, they consult and we work seamlessly together. The point I would make is—and we made it earlier today—that at the moment we have an organisation that is working incredibly hard. It is not just culture, we are working incredibly hard. We have never worked harder probably since the Second World War. The organisation has a lot of people in it who are working long hours. They are professional and dedicated, and we have some shortcomings in our organisation

It is noteworthy that there are only four areas that have been picked up on: accountability and governance, providing advice to the minister, getting our organisation for people sorted out and business systems reform. I think that all of us know that our business systems have not been up to speed for a long time. It should be no surprise to anybody that that is an area we need to focus on and again the review highlighted that need.

Concerning people, the review identified that there is a need to separate policy from service delivery functions. That is a very sensible thing to do. We are seized with the need to do that and I think that will improve the way we deliver services to and look after our people. We have probably spoken enough about supporting our minister, but in terms of accountability and governance, those accountability issues are in need of fixing up as a consequence of the reforms we have been embarked on for a long time. We need to make individuals—the service chiefs and the group heads—totally accountable for what they deliver. Again, there is room for improvement there. Rather than looking at this as a cultural problem—or you have got this or you have got that—we are a very busy organisation. We are doing a great job for Australia at the moment. This gives us an opportunity to take the reform of the organisation the final step of the way so that we are truly a modern, effective and efficient organisation that delivers what government wants.

CHAIR—Thank you, Air Chief Marshal. It is after the scheduled time for our break, so we will suspend now.

Proceedings suspended from 3.37 pm to 3.53 pm

CHAIR—We will resume questioning, which was with Senator Hogg.

Senator HOGG—Thank you, Chair. CDF, I accept the comments that you made prior to the break but my question went to the fact that Defence itself, as an organisation, has been the subject of a great deal of scrutiny indeed over a long period of time. Maybe it is overly scrutinised; I do not know. But to think that we had to move to the Proust report to pick up these four critical areas—and they are critical—is somewhat of a surprise to me, because it really means that there is something wrong with either the investigative processes of this parliament or your own internal investigative and assessment processes.

That is what I am putting to you, and it nothing more than that. I am not questioning the motivation of the people who are currently working in Defence and I am not questioning their commitment to the job. I am looking at a process question, which really is important in this sense that all we will see ourselves doing is having inquiry after inquiry, and for what reason?

I think of recruitment and retention. My experience is that there have been at least 10 external inquiries and at least eight internal inquiries since—I think it is—1983 into that issue within Defence and yet it is still a major problem today. One might say, ‘Yes, but times have changed and circumstances have moved on,’ but you will find a common thread right through some of the problems. I am putting to you: are the mechanisms within Defence to review your own processes satisfactory? Are the mechanisms of the parliament satisfactory? Are the mechanisms of the Australian National Audit Office satisfactory to do a critical analysis and find the defects within Defence and for Defence to make the appropriate adjustments to correct those defects where found? And that is not criticising the motivation of the people who work in Defence at all, because there will be problems wherever one looks.

Air Chief Marshal Houston—If I go back to where we were before we took a break, I think we have got a platform here, in the Proust review, to improve, to change and to reform four important areas. I think some of it is unfinished business. Separating policy from service delivery is something that needs to happen, and we are now taking it all the way. I think that will be good: there will be a very clear separation between policy functions and service

delivery functions, which I think is important. Also, I think there is absolutely a need to better define our business processes, not just to improve our accountabilities but also to inform the sorts of ICT systems that we need into the future. Clearly, that is an area that we are going to be focused on for the next couple of years. I think that at the end of the day we will have a first-class organisation which will not need to be reviewed every couple of years. I think we are headed very much on the right track. I think our people are our strength. Those people work incredibly hard. We have got to make these organisational adjustments to give them the opportunity to deliver the service and to deliver the outputs that they need to deliver for government.

Senator HOGG—Thanks very much, CDF. But my question still goes to your own internal processes. Simply responding to the Proust report in itself is, in my view, insufficient. Firstly, it will require review processes internally to see that delivery is being made. Secondly, it will require some internal audit processes to see that that is happening. What steps are you taking to ensure that? There seems to have been a gap, otherwise these would have been identified previously by your own review processes or by your own internal audit processes. What steps are you taking to make sure that this does not happen again?

Air Chief Marshal Houston—The Proust review looked at all of our processes. It looked at the way we do business, and what it came up with are these four areas. In terms of reviews, we clearly need to make sure that we put the right performance management system in place. I think we have got a performance management culture there already. I think that it is a question of tweaking the organisation so that we become more effective in these business areas and obviously more efficient. As the secretary told you earlier on, it is not all doom and gloom. I think of the Kinnaird initiatives. The way the DMO is going at the moment is world's best practice. Everybody in the world comes to have a look at the way we do acquisition and sustainment, because nobody does it better. I think you need to have—dare I say it, and with respect—a more balanced look at us, because these are four little areas in a very complex and very demanding business where we are sending people into harm's way on a daily basis.

Senator HOGG—I accept that.

Air Chief Marshal Houston—I remind you again that we have almost 4,000 of our people away on operations in nine different areas around the world. Our organisation is very effectively supporting those efforts. I do not think you found anything that you were concerned about this morning when we went through the operations. The only way you can enable those operations is by having a functional and effective organisation back in Australia. Nick spoke about some areas that are working well. I would also highlight the raised train and sustain efforts of the services. The reason we are having great success in operations is because of the right professional culture in our three services. Our three services are world's best practise when it comes to raising the people that we need to go and perform effectively on operations, and those people—because of the way they are selected, the way they are trained, the way they are prepared, the way they are equipped by this organisation you were just talking about—are doing an absolutely superb job. They are doing a better job, I would put it, than anybody else around. So you do not do that with a broken organisation; you do that with an organisation that is enabling and effective, and that is what the Defence organisation is.

Nick and I see this as an opportunity to tweak the organisation and to address, I think, one of the longstanding and difficult issues that we have had, and that is to get our business processes sorted out so we can get the right information technology solutions to support the organisation. Our systems do not work—they do not talk to each other, we have too many of them. That is a function of the fact that we have got a lot of legacy systems there. It is also a function of the fact that I think we need to better define our business processes and our accountabilities. We are seized with the opportunity to do that.

CHAIR—Mr Warner, you indicated that you wanted to add something.

Mr Warner—Thank you. Could I answer your question in this way, adding to what CDF has said. CDF said that Proust is an opportunity, and I utterly agree with that, but the Proust report is not a blueprint for reform. In the time that I have been in defence, CDF and I, and the very senior leadership group, have talked a lot about defence—its issues, its problems, its strengths and its weaknesses. The reform of the Defence organisation is not just 53 recommendations from Proust; it is bigger. There is, there has been and there will continue to be a process of self-assessment, as were you saying. You talked about the need for a review process and an audit process within Defence of the reforms that we have articulated in those four key areas. That is what we have in mind. Those are the steps, the structures, that we have already put in place in Defence. I talked earlier about a first assistant secretary who has been made responsible for the implementation of Proust and, indeed, the monitoring of the implementation of other major changes and policy initiatives in Defence. She will have a good, strong division—she already does—working with her to ensure that implementation, not just of Proust but of our blueprint for reform, is followed through. As I said in my opening statement, as of tomorrow, or perhaps Friday, we will have a deputy secretary in charge of the governance area in Defence, together with strategy, to drive forward this process of change. It is important that this work—you are absolutely right and we agree with you—is followed through. As I said before, we are determined that we are going to follow it through.

I do not know what happened in the past but I do know what is going to happen to reform in these four key areas. As I said before, and as Angus has said before, while I am secretary and while Angus is CDF, a very important focus of our work will be ensuring that these reforms are driven through until Defence is an organisation that does provide advice to the government consistently at a high level and on time.

Senator HOGG—In that case, will you have benchmarks that we as a committee will be aware of? And, secondly, if there is a review and an internal audit process, how often will we see the outcome of that review or that internal audit to see that the benchmarks are being achieved?

Mr Warner—We would be happy to share with you the progress of the reform process and its implementation when we sit with you, whether it is at this committee or at other committees.

Senator HOGG—It would be handy in that case if at some stage—and I presume they are not readily available now—we could have some idea of the benchmarks that are you working to such that we have an idea of what the starting point in this process is, not just the X number

of recommendations but how you see that unfolding. It would be helpful if that could be taken on notice and supplied to the committee.

Mr Warner—We would be happy to work through that with you. It is work that is being developed now. The Proust report came down not so long ago; it has 50-odd recommendations and there are four key areas. To map those and to define precisely the work that needs to be undertaken will take some time. When we are in a position to share it with you, we would be happy to.

Senator HOGG—The next question I have is about something I read in the PBS on this matter about how you as secretary and CDF have commissioned a further and more detailed review of the business processes and system. Has that commenced yet?

Mr Warner—Yes, it has commenced. It emerged pretty much at the same time as Proust, and I think Proust makes some comments along this line, but we had already begun work on an approach to review our business processes. That work is not completed.

Senator HOGG—So who is doing that work?

Mr Warner—A first assistant secretary in the department. CDF and I have reviewed that work. We are very pleased with it; I think it provides an excellent model for Defence. We have not yet shared it with the other senior leaders in Defence and because of that I hope you will understand that I cannot provide you with a lot of detail about where we are up to.

Senator HOGG—No, I accept that, it is just that it appeared in the PBS and I wondered where it fitted into the whole overall process.

Air Chief Marshal Houston—I think it is very much the starting point for this reform program that the secretaries talked about and, like the secretary, I am absolutely delighted with what I have seen but we have not shared it anybody else. In fact, we have only just recently seen the final outcome.

Senator HOGG—So you do have a final report at this stage?

Air Chief Marshal Houston—We have a model and it is going to be the basis for more and more work. This is a very complex undertaking and I think it provides the platform for the necessary work that we need to do to define our processes and to later define our accountabilities.

Senator HOGG—Was that additional review just undertaken by that single person?

Mr Warner—No. He was assisted by a small team.

Senator HOGG—When will the work come to a conclusion?

Mr Warner—CDF and I need to talk to our colleagues about it. This needs to be embraced by Defence's senior leaders; it needs to be understood and accepted by all of us. Some time in the next month, I would say.

Senator HOGG—Is this something only for internal consumption within the department or will the report be forwarded to the minister for the minister's attention?

Mr Warner—We would of course keep the minister fully informed.

Senator HOGG—It is basically an internal process, though, isn't it?

Mr Warner—Yes, it is.

Senator MARK BISHOP—I want to return to the earlier part of the discussion, Mr Warner, and I will give you some references. I refer you to page vii.

Mr Warner—I think I might be on a different version to you, Senator, so I will see if I can get—

Senator MARK BISHOP—It is in the overview.

CHAIR—That would be a shame, given all Senator Hogg's hard work.

Senator Ellison—It is still Proust, is it?

CHAIR—The hard copy.

Senator MARK BISHOP—On page vii, under the heading 'Overview', the last sentence in the second last paragraph says:

We also found that the organisation has confused its accountabilities, and that there is a lack of alignment between responsibility and accountability in key parts of the organisation.

Would you care to offer a comment on what is meant by that, what you understand it to mean, and what you are doing.

Mr Warner—As CDF and I outlined, we think there are four key areas, four key themes of reform that we need to work on. The first is accountability and governance. This goes to the heart of course, to the accountability aspect of that. CDF has already outlined the concerns and problems that we have in respect of accountabilities—simply, they, in our mind, have not been defined specifically or sufficiently clearly so that providers of services and receivers of services have a clear understanding of where responsibilities lie.

Senator MARK BISHOP—So are we talking about provision of information across and up the department or are we talking about provision of product?

Air Chief Marshal Houston—What we are talking about fundamentally, perhaps the best illustration of it, is the relationship between the services and the groups and the Defence Support Group. We need to better define those relationships between service provider and the services and the groups that are producing outcomes or outputs.

Senator MARK BISHOP—Is that an issue of authority and responsibility, or an issue of who is carrying out the task in a particular way?

Air Chief Marshal Houston—I think what we need is a better understanding of who is responsible for what and who is accountable for what and how the relationship will be managed so that, for example, a service chief who wants to go and conduct an exercise in a training area somewhere and needs a large amount of domestic support can access that support in an efficient and effective way. That is the sort of thing we are talking about. It also comes down to the relationship. If you look at the Air Force, the Air Force essentially operate from bases, and on those bases we have services provided by the Defence Support Group and we also have lodger units there, Air Force units, and they all coexist on the same base. We need to define the relationship on those bases so that there is more clarity about who is responsible and who is accountable for this or that.

Senator MARK BISHOP—So what you are outlining is a very basic assessment and definition of lines of responsibility, control, accountability and decision making, vertically and across all aspects of the operation horizontally, aren't you?

Mr Warner—That is right.

Senator MARK BISHOP—If we turn to page 4, under the heading 'Continuing challenges to Defence's continuing success' they identify in the third dot point, and I quote:

- The comparative wealth of the organisation undermines respect for cost and efficiency.

I presume Ms Proust is referring to essentially the bipartisan commitment over 15 years for the three per cent increase in real Defence spending. Supplementation of a lot of operational costs in more recent years has led to a perception that the organisation itself is extraordinarily well funded.

Senator HOGG—Cash cow.

Senator MARK BISHOP—Senator Hogg reminds me it is a cash cow. What are your comments on the assertions behind that and how do you intend to respond?

Mr Warner—First of all I take you to page 3 point 1.6, the first sentence of which reads: Defence has become a significantly more efficient organisation'.

This seems to be in some tension with the reference that you just brought to our attention. As I said earlier, I have been very impressed by the work that has been done on our financial statements and thankful every day for the work that my predecessor, Ric Smith, put into that and I have been immensely impressed by the work that was done by the financial group on putting together this year's budget. Angus and I have more recently established a financial management committee that has met and will meet once a month to look in great detail and with great care at how the department is proceeding with spending the \$22 billion that it is receiving this year from the government. In the lead-up to this year's budget, we undertook a very rigorous and detailed budget prioritisation process to look at the bids we were making to government, the claims that we are making on government, to make sure that they were strong, sound, sensible and well thought through.

Senator MARK BISHOP—I am not so sure that those two comments are in contradiction or inconsistent. My own observation is that Defence in nearly all areas has become a significantly more efficient organisation at least in the last five years when I have been looking on from outside. It has become much more efficient and much more responsive and much more responsible. So this dot point 3 really goes to whether within the organisation at a senior level, even though you are well funded to the tune of \$22 billion a year and you have real growth of three per cent per annum, there is sufficient internal respect for those large sums of money. That is really what Ms Proust is driving at.

Mr Warner—I can only repeat what I said before. I have been impressed by the discipline and the processes that are in place. Where we thought it necessary CDF and I have strengthened those processes.

Senator CHRIS EVANS—So do you reject the critique, Mr Warner?

Mr Warner—'Undermines respect for cost and efficiency' is a pretty emotive comment.

Senator CHRIS EVANS—It is pretty strong, isn't it?

Mr Warner—Yes.

Senator CHRIS EVANS—That is why I think it is important to understand whether you accept that critique or not because, as I say, it is a very strong criticism and it is one this committee ought to take a keen interest in. I see it is not particularly contained in a recommendation that I can pick up. It was the view expressed. I note that you have agreed to most of the recommendations but I think what Senator Bishop is after is a sense of whether you accept the criticism, whether you reject it and if you accept it, what you are doing about it and if you do not accept it, why not? Where did Ms Proust go wrong?

Mr Warner—There are things that we can do better in this area, as in many other areas, both of us fully accept that. That is why we set up, firstly, a budget prioritisation process and, secondly and more recently, a financial management committee that both of us will chair, which will meet on a regular basis and ensure that if there is sloppiness that we eliminate it. We will take things forward in a very robust way.

Senator CHRIS EVANS—Did Ms Proust detail her concerns to you? I presume you had post-report interviews with her.

Mr Warner—We met with her and her team after she had given the report to government. I think together and individually we met with her on several occasions. I am sorry, I cannot remember if she covered this point in any more detail or not.

Senator CHRIS EVANS—Did you raise with her the fact that you were not necessarily accepting that critique.

Mr Warner—I do not think I am saying I am not necessarily accepting this critique. I said that in this area, as in other areas, Defence could do better, was now doing better, would do better in future. I think I outlined to you a couple of steps that we have already taken to ensure that we do better.

Senator MARK BISHOP—You have said that in this year's budget you had a prioritisation committee to make recommendations to government and that you have got a monthly finance management committee meeting to review costs and issues that logically derive from that. But, as Senator Evans says, 'undermines respect for cost' is a fairly emotive phrase. I conclude that Ms Proust meant that essentially, irrespective of price or cost, within the organisation there is an attitude that taxpayers have unlimited funds, that cost does not matter, and that whatever we desire to do we should be able to do irrespective of the cost-benefit analysis. That is how I interpret that particular—

Air Chief Marshal Houston—I do not interpret it that way. We talked to Ms Proust, and of course I talked to Ms Proust with Rick Smith before Nick arrived. I think if you go to pages 23 and 24 and look at relationships, you will see at the top of page 24 what she was getting at. It says:

Again, the lack of cost visibility and the 'free good' mentality contribute to this.

Essentially what she was saying was that a lot of the services provided are not costed—there is no cost defined in the relationship between service deliverer, service provider and customer.

Senator MARK BISHOP—Yes, it just has to be done.

Air Chief Marshal Houston—And we need to get much more visibility in there of what the costs are so that we do business in a more efficient way. The way she described it here is that some people in the organisation have a free good mentality and do not understand the cost of the service that is being provided. I think that is really the background to that particular comment.

Senator MARK BISHOP—I think you and I are in striking agreement here.

Air Chief Marshal Houston—And I do not think it is so much about the big projects and so on at the higher level, which you both alluded to. I do not think it is that; I think it is this lack of definition in processes and relationships and the fact that we need to put a cost figure against services that are delivered.

Senator MARK BISHOP—I essentially asserted that, within the organisation, there was a culture that did not have respect for price or cost and that if it was determined that a task had to be done or a particular product has to be acquired then, irrespective of price or cost, it would be done. I assert to you that that is reflected in the culture of the organisation from the top right down. There were references there to free good mentality. The comment was made:

... Evidence suggests that senior leaders do not have sufficient confidence in the corporate commitment of each other to work to achieve corporate goals. Relationships are also impeded by both enablers and outputs having a limited understanding of constraints and ambitions.

It seems to me that those are different words for the same thing. I do not particularly mean anything offensive when I use the word 'culture'. If individuals from the most senior level down to more junior levels have a free good mentality or a free rider mentality, that is going to be manifest in attitude and culture.

Air Chief Marshal Houston—If we go back some years, a lot of these things were done in the services. The services were a totally autonomous organisation. They delivered services to themselves so there was no requirement to define how much a particular service cost. With the reforms that we have had in recent years we now have a clear separation between what the groups do and what the service providers do and it is quite clear that we have to get better definition in those service provider to customer relationships between the Defence support organisation and the groups and services.

Senator MARK BISHOP—I want to take you back to the top of page 5 to the dot point. I quote:

- There is concern that the financial ability to acquire new equipment and infrastructure should be matched by the ability to sustain that equipment into the future.

What was Ms Proust referring to there and what are the shortcomings she has identified, if any.

Mr Warner—I do not know what she is referring to there; you would have to ask her. Looking at it, it is a pretty straightforward and obvious comment.

Senator MARK BISHOP—She seems to be suggesting that there is not the ability, having purchased significant capital and new equipment, to sustain it. Do you accept that as a critique?

Mr Warner—No, I do not.

Air Chief Marshal Houston—I think that has largely been remediated with the budget and the allocation of a large sum of money to logistics.

Senator MARK BISHOP—It was, yes.

Air Chief Marshal Houston—We did have a shortfall in our logistics funding, but that has now been completely remediated and we have sufficient logistics funding to sustain all of the equipment that we have had for a while. This was our older equipment that was purchased a while ago.

Senator MARK BISHOP—Did you discuss this issue with Ms Proust in your interview, CDF?

Air Chief Marshal Houston—Not in specific terms but I guess we have a lot of equipment and it is important that we have the ability to sustain it. I think the government has been very good to us in recent times. Logistic shortfalls that were very evident when I was in a different job have now been fully remediated in the last couple of budgets.

Senator MARK BISHOP—I noticed in this year's budget there was significant appropriations for personnel and like costs for the C17s and for other large purchases. Has a shortcoming in recent years perhaps been that there has not been sufficient allocation of funding by government for sustaining and maintaining equipment post purchase?

Air Chief Marshal Houston—I think the base line that we had for a number of years, and it goes back to probably the mid 1990s, was a lower or reduced logistics base line, and that was because we were having funding pressures and logistics funding was cut. Over the last few years we have gradually restored all the logistics funding that is required to basically maintain our systems and the \$4 billion we got in the last budget is the last piece of funding that we needed to get back to where we need to be to be able to maintain the levels of preparedness and the rates of effort that we need to operate our equipment.

Senator MARK BISHOP—Mr Warner, on page 13 under the heading 'Ministerial Relationships' there is significant discussion that Defence ministers and parliamentary secretaries 'all pointed to opportunities for Defence to improve its support for their activities as ministers.' Also on page 13 it says that 'the perception of unresponsiveness has led to tension in the ministerial departmental relationship'. On page 14 it says, 'We recommend that Defence undertake more extensive induction for ministers and advisers', and on page 16 it says, 'We recommend that Defence continue to give focus to Defence strategic policy and planning capability.'

When I first got a copy of the review I obviously had a look at the terms of reference. When I glanced through I was surprised at the extensive discussion on this issue of departmental-ministerial relationships. It was not, and still is not, immediately apparent to me how this review came to be looking at departmental-ministerial relationships, because it is not clear to me where it is in the terms of reference. It was not specifically identified, so it is only by necessary implication somewhere. How did it become so prominent?

Mr Warner—I think you would have to put your question to Elizabeth Proust and her review team.

Senator MARK BISHOP—When the terms of reference were drafted, was it intended to cover off ministerial-departmental relationships?

Mr Warner—I do not know; I was not around then.

Senator CHRIS EVANS—One of the advantages of having a lot of Defence personnel supporting you at these things is so that we can access their advice. I think it is fair to say that committee members get a little frustrated if the legacy defence is used. We would be happy if there was someone else who might be able to assist us, or maybe the CDF—

Air Chief Marshal Houston—I can help you. The terms of reference state that the review should examine and assess organisational efficiency and effectiveness in the Defence organisation, and make recommendations with particular regard to—and I quote from 1(c):

structure, processes and procedures for managing information and—

here is the key—

providing timely and accurate information to stake holders ...

And the principal stakeholder is the minister.

Senator MARK BISHOP—It had occurred to me that paragraph (c) would be the link to the extensive discussion on the ministerial relationship. It also occurred to me that the reference to timely and accurate information to stakeholders also goes to contractors, employees, personnel and suppliers and could properly go to—

Senator CHRIS EVANS—Senate committees.

Air Chief Marshal Houston—I do not think the report picks up on that. The report focuses very much on our principal stakeholders, who are the minister, the minister assisting and the parliamentary secretary.

Senator CHRIS EVANS—Is it really referring to the children overboard case, Abu Ghraib, Kovco? Is this where it is headed? We are talking about what seems to have been a series of breakdowns in communication between ministers and the ADF.

Air Chief Marshal Houston—No, I think it is what Mr Warner talked about earlier on—the fact that we do not have a uniformly high quality of advice and we could be more responsive. As I said earlier—I think you were out of the room—the day we get all our QTB responses in on time, at the required time, the day we get all of our ministerial submissions in at the required time and of suitable quality is the day we succeed. And that is what we are aiming to do.

Senator CHRIS EVANS—I only raise these issues because it seems to me we have had a succession of fairly well publicised events where there seems to have been a breakdown in communication between the department and successive ministers. I accept your responsiveness to questions on notice or briefs to the minister as one thing; the other thing is that when the minister goes out there they actually know what they are talking about—they know whether it is three pictures, seven pictures or 150 pictures of children overboard and they actually know what is happening with the return of Private Kovco's body to Australia. These are the most public examples where people have been concerned about the relationship. Is that part of what we are looking at here—how we fix that?

Air Chief Marshal Houston—The circumstances surrounding the return of Private Kovco's body were not part of this review. The terms of reference make that very clear. I think this is more about day-to-day support for the minister.

Senator CHRIS EVANS—If that is the case, why do we need to send the minister back to school and give him training? It is a fairly novel concept. I do not know whether Senator Ellison has signed on.

Air Chief Marshal Houston—I do not accept that, and I think that is not the case at all. Have a look at our organisation. It is the most complex organisation in Australia bar none. We employ over 70,000 permanent staff. On top of that we have reservists. On top of that we have cadets. It is a huge organisation in people terms. We conduct operations around the world in very complex and challenging circumstances. We operate a large variety of very high-tech equipment; it all has to be acquired, maintained and sustained. And the business is very demanding and very complex. Any one of you one day might come into our organisation as a minister. I think it is very reasonable that when you come in we sit you down and take you through a program of familiarisation, so that you know what the business is all about, and where all the pitfalls are. As you well know, there are many places where we are challenged on a daily basis.

Mr Warner—Senator, could I just take you to recommendation 2, which is the relevant recommendation here. It reads:

Defence undertake more extensive induction for incoming Ministers and advisers and senior departmental staff, to educate new staff about the role of Defence. This might include workshops for new ministerial teams and their departmental counterparts, focusing on their respective roles and responsibilities.

This is about incoming new staff, incoming new ministers. I referred earlier to the United Kingdom. The second part of recommendation 3.22 on page 14 of the report talks about workshops for new teams and their departmental counterparts focusing on their respective roles and responsibilities. This approach has been used in the United Kingdom since 1997. That is 10 years of working in an even larger defence organisation than our own. It seems to work for the Brits and, I would have thought, as the CDF has said, talking to and explaining to new ministers and officials about the way Defence works and the issues that we are grappling with, was a very sensible way to proceed.

Senator CHRIS EVANS—That is all very fine but this is the first time I have ever seen a formal recommendation to a department and a minister that indicates that the minister requires induction. Familiarisation is one thing; induction seems to me to be a much stronger process. But I take the general point of the CDF. I have learnt the complexity in breadth of Defence over the years and the more I engage with it, the more certain I am that I do not know everything. In fact, the extent of my lack of knowledge expands all the time. The management issues of this department are enormous. We have had a lot of evidence of that. Mr Warner and CDF, I do not envy you your jobs. But it seems to me this is quite an extraordinary recommendation, but I am not saying it is one that might be necessary. I point to those more publicised events, CDF, because I think they seem to have gone to the heart of communication between the minister's office and Defence, and they have been very publicised cases. But your response seemed to indicate that those were not part of the problem

and that it was a more bureaucratic thing. Do you accept there has been breakdown in communications at senior levels between Defence senior personnel, minister's offices and the minister? Is that part of the problem?

Air Chief Marshal Houston—You refer to things that happened a while ago. I said I thought there were about 6,000 submissions. Actually, in the last 12 months we sent over 15,465 submissions to ministers in this portfolio. That was 8,695 to the minister, 4,743 to the minister assisting and 2,027 to the parliamentary secretary. I think that, as you can see, an enormous amount of advice goes across there.

Senator CHRIS EVANS—It sounds like you are trying to swamp them with paperwork!

Air Chief Marshal Houston—We talk to ministers as well—we do communicate—and I think that, right now, the communication is very effective and it is going well, in quite demanding circumstances. Operationally, we have never been busier. It is very important that we all keep our eye on the ball and we keep the minister fully informed about what is going on, and I think we are doing that well.

Senator CHRIS EVANS—But the test is not that the 8,000—

CHAIR—Can we just let Air Chief Marshal finish, please?

Senator CHRIS EVANS—Sorry, I am just trying to—

Air Chief Marshal Houston—If I could go to Kovco, I have got nothing further to add. I think that all of the circumstances surrounding communication on Kovco are firmly on the record. I do not think we need to go over that ground again. It is on the record. If we go back to Abu Ghraib, we have addressed all the issues that came out of that. We have a very robust approach to handling sensitive issues when our people go overseas and come across things that are not the way they should be. They come back to us straightaway, they inform us that they have seen a sensitive thing, and we inform the minister immediately about those kinds of sensitive things. So we have fixed up that area. I think the lessons from Abu Ghraib are well learned and that we are right on top of those sorts of issues.

If we go back to 'children overboard', again, all of the lessons from 'children overboard' have been learned, and essentially I cannot conceive of something like that happening again. We apply all of the lessons in a very effective way and the advice we give is robust and appropriate. What we are talking about here, I think, is the fact that, of those 15,000-odd submissions, they are not 100 per cent perfect, and they should be. We should be striving for perfection in the advice that we give to our minister and we should also be striving to be as responsive as possible in terms of his immediate needs, which are probably best reflected in QTBs, hot issues briefs and so on. I do not think there is any other portfolio where you get as many hot issues as pop up in this one. As I have said to many audiences, I get woken up in the middle of the night probably several times a month—I do not think that happens anywhere else—and on every one of those occasions I phone a very hardworking minister and tell them what is going on. Some of those things that were around at the time of 'children overboard' just do not exist anymore. If something bad happens, the first thing I do is get on the phone and tell the minister, so the government is always aware of what is happening in the ADF when we have got bad news.

Senator CHRIS EVANS—I did not use those examples for any purpose or to go back through them, but they are the ones that first came to my mind on the question about the relationship between the then minister and the ADF and communications. I could find a number of others, but you say to me that a set of lessons were learned here, a set of lessons were learned there—a set of lessons were learned in terms of Kovco, and they are slightly different. But it seems to me that there is a bit of a link, which is the question of communications between the then minister and the then CDF or other senior personnel, and the report seems to identify that as still being a problem.

Air Chief Marshal Houston—Let me answer the question in another way. Over the period of the review, which was about six months, I had several sessions with Elizabeth Proust and her team and I had some sessions with her on her own. In that whole time she spent with me, obviously a lot of it was: what is wrong with the organisation—what about this; what about that? She never once mentioned Abu Ghraib, she never once mentioned children overboard, and she never once mentioned Kovco. She was very focused on the fact that there were some deficiencies in the way we were servicing the needs of our ministerial team, and I want to disabuse you of any idea that it was anything other than that. She was concerned about the processes whereby we keep our minister fully informed with high-quality and responsive advice.

Senator CHRIS EVANS—Isn't that the same thing? I do not understand the distinction you are drawing. I picked out the more newsworthy examples, but isn't that the same process? Doesn't this go to the direct relationship between the minister and senior ADF staff, and isn't it identifying that there is a problem?

Air Chief Marshal Houston—I think the problem is ours. I think we need to improve in that area. Elizabeth made that very clear to me, and she has reflected it in her report.

Senator CHRIS EVANS—I gather she interviewed the existing ministers as part of her report. Did she interview the previous ministers as well?

Air Chief Marshal Houston—She interviewed a lot of people, and I think you can find within the report a record of everybody that she spoke to.

Senator CHRIS EVANS—Sorry, I only have the recommendations in front of me. I did not bring the full report.

Air Chief Marshal Houston—She interviewed a wide range of people to get a good impression of what was going on.

Senator Ellison—It is on page 91.

Air Chief Marshal Houston—For example, I note that she interviewed some of you.

Senator CHRIS EVANS—Not me.

Senator MARK BISHOP—Not us.

Air Chief Marshal Houston—She interviewed a number of members of parliament. She interviewed Peter Shergold, Michael L'Estrange, Ian Watt, Peter Boxall, Ian McPhee, Lynelle Briggs, and then a wide number of external observers, who included General Cosgrove, Admiral Barrie, General Baker, Dr Hawke, Paul Barratt, Tony Ayers and so on.

Senator CHRIS EVANS—I just note for the record that she does not seem to have interviewed any member of parliament who was not a member of the government. Not that I am necessarily arguing that that was critical to the review, but it is an interesting observation.

Senator HOGG—I am glad you drew that to our attention.

Senator Ellison—Senator Trood and Senator Ferguson obviously were.

Senator FERGUSON—Where?

Senator HOGG—You are on the list as being interviewed, Fergie, and so is Senator Macdonald.

Senator CHRIS EVANS—Maybe we should go along and ask each of them. The three gentlemen at the far end there are all named. I cannot see that the chair has been afforded the courtesy of being interviewed.

CHAIR—‘Thems the breaks’, Senator.

Senator HOGG—No Labor at all, and no independents.

Senator CHRIS EVANS—Anyway, it is an observation, now that you have shown me the list.

CHAIR—Let us try some questions.

Senator CHRIS EVANS—Senator Bishop spoke to you about the processes around implementing recommendation 2. Have the minister and his office agreed to participate in induction training?

Mr Warner—Could I take you back—I actually read this out before. You will see it is for incoming ministers and incoming staff.

Senator CHRIS EVANS—It is not to be post-dated.

Mr Warner—It is what Elizabeth Proust has recommended.

Senator CHRIS EVANS—Given that they are the people you actually dealing with, if there is a problem, I thought that we would start with the people you are currently dealing with.

Mr Warner—Can I just say again that it is a very good working relationship that the CDF and I, and I know other senior members of Defence, civilian and military, have with the minister’s office. The relationships work very well.

Senator CHRIS EVANS—So there will not be any training for the current ministers and their staffs—this is for the next round—but there will be training for current departmental officers and those dealing with the ministers’ offices, as I understand it.

Mr Warner—Again, it says incoming. To me it sounds like a good idea that, as I have said several times this afternoon, we explain as best we can and in some detail to new staff, to new ministers, to new ministerial staff, how Defence works, what its issues are and the sort of relationship that we would like to build.

Senator CHRIS EVANS—The other thing that struck me in terms of the response was that the response to the report seemed to be by Defence and then there was a press release from

the minister. I just want to be clear: who responded to the report? Are these Defence's responses or the minister's response? What was the process when you got the report?

Mr Warner—These are our responses, these are Defence's responses.

Senator CHRIS EVANS—Do I take it that there is some distinction between that and the minister?

Mr Warner—They are not the minister's responses.

Senator CHRIS EVANS—Didn't the minister commission the report?

Mr Warner—The minister commissioned the report and the report went to the minister. The minister passed the report to the department, we talked about the 53 recommendations and decided those which we thought were fully deserving of acceptance and implementation and those few that we thought were not.

Senator CHRIS EVANS—What did the minister do with the report, apart from passing it on to you?

Mr Warner—Perhaps that is a question for the minister. He, I think, put out a statement, did he not?

Senator CHRIS EVANS—Yes, there was a short press release, which, given the usual interest in issuing press releases, was a bit scant. It was dated Thursday, 5 April. The minister says he commissioned the report. Then it goes to say, 'Defence has agreed to implement the recommendations.' Did the minister endorse your response?

Mr Warner—I guess I would have to check that. We received the report from the minister. We informed the minister as to our views on the recommendations. But I would have to check the specifics of your question.

Senator CHRIS EVANS—Perhaps you could take that on notice, because it seems to me on first blush that the minister initiated a report into Defence management and then passed the report, when he got it, on to Defence management for their view. I am not saying that is not an appropriate process, in the sense that you would want feedback from Defence management before making your decision. But as it was a report commissioned by the minister for the minister, the response seems to have come from the people who have been reviewed, which stuck me as a rather unusual process.

Mr Warner—I do not think it is. As you will see from those 53 recommendations, they are very specific. They go to the heart of the way Defence does business; they go into the minutiae. Defence knows that better than anybody else.

Senator CHRIS EVANS—Did the department or the CDF put out a press release as well?

Mr Warner—As I said earlier, CDF and I had a couple of meetings. One, on 5 April, was with a selected group of Canberra based Defence journalists—five, six or seven of them. We spent an hour or maybe two with them going through the report, answering their questions. We then spoke to a smaller group of Defence commentators and went through the same process, maybe a briefer process. I do not recall that we put out a statement.

Air Chief Marshal Houston—We put out a DEFGRAM to our people in Defence, and of course we had previously spoken to all of our senior leadership people.

Senator CHRIS EVANS—Do you mind tabling a copy of the DEFGRAM at some stage?

Air Chief Marshal Houston—Sure.

Senator CHRIS EVANS—I do not mean right now. The media contact from Defence media liaison would have been the one who coordinated your dealing with the press. Is that right?

Mr Warner—That is right.

Senator CHRIS EVANS—Thank you.

Senator MARK BISHOP—As I understand it, there has been a fairly tight rein on the number of deputy secretaries created in Defence in more recent years. When you look back through the annual reports there seem to have been a fairly constant number of people at that level. My understanding is that, arising out of Proust, Defence has decided to create four new deputy secretary positions. Is that correct?

Mr Warner—No, it is not entirely correct. Your figure of four is correct for new deputy secretaries. Two of those deputy secretaries, however, are to be or perhaps have been appointed in DMO as a separate process to Proust. So flowing from Proust, the figure is two.

Senator MARK BISHOP—So four in total—two in DMO as part of a separate process and two within Defence directly arising out of Proust?

Mr Warner—Correct.

Senator MARK BISHOP—What are the two positions in Defence?

Mr Warner—The new CIO, chief information officer, and a new HR strategist.

Senator MARK BISHOP—Do deputy secretaries have a uniform salary, or is it individually based?

Mr Warner—There are pay scales. You can go up the scale and, as I understand it, you can drop down the scale. So no, it is not uniform.

Senator MARK BISHOP—But there is a uniform pay scale by which men and women can go up or down?

Mr Warner—There is such a pay scale, yes.

Senator MARK BISHOP—What is the pay range for deputy secretaries?

Mr Warner—I would have to seek some advice on that, if you could bear with me for a second.

Senator MARK BISHOP—Someone will have it there.

CHAIR—Maybe the IT man has it.

Mr Warner—We will get all the deputy secretaries up here for you.

CHAIR—You are never going to hear the end of that, Senator Bishop!

Air Chief Marshal Houston—Chair, could I add something to the record to clarify something I said earlier in response to Senator Nettle's question about the Patino investigations?

CHAIR—Yes.

Air Chief Marshal Houston—The investigation I referred to was conducted by a lieutenant colonel, and he was supported by military police.

CHAIR—Thank you. That is not the QA; that is the next one—the investigation?

Air Chief Marshal Houston—The next one, yes.

Senator MARK BISHOP—Are these deputy secretaries going to report directly to you, Mr Warner?

Mr Warner—Let me add one clarification before I answer that question. The new CIO position—and I think this is in Proust—could be a deputy secretary or it could be a new three star. That is a military equivalent.

Senator MARK BISHOP—Has that decision been made yet?

Mr Warner—No. It will be part of the selection process. We want to find the best possible person, either civilian or military from Defence or from outside Defence to do the job.

Senator MARK BISHOP—And have the serious negotiations when you have decided?

Mr Warner—Find the best person.

Senator MARK BISHOP—When do you think you will have these two deputy secretaries in place? What is the time plan?

Mr Warner—I do not have a time frame; I would like to do it as quickly as possible. We have begun the process of identifying the groups, bodies and agencies that may help us find people from outside the Public Service or from inside the Public Service. We have not advertised either position yet.

Senator MARK BISHOP—So you are at the beginning and it will take some time.

Senator BOB BROWN—A matter of interest is whether the issue of climate change, which looms large on the agenda now, not just on the horizon, and the impact that it is going to have on the Australian Defence Force and the contingencies it presents to the Australian Defence Force was at any time raised by Ms Proust or in the discussions leading up to her report.

Air Chief Marshal Houston—Ms Proust never talked about climate change during the review.

Senator BOB BROWN—Was it raised at any time during the review that you are aware of?

Air Chief Marshal Houston—Not during the review.

Mr Warner—Senator, this is a Defence management review.

Senator BOB BROWN—Yes, and Defence management is going to be impacted upon by climate change. I do not think you would disagree with that would you?

Mr Warner—I think you are going way beyond my area of expertise.

Senator BOB BROWN—I would suggest it should be within your area of expertise, though, Mr Warner, because it will have an impact on Defence management, in terms of

deployment of management personnel, in aggregation of information and in defence spending priorities in the future. If I am wrong about that, please let me know. I am just interested to know why the issue was not raised and not discussed.

Mr Warner—I think you would have to ask Ms Proust and her review team why it was not raised.

Senator BOB BROWN—Can you tell me why the department did not raise the issue?

Mr Warner—The Proust report is about management—a review of management. It has very precise and clear terms of reference, some of which we have talked about before. The terms of reference do not refer to climate change.

Senator BOB BROWN—I am not going to labour this, because I have already run into a negative response—and Senator Nettle and I will be asking questions further on about the way in which climate change is going to be dealt with by the defence forces—but can you tell me why the terms of reference did not include a reference to the impact that climate change will necessarily have on the management of the Australian Defence Force? My understanding is, firstly, that it is the biggest producer of greenhouse gases of all government departments and activities but, secondly, as cited by the report on emission, it is a challenge for the 21st century for the ADF.

Mr Warner—No, I cannot. I can only reemphasise that the report is about Defence management.

Senator BOB BROWN—Who drew up the guidelines?

CHAIR—Do you mean the guidelines or the terms of reference, Senator?

Senator BOB BROWN—The terms of reference.

Air Chief Marshal Houston—We have got the terms of reference here; they are in the report.

CHAIR—Senator Brown's question, Air Chief Marshal, was: by whom were the terms of reference drawn up.

Air Chief Marshal Houston—They are the minister's terms of reference.

Senator BOB BROWN—That probably explains it; thank you.

CHAIR—In overview, Senator Bishop, which further areas did you wish to explore?

Senator MARK BISHOP—I want to explore stolen Defence weapons, which was raised by the secretary in his introductory comments.

Mr Warner—Could I just answer the question I took on notice. The current salary range for band 3s, for deputy secretaries in Defence, is, in broad figures, \$170,000 to \$216,000 but, of course, each individual deputy secretary is on an AWA.

Senator MARK BISHOP—Fine.

CHAIR—Thank you, Mr Warner. Now, Senator Bishop: stolen weapons, I think you said; security of weapons and munitions.

Senator MARK BISHOP—In your comments this morning, Mr Warner, you said:

An important result of that phase—

that being the first phase—

... was that the full stock of the current M72 variant held by Defence was accounted for with no discrepancies.

That is good news. Have we been able to identify as yet where the other stolen rocket launchers have got to—apart from the one which is public knowledge?

Mr Warner—If I could take you back a little in time: Defence was informed in October 2006 by the AFP of a police investigation into an M72 rocket launcher in the possession of criminal elements. A police investigation subsequently confirmed that the M72 was an old variant, but from Defence inventory of some years ago. As you know, since we last spoke there have been two arrests in relation to that incident, and both men are in custody and due to appear in court, I think, on 21 June. Because the matter is now before the courts, it would not be appropriate for me to go into any further details on that case.

Senator MARK BISHOP—I do not have any particular interest. Those two men, as I understand it, are subject to charges of theft and disposal of the particular rocket launcher. Is that correct?

Mr Merchant—The two individuals face a range of charges that generally come under that description.

Senator MARK BISHOP—So I can pin this down—and I am inclined to accept your caution, Mr Warner—the range of charges the two men face in due course: does that go to the entirety of the rocket launchers that were stolen, or simply the one?

Mr Merchant—No, it goes to the entirety of the rocket launchers that were allegedly stolen.

Senator MARK BISHOP—So the charges go to the entirety of the rocket launchers that were allegedly stolen. Is that some eight or nine rocket launchers?

Mr Merchant—One of the individuals faces, I think, over 20 charges relating to the theft of multiple rocket launchers. The second individual faces a smaller number of charges relating to the issue of one rocket launcher.

Senator MARK BISHOP—Okay. I accept the restraint that I should not inquire into the process of the criminal charges; let that be. But in terms of the total number of rocket launchers, can we now identify where all of the rocket launchers have got to since they were stolen?

Mr Merchant—That is still the subject of the police investigation: the exact locality of the rocket launchers that are missing.

Senator MARK BISHOP—Has preliminary advice been received as to whether the rocket launchers are still in this country or have gone offshore?

Mr Merchant—Again, that is subject to the ongoing police investigation.

CHAIR—I think you put Mr Merchant in a very difficult position, Senator Bishop. This is a matter under active police investigation. They are operational issues. It is very difficult for him to answer questions of that nature.

Senator MARK BISHOP—All right. Thank you, Chair. Senator Hogg has suggested an alternative question. Have the stolen launchers come back into your property or the police's? Have they been returned?

Mr Merchant—One of the stolen rocket launchers was retrieved by the police.

Senator MARK BISHOP—But the others have not been retrieved as yet?

Mr Merchant—No.

Senator MARK BISHOP—And the police are still investigating. Are the police still investigating as to the exact locale of those outstanding rocket launchers?

Mr Merchant—As I have said, that is the subject of continuing police investigations.

Senator MARK BISHOP—Is that part of the second phase report that you expect to get later this year?

Mr Merchant—No. I draw a distinction here. The second phase report that you refer to is the report of the security audit that the Defence Security Authority is undertaking and that is separate to the police investigation. The purpose of that security audit is to look at the adequacy of our security policies and adherence to those policies as they relate to weapons and munitions in defence holding.

Senator MARK BISHOP—Right, and that is why Mr Warner was unable to give us those earlier assurances. The stolen rocket launchers are currently under review by the relevant police authorities. Which authorities are doing that: the AFP plus?

Mr Merchant—The New South Wales Police.

Senator MARK BISHOP—Is there a representative from Defence involved in that inquiry?

Mr Merchant—No.

Senator MARK BISHOP—No?

Mr Merchant—No.

Senator MARK BISHOP—So it is just the New South Wales Police and the AFP?

Mr Merchant—They have requested at times assistance from the Department of Defence, and we have provided assistance to their inquiry, but there is no Defence member attached as actually part of the inquiry and investigation. There is an explosive ordnance specialist, in particular, who has given technical assistance to the police investigation.

Senator MARK BISHOP—Is any person from the wider intelligence community involved as part of that investigation as well?

Mr Merchant—Certainly not from Defence.

Senator MARK BISHOP—From other agencies?

Mr Merchant—You would need to ask the police about that.

Senator MARK BISHOP—Are you aware—

Mr Merchant—No.

Senator MARK BISHOP—What are you not aware of?

Mr Merchant—That any other member of the Australian intelligence community is involved as part of the police investigation.

Senator MARK BISHOP—That is right.

Mr Merchant—I am not aware of that. I might just add that I am aware that there is some activity obviously with ASIO in regard to the possibility of extremists having some of these weapons.

Senator MARK BISHOP—I was going to come to that because I am trying to establish whether we have primarily an intelligence/political inquiry or we just simply have a criminal inquiry being conducted by the police.

Mr Merchant—We have a police inquiry and an investigation.

Senator Ellison—Madam Chair, I think really we have taken it as far as we can. Certainly, questions could be directed to the AFP if they were minded to answer questions, but it is the subject of a police investigation and court proceedings. You may direct questions to the DPP, who no doubt have carriage of the court matter, and the AFP for the investigation. They might be able to answer some questions, although in the circumstances I think they will be similarly restricted. But we really have reached, I think, the perimeter of questioning, if you like, with both a police investigation pending and criminal proceedings.

CHAIR—Thank you for that guidance, Minister. I was trying to sort the program at the same time, so I did not hear all of that discussion.

Senator Ellison—A commendable attempt.

CHAIR—I take your guidance on that.

Senator CHRIS EVANS—She was offering to send people home, Minister, and I suggested that you and I would—

CHAIR—Seriously, Senator Bishop, it does put some constraints on the breadth of the discussion that we can have.

Senator MARK BISHOP—I do understand the point made by you and the minister. I am trying to tread the fine line.

Senator CHRIS EVANS—I could help because I took the AFP through some of these questions last week, when they gave us some information about this. I was just interested in this. CDF Houston mentioned in his opening remarks that you had accounted for all the weapons or the remaining stock. Is that right? Or was it you, Mr Warner?

Mr Warner—That was me. That was part of phase 1 of the audit. Not of the missing M72s.

Senator CHRIS EVANS—So you have accounted for all the ones that are not missing? What are you saying there? That is what I did not quite understand, and I was going to follow that up with you anyway. I got the understanding from the AFP that you have now accounted for all your stock.

Mr Warner—That is right.

Senator CHRIS EVANS—What does that mean—that that includes the ones that we know to be missing or that there are no further ones missing? Maybe you would like to explain what is meant.

Mr Merchant—When it was confirmed that the M72 that had been retrieved by the police was of Australian Defence origin, we undertook a check of our current stock holding of the current version of the M72, and all of those munitions were accounted for.

Senator CHRIS EVANS—You make a distinction of the current version. Does that mean that the one that was recovered was in fact not the current version?

Mr Merchant—Yes. As stated in our minister's press release of 5 February, the rocket launcher that was retrieved by the police was an older variant.

Senator CHRIS EVANS—When did that go out of service?

Mr Merchant—That particular older variant was replaced over the period, I understand, of 2000-03.

Senator CHRIS EVANS—So it is not a particularly old variant, then—it was still in use in 2003?

Mr Merchant—I think the disposal of that particular variant took some time.

Senator CHRIS EVANS—Are you saying it was still used in service in 2003 or it was still in store awaiting disposal?

Mr Merchant—I am saying that that older variant was disposed of over a period of some years—I understand from about 2000-03.

Senator CHRIS EVANS—How do you dispose of them?

Mr Merchant—There are a range of methods used for disposal. It generally involves, obviously, destruction of the munition, and that is done at a secure location.

Senator CHRIS EVANS—What happens to the bits, the hardware—however it is best described—after that?

Mr Merchant—They are rendered inoperable.

Senator CHRIS EVANS—Do people then take them home as mementos, or do they get buried?

Mr Merchant—No. They are disposed of by specialist ammunition officers that render the weapons inert so that the explosive warheads are neutralised. The process after that can involve reduction of the weapons by heat to scrap metal and disposal.

Senator CHRIS EVANS—The one that was recovered, though, had not been neutralised—if that is right term—is that right?

Mr Merchant—That is right.

Senator CHRIS EVANS—You have done an audit of your current version and confirmed for yourselves that you have all of those. What has happened in terms of auditing those that were supposed to be destroyed?

Mr Merchant—We have attempted to go back through earlier records in this. So far that has not revealed any useful information.

Senator CHRIS EVANS—I presume your records would say, ‘35 M72s neutralised and destroyed,’ and then it would become a question of whether—

Mr Merchant—Again, we are getting back into an issue that really is the subject of the police investigation here, and I am quite uncomfortable about answering these questions in public for fear of prejudicing that police investigation.

Senator Ellison—Yes—

Senator CHRIS EVANS—I am happy to be sensitive, Minister. I am just trying to understand what the normal process was. I think we have established that. What I guess I am now asking is whether you have been able to successfully audit what happened to those weapons that were supposed to be neutralised.

CHAIR—I think Mr Merchant has gone to the extent of his ability in answering these particular questions, and he has advised the committee that it is very difficult for him. In terms of the propriety of dealing with these matters on the public record, my understanding is that we have gone as far as we can.

Mr Merchant—Absolutely.

Senator CHRIS EVANS—Thank you, Madam Chair, but I am not sure that is right.

CHAIR—The officers have advised me quite strenuously, Senator Evans—and I do need to be cognisant of the constraints under which they are operating—that that is the case.

Senator CHRIS EVANS—That is an investigation, as I understand it, into particular offences. I am not asking anything about the particular offences or who might be charged or anything of that nature. I am just trying to understand whether we know how many M72 rocket launchers may have gone missing, or have we been able to satisfy ourselves that the one identified is the only one.

Senator Ellison—The problem here, Madam Chair, is that the record keeping could be quite germane to the case.

CHAIR—Relevant, indeed; I understand that.

Senator Ellison—I do not want to go any further than that, because the DPP might well have something to say, and the police as well. I can see what Senator Evans is trying to establish as the modus operandi of keeping the register of these things, how they are checked and things that are related to that. In the general, in the broad, that does not affect an investigation. But when you are getting down to how these might be accounted for, or an audit that was carried out, or anything which tends to be more specific than that, you are starting to get into that area of investigation or possible investigation—I do not want to say what is and is not under investigation. I think we have to be guided by Mr Merchant in relation to where we are getting into difficult areas.

CHAIR—That is what I am trying to do.

Senator Ellison—Questions can be taken on notice and reviewed in consultation with the AFP and the DPP. After that, it may be that something can be said, or it may not. Rather than

do it on the run here and cross paths with an investigation or a criminal prosecution, I think that is a wiser course of action to take. And bear in mind that something that is said here has parliamentary privilege and that under the Parliamentary Privileges Act, as I recall, to then lead that in evidence can be objected to by defence counsel.

CHAIR—It becomes fraught with difficulty.

Senator CHRIS EVANS—Thank you. I always bow to the numerous lawyers on the government benches who are all expert in these things.

CHAIR—Far from expert.

Senator CHRIS EVANS—I am not at all seeking to go into the particulars of the case. As I understood it, and I may have got this wrong, I took the advice that an audit had been conducted and no M72s were found to be missing as some sort of reassurance to us and to the public that there were none missing. But then the officer made the distinction, quite correctly, between those that are currently in use inside Defence and those that were in use but that were supposed to have been destroyed. It is now clear to me that the one that has come to light and been retrieved was one that was supposed to have been destroyed. That begs the question, which I am trying to put to you: have we done an audit and are we satisfied that the others have been destroyed? I am not asking you how many, who stole them or what they did with them. I am asking for the level of confidence Defence has in its program for disposing of lethal weapons.

Mr Warner—We can certainly give you some details as to the results of the audit, how the audit was done and what it found. What we cannot do—and I do not think you are asking this now—is go into the particulars of the case that is currently before the court. I will ask Mr Merchant to go into the former.

Mr Merchant—In terms of the audit of the security policies and adherence to those policies, the first phase of that focused on the issue of the M72s. As I said, that was in addition to the check that was done of our current inventory which found no discrepancies in our current stock holdings.

The audit, however, did recommend that our procedures relating to the security of the M72 should be tightened and, in particular, it focused on three areas. One was to enable improved tracking of that particular munition throughout its life cycle. The second related to clearer and tighter procedures for reporting any discrepancies that might arise out of the regular stock checks. Work was also undertaken to improve the way in which the various systems used to account for this munition relate to one another and entries then reconciled between them. It also called for more frequent checking of stocks of this particular munition. Those recommendations either have been or, as the secretary mentioned in his opening comments, are in the process of being actioned.

The second phase of the audit is looking at the much broader range of issues surrounding the security of Defence's total holdings of weapons and munitions. This is an area where considerable work has been done, particularly since 2000, to tighten up our procedures, particularly as it relates to weapons. But the audit is needed, we believe, to have a comprehensive view of the adequacy of those policies, whether we are employing modern

technology to its best effect and also, very importantly, to look at the question of adherence to those policies.

It has made some recommendations already, although its work is not yet complete, and it is now scheduled to complete in the third quarter of this year. But those recommendations relate to improvements in terms of the background checks that are done on individuals involved in handling weapons and munitions at various stages of their life cycle. It also calls for some improvements in the physical security arrangements around locations that are responsible for holding, particularly large quantities of weapons and munitions. It also calls for us to look at a better system—again, ideally a single system—for tracking munitions and explosive ordnance throughout their life cycle. Those recommendations are also now being actioned in advance of the final report being received, because, clearly, we do not want to wait until the end of this audit process before starting to make improvements to our security procedures, particularly adherence to those proper security procedures.

Senator CHRIS EVANS—I appreciate that answer, and I think it is commendable that, as you say, you are moving to implement before waiting for a final report. Can I just get a sense, though, about the sort of timeframe for which you hold weapons after they have gone out of—I did not want to use the words ‘active service’; I am not sure what the technically correct term is. Once you have stopped issuing them to serving personnel, do you keep them in stock for long, do you move to destroy them fairly quickly or do you onsell some of them? Is there a market? We buy second-hand helicopters; does anyone buy second-hand M72s?

Major Gen. Cavenagh—The overall management of weapons is a responsibility that sits within the DMO. Those weapons managers there determine, in conjunction with the service, how long they wish to hold those weapons as reserve stock or the like. Once they have agreed on a disposal timeframe, they are then marked for disposal and put into a disposal process.

Senator CHRIS EVANS—So they might be held in reserve for some time?

Major Gen. Cavenagh—That is correct.

Senator CHRIS EVANS—Are we talking about years?

Major Gen. Cavenagh—It varies between weapon type.

Senator CHRIS EVANS—Something like the M72—I gather they were perfectly serviceable at the end of their life; you just replaced them with an upgraded model?

Major Gen. Cavenagh—I am not sure of the details there, but essentially they were being replaced by a newer, more up-to-date, model. Because they contain explosives, which have to have a life, when those explosives are out of life they are examined and, if they are not fit for use, they are classified for disposal.

Senator CHRIS EVANS—Do we actually onsell any of those munitions?

Major Gen. Cavenagh—Munitions that are out of life are marked for disposal and are generally, as has been indicated earlier, taken away. That involves a complete destruction of them.

Senator CHRIS EVANS—I was not referring to those that are out of life but those we have ceased using but which may not be out of life—do we sell any of those? I know that

sometimes we have moved equipment on to, say, South Pacific nations as part of an aid effort. On occasions we have given them hardware, as I recall.

Major Gen. Cavenagh—I will have to check the details, but I am not aware of any instances of onselling munitions. I will have to check that.

Senator CHRIS EVANS—Perhaps you could take those on notice. Where are these sorts of things stored before they are disposed of?

Major Gen. Cavenagh—They are stored in explosive storehouses within our base ammunition facilities.

Senator CHRIS EVANS—I am wondering whether the auditors are looking at the security of those establishments.

Mr Merchant—Certainly the auditors are looking at the physical security arrangements around the locations that are responsible for storing weapons and munitions. They are also looking at the whole disposal process, particularly the security policies that relate to that.

Senator CHRIS EVANS—Is the disposal process covered purely by Defence personnel, or have you outsourced that?

Major Gen. Cavenagh—On the disposals process, there are contractors involved in the storage and handling of munitions. In fact, we have outsourced the running of the storage depots to a company by the name of—

Senator CHRIS EVANS—I knew you had outsourced the stores, but do they have your munitions as well?

Major Gen. Cavenagh—There are a range of both Commonwealth and contract employees involved in the overall process. For contract employees, or contractors, they are members of the Defence Industry Security program, and must meet the same standards as any Defence member.

Senator CHRIS EVANS—At what stage do the contractors take over the disposal? You said that you still stored some on Defence bases. Are they still under the control of the contractor while on the base?

Major Gen. Cavenagh—That is right.

Senator CHRIS EVANS—So, even on the base, they are under a contractor?

Major Gen. Cavenagh—Yes.

Senator CHRIS EVANS—Is it possible for the contractor to store them off-base?

Major Gen. Cavenagh—No, they have to be stored in secure authorised facilities.

Senator CHRIS EVANS—I am just asking if there are secure, authorised facilities not on Defence bases?

Major Gen. Cavenagh—Not that I am aware of.

Senator CHRIS EVANS—Is the disposal process handled by the same contractor, or is there a separate contract for disposal?

Major Gen. Cavenagh—As I understand it, the contractors are involved in the disposal process. Qualified ammunition technical officers, which are generally Defence employees, do the physical disposal. There should be several people involved in the actual disposal process. When there are sufficient quantities to justify taking that all to a site, such as Woomera, and disposing of it, generally by explosion and a complete destruction, that then occurs.

Senator CHRIS EVANS—So you wait until you have a critical mass and then you take it to somewhere like Woomera and explode them?

Major Gen. Cavenagh—When there is a sufficient quantity, yes.

Senator CHRIS EVANS—Is Woomera the preferred site, or are there various sites?

Major Gen. Cavenagh—There are various demolition ranges.

Senator CHRIS EVANS—But the process is done by a contractor with supervising Defence Force personnel—is that a summary?

Major Gen. Cavenagh—That is a general characterisation of the process.

Senator CHRIS EVANS—What sorts of numbers of stock and munitions are we talking about—what do we hold at any one time?

Major Gen. Cavenagh—I cannot provide you details of the quantities of ammunition we hold. Ammunition is inspected on a regular basis. When it is found that the ammunition no longer meets the technical specifications it can be classified for refurbishment or it can be classified for destruction. The quantities involved will vary at any one time.

Senator CHRIS EVANS—The M72, though, is treated like a munition.

Major Gen. Cavenagh—The M72, prior to the recommendations of phase 1 of the audit report, has been treated as a munition because it contains high explosive. Part of the audit recommendations has been to increase the level of security on it and to treat it as essentially a weapon.

Senator CHRIS EVANS—Have we any idea how many M72s were in service?

Major Gen. Cavenagh—Yes. It is known how many M72s were in service, but we do not declare our holdings of ammunition.

Mr Warner—For security reasons.

Senator CHRIS EVANS—I was just trying to get a sense of how many we had, not how many we hold as munitions. Is it the same question?

Major Gen. Cavenagh—It is pretty much the same question.

Senator CHRIS EVANS—The time frame for disposal of these should be fairly short, though, because you have this question of life. What is the life of the M72? I am having trouble dealing with this. I know ammunition has a life. Something like the M72, you say, because it contains explosive material, is treated in the same way. Is its life determined by the life of the explosive within it as well?

Major Gen. Cavenagh—That is one of the factors that would be taken into account in lifing that explosive or that ammunition.

Senator CHRIS EVANS—So the M72 might have been retired because of that aspect rather than just wear and tear or being superseded technologically?

Major Gen. Cavenagh—Yes, that is correct.

Senator CHRIS EVANS—So there is an end life for it anyway, in that sense. I suppose that does not stop it being operated. It just—what—stops it being operated safely?

Major Gen. Cavenagh—I would have to get a technical opinion on that, but I think safety would be a factor in there. That is why we would have stopped using it ourselves.

Senator CHRIS EVANS—That does not mean, obviously, that it cannot be used by somebody else, but you make a judgement about the risk analysis of its life and then decide to retire it?

Major Gen. Cavenagh—Essentially, yes. It is done on quite specific technical criteria to ensure that it is safe and suitable for service. When it falls outside those parameters it is marked for disposal.

Senator CHRIS EVANS—Thank you.

CHAIR—It is worth noting for the record that Mr Warner and Air Chief Marshal Houston will be leaving us at three o'clock tomorrow afternoon to fulfil an international travel commitment. They will be here until three o'clock tomorrow afternoon.

Senator MARK BISHOP—Mr Veitch, I refer you to page 9 of the PBS and the highlighted column—total forward estimates. Halfway down the page you have a figure of \$1.129 billion for total reprogramming in the fifth column along. When you turn to table 3.2 on page 69, the carryover is stated to be \$1.140 billion, a difference of some \$11 million. I should say by way of introduction that we had these people come into a private meeting of the committee last week. They gave us an overview of the PBS. They were very helpful and it was very useful.

CHAIR—It was very helpful.

Senator MARK BISHOP—So having learnt from them, why are those two sets of figures different?

Mr Veitch—The only difference in the figures is that in the table up the front they are presented on a pre-ERC price basis, and down the back we have presented them in the actual budget price. In real terms they are the same numbers; they are just on a slightly difference price basis.

Senator MARK BISHOP—They are the same programs?

Mr Veitch—Precisely the same numbers.

Senator MARK BISHOP—Which projects relate to the funds being reprogrammed? Where can we find that?

Mr Veitch—It is probably best to concentrate on page 69. I can talk in generic terms about that, and then I may need to coopt a couple of my colleagues to go into some of the details. Essentially, the reprogramming of \$1.1 billion relates to three areas. First of all, there is an amount of \$518 million that relates to the unapproved projects, major capital equipment

projects, and they are essentially projects that are as yet not approved by government and therefore not going through their acquisition phase. The second area relates to approved projects that have received their second pass approval by government and are currently being managed through their acquisition phase in the Defence Materiel Organisation. They amount to \$622 million.

Senator MARK BISHOP—That is approved second phase?

Mr Veitch—That is right; that is approved projects going through their acquisition phase.

Senator MARK BISHOP—They have gone through first and second phase and into acquisition?

Mr Veitch—That is right.

Senator HOGG—But that money is not lost, is it?

Mr Veitch—That money is certainly not lost. It has just been moved to reflect revised schedules of those projects.

Senator HOGG—And is put out beyond 2010-11?

Mr Veitch—Precisely. I emphasise that none of this money is lost to the budget. It has just been rephased.

Senator HOGG—That is right.

Mr Veitch—The third set is a relatively minor amount which, over the forward estimates period, zeros out. It is a reprogramming of some of the capital facilities money associated with the Enhanced Land Force initiative, and that amounts to \$28 million being moved from 2007-08 into 2008-09 and 2009-10, reflecting a revised schedule for the facilities for that part of the program.

Senator MARK BISHOP—Is that land remediation?

Mr Veitch—It is facilities associated with expanding the land forces, the recent initiative announced by government, back in December last year. On reflection, we have found that we were a little bit ambitious with the timing for the facilities aspects of that program. What we have done is to take another look at that and we have put the money into the years that we now think would be most appropriate for those facilities.

Senator MARK BISHOP—Thanks for that. Let us now do the unapproved first, the \$518 million. Unapproved means they have had first phase approval but have not got to the second phase as yet. Is it a scheduling issue for the second phase?

Mr Veitch—It essentially relates to projects that are either going through their first or second pass approval. As you know, with the Kinnaird reforms we have introduced a system where the government will look at projects at first pass. We will select a number of options which we will further develop for government consideration at second phase. Once the government has selected the option and the project costs and what have you, at that stage we then transfer the money from the unapproved program to Dr Gumley's organisation to undertake the acquisition phase. What this money reflects—and I might pass to General Hurley to help me here—is a relook by us, in finalising this year's budget, at the entire unapproved capital equipment program. When we looked at that across the board, we found

that it was probably best that we reprogram about \$500 million in the out years, reflecting revised timings of unapproved projects.

Senator MARK BISHOP—Welcome again, General: you might identify the projects involved in that \$518 million rescheduling and the reasons for rescheduling. That is what I am asking.

Lt Gen. Hurley—In moving out that \$500 million, just to put that in context, that is less than seven per cent—five to six per cent—of the funds in the forward estimate period allocated to the unapproved budget. What we have done is reprogrammed that money out. It represents moving funds we had used for either overprogramming or slippage in that period, so at the moment I have not delayed deliberately any projects in the forward estimate period to achieve that. There is a revised DCP in front of the government at the present time so they approve that, and that will finalise that shift. So we have not actually moved any projects at the present time.

Senator HOGG—So this is a contingency amount for what might happen—

Lt Gen. Hurley—We overprogrammed.

Senator HOGG—Is that the best way to describe it?

Lt Gen. Hurley—For the moment, yes.

Senator HOGG—Events that will happen.

Lt Gen. Hurley—Yes, we will use that money. You will have noticed in previous years we have actually brought money forward into the forward estimates. In this case we have decided that we will not necessarily meet all targets so we will move some of that out.

Senator MARK BISHOP—That \$500 million we are talking about in unapproved: is that indicative figures for decision in due course by government?

Lt Gen. Hurley—Yes; stressing again: we have not lost the money; we have reprogrammed the use of that money. As we generate the DCP 2007-17 and DCP 2008-18, that money will be brought back.

Senator MARK BISHOP—I am not pursuing at all the appropriations issues or loss of money. I am interested in the scheduling of particular programs and the reasons that you think they have to be rescheduled.

Lt Gen. Hurley—Again, we have not moved any projects out of the DCP period. We have moved money, in the contingency sense that Senator Hogg has referred to, outside the forward estimates period to match cash flows, essentially, and what can be delivered through DMO and my organisation.

Mr Veitch—Senator, in managing a program of a large population of projects, rather than trying to say that one or two projects might slip or be rescheduled we have said that in a large population of projects we can probably expect that some of them might move. Based on previous experience in terms of overprogramming and slippage rates, we have looked at the entire program and said, 'This is our best judgement at the rate at which we would use the total amount of cash available for the entire program.' So no individual projects in the

unapproved area have been slipped or rescheduled. It is just our best judgement at the rate at which we would use the expenditure on the entire program.

Senator MARK BISHOP—I am hearing you say that no individual programs in the forward estimates period—the next four years—are currently slated for rescheduling or delay but, in the totality of things—

Senator HOGG—This is an accounting exercise. Is that a correct way to describe it?

Mr Veitch—I have used this analogy before. I think of it as the mince going through a sausage machine. You can only produce so much in throughput. We have looked at the thing and said, 'Based on our recent experience, we believe we will produce so many sausages; therefore, we need this much mince in the form of cash, if you like.' It is our best judgement of the cash flow against the entire population of projects. Rather than appropriating money and then finding we cannot use it at that rate, we took a judgement that we would use it at a slightly slower rate and therefore that would not cause problems later on for the government in terms of us not meeting budgeted targets.

Lt Gen. Hurley—It also reflects that, whereas we were looking at the likely spend spread of particular projects once they are approved, in our review as we go forward we think, 'Industry is not going to take up that amount of money and that expenditure in that time.' So even if we approved the project we might have said, 'You will expend \$150 million, for example, in the forward estimates period, but now, realistically, you are only going to get \$100 million.' So we reprogrammed to get a more realistic cash flow.

Senator HOGG—The fact is that this money will come back in in the future.

Lt Gen. Hurley—Absolutely.

Senator HOGG—And we should be able to see where it has come back in and what it is for?

Mr Veitch—Yes. In fact, the table at 3.2 and then the one Senator Bishop referred to earlier show the rate at which it is being reprogrammed back. Using a very simple example, in the major capital facilities, the third line on table 3.2, you can see that we have taken 28 out in 2007-08 but we have added the 19 and nine back, so it is a zero result over the forward estimates. It is just a shift in the timing of the cash usage.

Senator HOGG—In respect of the \$518 million that you see going further out in the forward estimates, is that at today's figures or will there be something for inflation and so on?

Mr Veitch—The \$518 million represents \$500 million in today's prices. When we reprogram to later years we reprogram it back in the price projections that prevail in those years. It does not lose its purchasing power when it is added back.

Senator HOGG—That is what I wanted to hear.

Senator MARK BISHOP—Returning to the top line of 3.2, I understand the issue that money has been appropriated and has not been lost, I understand that over the period of the forward estimates there is rescheduling of payments and I understand that over the life of the DCP there might be different time allocations. But in terms of the unapproved major capital equipment program you are saying that because it is unapproved there has not been any

specific commitment in the DCP to exact scheduling of the implementation of the program, hence it is just an accountancy entry.

Lt Gen. Hurley—The DCP will have indicated when the year of decision is likely to be, in service dates and so forth, but as you move from first pass to second pass, and in creating the DCP for a budgetary purpose we will have estimated at an earlier stage what the cash flow is likely to be for a project for delivery and so forth. The more you find out about it, the more you explore with industry through the request for tender responses, you start to determine what the real cash flow might be. Setting up to build AWDs, for example, once you are right into the nitty-gritty of this with industry, you will find that maybe you were a bit optimistic or pessimistic in terms of what the expenditure might have been for long lead time items to set it up, so it is responding to that greater knowledge as well.

Senator MARK BISHOP—You have sort of answered this question. If you go back over the white paper funding allocations from 2001-02 up to 2010-11, there are large amounts of planned capital equipment expenditure deferred every year since the white paper and the original DCP was brought down in 2000-01. Why is there this continuing deferral of large capital outlays?

Mr Veitch—I think it is probably a reflection that with the white paper there was a massive injection of funding into the defence program back in 2000, and that has continued to grow. To give an example, I think we had originally planned to add about \$3.9 billion to this year's budget in the original white paper commitment, and that is besides other things that the government has allocated since like logistics and other things that the CDF talked about earlier today.

There is about \$3 billion in the white paper from the original commitment back in 2000 and going into this budget, and that is a significant increase, and that is forecast to increase further as we go forward in time. In relation to our ability to actually manage those projects, all of those projects, there has been a significant amount of projects approved since then. On the time frames we originally intended back then, I think it would be fair to say (a) we were a little bit ambitious and (b) what has been a very key factor for us of late, particularly last year and this year, is the issue of industry's capacity to actually digest those significant increases in the program when we have got the economy going so well with close to full employment.

It has been a major issue for us actually in the throughput of the program, but I would stress that, since the original white paper commitment was announced back in 2000, we have something like 177 new projects approved with a total project cost of just under \$30 billion. That gives some idea of the steepness of the curve of the investment program that we have embarked on. In one way, yes, we have moved some money out to the right, but if you look at it in another context, first of all, the money has not been lost and, secondly, we have made some significant progress on some very major projects during that time.

Mr Warner—I think you might find it useful if we ask Mr Gumley to provide some further details.

Lt Gen. Hurley—Just to build on that, when the white paper was released in 2000, the DCP 00-10, that first 10-year period, had us approving 122 projects or phases of projects by the end of this financial year, so end of June this year. We have actually approved 165. And

the DCP is not a fixed list; we review it every year and we move projects depending on our knowledge and so forth. So in terms of have we delivered capability in a timely manner to the ADF, yes, we have in that we have probably overachieved by about 30 per cent against our original target. In doing so we have had to move some projects around which reflects where we are moving money over time as we have introduced new capabilities, brought some forward, introduced projects that were not in the original DCP responding to operational requirements and so forth. So there is a lot of movement in that data.

Dr Gumley—A couple of things that have trended this year which I think are important. The first thing is that industry in my view is pretty close to full capacity. As Mr Veitch said, you can only put so many sausages into the machine and unless you make the machine bigger, you are not going to get more sausages out, and we are reaching that capacity problem.

About this time last year, I thought the solution might have been to do more offshore, but we have found that a lot of the international industries also are pretty near full capacity as well. You only have to look at the amount of effort, for example, the Americans are doing with their land vehicles at the moment in having to repair them and restate them after they have been brought from Iraq, and being rotated. There is this pressure right through the industry. What we are having to do now is look a lot more carefully at the supply side aspects of the Defence Capability Plan and try and estimate according to what the capacity of both domestic and international industry truly is. Slippage has gone up this year in relative terms by a couple of per cent, and that is being reflected by this capacity problem.

Senator MARK BISHOP—At the bottom right-hand corner of 3.2, that figure of \$1.14 million has been deferred from the forward estimate period of four years to sometime thereafter. Is my understanding of that table correct?

Mr Veitch—Absolutely. I would actually take you back to the first table you alluded to, table 1.1 on page 9. You can see the \$1.1 million coming out of the forward estimates but you can see how it has been added back in subsequent years from 2011-12 onwards.

Senator MARK BISHOP—Where are you referring to?

Mr Veitch—You have got \$193, 542, \$382, \$120 and the \$109 million extra that is added back over that time reflects the price that I was talking about to Senator Hogg. Reprogramming that \$1.1 billion in today's prices is actually \$109 million more when you take future prices into account.

Senator MARK BISHOP—So it has cost us 10 per cent over a 10-year period. Are you doing it from the next four to the three thereafter?

Mr Veitch—Yes. So that shows the money is not lost, it is just a shift in time.

Senator MARK BISHOP—I have never suggested the money has been lost. It is just the programming. How much has been deferred since the white paper in 2001: do you have that figure?

Mr Veitch—I think we have tried to show that in one of the tables in chapter 2. I think that the figure is roughly \$3 billion that has been shifted over that time to beyond 2007-08.

Senator MARK BISHOP—I think ASPI claims that. Was it last week they had that report out? I think they had a reference to \$4.5 billion in total that had been reprogrammed.

Mr Veitch—I am not sure it is quite that amount.

Senator MARK BISHOP—You do not think it is that high?

Mr Veitch—No, it is certainly not that high. I have got the figures somewhere—maybe if you wanted to go on with another question I can find that figure.

Senator MARK BISHOP—No, we will wait for it, because that is critical.

Mr Veitch—\$2.718 billion.

Senator MARK BISHOP—Is that in this PBS, or is that elsewhere?

Mr Veitch—It is covered on page 29. Page 29 shows the status of the white paper funding since the original commitment back in 2000.

Senator MARK BISHOP—Right.

Lt Gen. Hurley—If you go to page 29, row B, it is the total from 001 column to 078 column.

Senator MARK BISHOP—Where do you get that figure of \$2.7 billion?

Mr Veitch—It is the addition of the numbers—

Lt Gen. Hurley—Of those six figures, the 200, 542, 276, 167, 22, 818.

Senator HOGG—It is on page 29, with the capital B, reprogramming. Yes, those are the figures and that is \$2.718—

Lt Gen. Hurley—\$2.718 to the end of the 2007-08 column.

Senator MARK BISHOP—And that has been reprogrammed now into the next six years?

Mr Veitch—Yes, essentially the next six years.

Senator HOGG—And the additional cost for that is \$413 million; is that correct?

Mr Veitch—I would argue that it is not a cost. It is just the difference in the inflation rate at the time.

Senator HOGG—That is what I meant when I was saying—

Mr Veitch—It is a price variation, yes.

Senator HOGG—The price variation is \$413 million.

Senator MARK BISHOP—In that period from 2001-02 we have reprogramming in major projects of \$2.7 billion over the 10-year period. You suggest now that the basic reason for that is industry capacity, both at a domestic and an international level.

Dr Gumley—Yes, it is one of the principal reasons. We have had some delays at our end, for sure, but probably about 75 per cent of the total delay is caused by industry capacity issues. Of that industry capacity, it is not just not having enough big factories, or not having enough skilled people; there has also been some technological delay in some of the projects. Genuine technical difficulty with some of the leading edge technologies—

Senator HOGG—Is that within that 75 per cent?

Dr Gumley—No. Of that 75 per cent, I would guess that probably about a third of it is genuine technical delay.

Senator MARK BISHOP—There has been a significant spike up in the two years 2006-07 and 2007-08—\$700 million or \$800 million in the delays in the reprogramming.

Dr Gumley—A big chunk of that is Project Wedgetail, which has been significant in our expenditure patterns.

Senator MARK BISHOP—Can you give me generally the detail on the programs that have been rescheduled and are contributing to this \$2.7 billion?

Mr Veitch—Dr Gumley might be the best placed—I think the AEW&C is the main one and M113 upgrade, but there are probably a couple of others that Dr Gumley could—

Dr Gumley—Yes. There has been sundry programming of the Hornet upgrade program. There has been the SM1 missile replacement. We have not been happy with the performance on the Army reconnaissance helicopters, the Tigers—there have been delays there with pilot training and some aspects of certification. We have not met the cash flow requirements of the air-to-air refuelling project. This year, for example, there has been about \$30 million deferred there. DMO is not going to pay contractors unless they actually do the work, and we have been through that in other committees. When you are hearing that in some of projects we are not paying the money, it is for a very good reason: the work has not been done. Lightweight torpedo had a number of difficulties technically which have now been overcome, but there was about an 18-month delay in that project. They are the big ones over \$20 million. There is one other, the JP 20-72 project—the architectural design for the radio networks—that has been a contractor issue.

Senator MARK BISHOP—Is that the issue that the ANAO came down on last week? The high frequency thing?

Dr Gumley—No. It was a totally different project.

Senator MARK BISHOP—So what was that one called?

Lt Gen. Hurley—The JP 20-72 battle space communications architecture.

Senator MARK BISHOP—Okay, so we have (1), (2), (3), (4), (5) and (6) and they are all over \$20 million.

Dr Gumley—Then there are probably about 15 projects that are between \$5 million and \$18 million delayed. There are some projects that have won too. We have some that have moved ahead of themselves, so it is a portfolio approach. I have just read you out the delays and there have been some that have actually done better.

Senator HOGG—Dr Gumley, is there somewhere we can get a table or something that shows that? Is it in the PBS?

Mr Veitch—There is a part in the PBS that shows the status of the top 30 projects that are managed in DMO.

Senator HOGG—But that would not necessarily capture what Dr Gumley is talking about.

Mr Veitch—Not all of them, but it does show the status this year of the top 30 projects.

Senator HOGG—I saw that somewhere.

Mr Veitch—It is on page 255.

Senator MARK BISHOP—You did not give me the figures for the M113 and the early warning.

Dr Gumley—M113 was \$77 million down and the early warning was \$110 million down in this year. It is important to recognise that none of these numbers actually reflect cost blow-outs—to use the language the media sometimes use—it is just a reprogramming of when the money is paid. It is a cash flow issue, not a cost issue.

Senator MARK BISHOP—It is a cash flow issue, but it has also got implications for capability as well, and it also has got some other implications. Do you anticipate that these problems, technical problems, the domestic industry capacity problems and international industry capacity problems, will keep impacting on project delivery schedules?

Dr Gumley—It is one of the reasons we are working quite hard on the supply side of the equation. Where you have got an increase in demand, you obviously in economics have got an increase in supply to catch up, and we are working hard on skilling Australia's defence industry, upskilling in DMO. Essentially, the government's setting is over a seven-year period about a 50 per cent lift in activity and demand, and so you have really got to match that in supply, so we are working very hard on the supply side at the moment.

Do I expect it to continue in the future? Yes, I do, because the way we have set out the budget papers this year is we have a 15 per cent slippage figure built into the estimates. We have had slippage up around 18, 19, 20 per cent, we have had it down to 13 or 12 per cent last year, we think it is going to be about 15 per cent in the year to come. That compares roughly equally with the British and the Americans and the other major Western countries, so we are not seriously out of sync with that.

Senator MARK BISHOP—Really, if industry capacity is now getting to optimal levels, absent some significant investment by industry itself, we would anticipate the schedule problems on the supply side continuing for some time.

Dr Gumley—We are still building the supply side of the equation. If you look at the overall delivery of goods and services to the ADF the DMO has done over the last three or four years, we have been averaging about six per cent real or nine per cent nominal in each of the last three or four years. We think we can continue growing the supply chain by about that amount over the next couple of years.

Senator MARK BISHOP—Say that last bit again.

Dr Gumley—We think we can continue growing the supply side by about that equivalent set of figures into the future.

Senator MARK BISHOP—Six to nine per cent?

Dr Gumley—Six per cent real, nine per cent nominal is the sort of the targets we are looking at.

Senator MARK BISHOP—For how long?

Dr Gumley—We need to do it based on government demand for at least the next two to three years. Recognising that, that is an average, and there are some programs for which we can increase the budget even faster and guarantee delivery. For example, buying the Super Hornets off the end of an existing American production line is a relatively low-risk activity, and the entire supply chain for those Super Hornets is established. It is the same thing with the C17s. So there are some projects where you can increase the budget faster than the nine per cent nominal, and that is what we have done this year by building in the Super Hornet funding over the next three years.

Senator MARK BISHOP—That figure of \$1,140 million—I think that was the figure, wasn't it, you were talking about—

Lt Gen. Hurley—Yes.

Senator MARK BISHOP—You gave me a list of the major items above \$20 million and then you put in the M113s and the AWACS. Do any figures relate to the Tiger and the Seasprite?

Dr Gumley—Yes, the Tiger is about \$35 million down in the current year. It could even be higher than that because we have not accepted some of the helicopters now, and we are only going to pay the last payments on them when we accept them. We have not been accepting because they have not been properly documented in many cases.

Senator MARK BISHOP—The Seasprites, that figure of \$1,140 million, is any of it comprehended by the Seasprites?

Dr Gumley—The project has not spent very much money in the last 12 months because effectively the contract has been in abeyance—not in abeyance but milestones have not been met, so not many payments are being made.

Senator MARK BISHOP—So the answer is no.

Dr Gumley—Yes.

Senator MARK BISHOP—Dr Gumley, can you take on notice and provide on notice a list of projects above \$10 million and the reason for deferral of the programming over the period of the forward estimates—essentially that table you are referring to there?

Dr Gumley—I have that table project and I have it dollars, I do not have it by reason. What I do have is some aggregate data across the whole of the program, how much percentage is domestic industry, how much is foreign, how much is technical difficulty. Do you want it project by project, or is it just enough to see the aggregate to get the picture?

Senator MARK BISHOP—No. I am interested in your comments on industry capacity and aggregate delays. If you can provide it without driving people mad, I would be interested in that. In answer to your specific question, I was interested in the reasons for deferral in terms of rescheduling on a project-by-project basis.

Mr Gumley—Yes.

Senator MARK BISHOP—You have outlined a list of major projects where there has been rescheduling—the \$20 million plus and then a couple of big ones—the AEW & Cs, the Tigers and the Seasprites. There must be an impact on capability when we have ongoing

rescheduling of major projects when we go back to the original white paper and minor variations since. Is that correct?

Lt Gen. Hurley—I think we discussed this at the last estimates. For example, AEW & C—yes, there will be a delay of about two years for the introduction into service of that aircraft. We would like to have it earlier to build up our knowledge of the way we are going to operate it. We can do some of that by other means—by interacting with our allies and putting our crews in their aircraft and understanding how it is employed. It will still arrive in time for the transition process from our current air combat fleet to the future fleet. In that sense we are losing a knowledge build-up because the things are not operational. As soon as you start flying, it takes a while to build it up. As I say, we can do parallel development. We have actually flown the AEW & C and CEL aircraft in an exercise already in the States, so we are starting to build on that.

With aircraft like the Tiger we do not have a reconnaissance helicopter of that capability and we wait till we receive it. We will not have the capability until it comes in.

Senator MARK BISHOP—When we did the original white paper and the DCP we planned to have the reconnaissance capability in respect of the Tiger, for example, at a particular time. It is now going to be delayed for two, four or six years—whatever the project is.

Lt Gen. Hurley—Yes.

Senator MARK BISHOP—In that sense—

Lt Gen. Hurley—In that sense we do not have the capability until it arrives. That is right.

Senator MARK BISHOP—Yes. We do not have the capability; we have a lack of capability.

Lt Gen. Hurley—If it is a new capability we will not have the new capability until it arrives, but if the Tiger is replacing a current capability we continue the current capability on until the new capability arrives. You may not get that step up in enhancement of capability you were hoping for at the time.

Senator HOGG—That is what it raises—whether the existing capability is sufficient in its own right.

Mr Gumley—I think it is also important to recognise that this is a relative race rather than an absolute one. I think we are doing as well as or better than many other countries. If we are slipping at a certain rate, there is every chance they are slipping even more. So it becomes a relative position: what are you up against?

Lt Gen. Hurley—In terms of AEW & C at the present time, the Tiger and, say, the M113 upgrade, we are using the M113 in training. Our operational requirement at the moment does not need it to go anywhere. The ASLAV and the Bushmaster are serving those purposes offshore. So in terms of current equipment, it is not letting us down—the fact that we do not have the upgraded M113, for example. We would like the AEW & C earlier to transition into the new air combat capability, but there are other ways we can work around that. We do not own the capability. We could call on the US if we necessarily needed it, I would think. We simply do not have the capability until it arrives, and it is a brand-new capability for the ADF.

Mr Gumley—I think that industry is doing quite a good job in lifting the supply side of the equation. We have been pleased with the way the absolute value of production has gone up over the last few years and encourage them to do even better in the future. So this should not in any way be taken as a criticism—where we are. We have set a big demand on industry and they are doing their best to respond.

Senator MARK BISHOP—I accept that. Is there a danger for industry, as the out years come, that the demands being put on defence will act against them if there is no sustained demand beyond the current programs?

Dr Gumley—We have sustained demand out for many years in the PBS at the moment. Government said about three or four years ago that they were going to lift demand by a certain amount, which is about 30 per cent in real terms, and government has met that commitment, and by the time we get to the year after next, we will certainly be there. It is like over a four to five year period, the steady state demand has gone up from one sort of steady state number to another steady state in a ramp function, so I do not see any diminution of demand in out years based on what we know is in the DCP.

Senator MARK BISHOP—We might shift on to the Qantas contract now, and there will be other questions in the PBS. Can we have a status report on the Qantas contract at the outset?

Mr Bowles—Yes, as of March this year we entered into an arrangement with Qantas Business Travel for a new contract for what is a bundled service, which relates to air, land and accommodation services and bundling that all together as one package. Effectively, we have been doing that since 2000, since the contract before, and we entered into an arrangement with Qantas to take that forward for another five years.

Senator MARK BISHOP—Five years from March of this year?

Mr Bowles—From March of this year; that is correct.

Senator HOGG—Does that include servicing of aircraft or any such arrangements?

Mr Bowles—No, that doesn't.

Senator HOGG—This is purely travel?

Mr Bowles—This is a travel service, yes.

Senator MARK BISHOP—How many tender submissions were there for the job?

Mr Bowles—This was entered into as a sole source arrangement.

Senator MARK BISHOP—You approach Qantas to extend the life of existing contract?

Mr Bowles—Before we did that, we had a look at our business requirements. As I said, the requirements since 2000 were for a bundled service that included all the air, land, accommodation and all the services to do with travel management, and so we looked at what our business requirements were, and we spoke to and went through the normal process where we assess against the Commonwealth procurement guidelines and went through again normal process with the Australian Government Solicitor and moved then to start to talk to Qantas.

Senator MARK BISHOP—In that period prior to discussions with Qantas, when you were talking to the AGS and you were examining the obligations under the Commonwealth procurement guidelines, did you have any discussions with any other companies?

Mr Bowles—No, in that preliminary stage we are looking at our business arrangements, what the requirements were, and then basically looking at the market from our perspective to see who out there provides a total bundled service, travel management service.

Senator MARK BISHOP—It is your belief that the total bundled service negotiations you had with Qantas eventually were consistent with the Commonwealth procurement guidelines?

Mr Bowles—That is correct.

Senator MARK BISHOP—You do not believe there was any obligation upon yourselves to put your requirement for a total travel service out to competitive tender?

Mr Bowles—No, we didn't.

Senator MARK BISHOP—Why is that?

Mr Bowles—We went through the process, as I said before, that looked at the marketplace, and again looking at a total bundled service of all of those different things, where our people basically pick up one phone to make the arrangements for air fares and the lot.

Senator MARK BISHOP—I do understand that. What I am asking you is why you assert why that there was no obligation under the Commonwealth procurement guidelines to seek tenders for the total bundled service, the product you wanted to buy.

Mr Bowles—I might get Mr Diercks to just through some of the detail on that one.

CHAIR—We might do that when the committee resumes after dinner.

Proceedings suspended from 6.30 pm to 7.31 pm

CHAIR—We will resume our consideration of estimates. Senator Bishop was just about to receive a response to a question before I suspended.

Mr Warner—Senator, before we go back to that could I raise one matter. During the last session we were asked whether we could cable so-called DEFGRAM from Defence on the Proust review. I have that here and am happy to table it. We have made one small alteration, that is, the deletion of an email address for pretty obvious reasons.

CHAIR—Indeed, I understand, thank you, Mr Warner. We will accept that as a tabled document.

Mr Diercks—Before the break I was about to describe the process by which Defence made a decision that the appropriate acquisition strategy to achieve value for money from the Qantas contract was a direct source procurement process. It might be helpful if I just describe the lead-up to that decision. Throughout the early part of 2006, in the knowledge that the current Qantas contract was due to expire at the end of February 2007, Defence developed an acquisition strategy which was based on a business case. The business case did a comprehensive market analysis of the capability of the travel and air services provision industry in Australia to provide the type of service that Defence was seeking in what is described as a bundled travel service. The bundled travel service is a comprehensive air travel

service and travel management service contract, whereby we seek in one company the ability to provide a complete travel consultancy service, a booking service and the offering of discounted air fares.

We conducted that market analysis which led to a comprehensive business case. The business case presented basically two options for the acquisition of the service, one was to go to the market, the other was to direct source. We then sought guidance from the AGS on a possible direct source strategy and its compliance with Commonwealth procurement guidelines, and in receiving that guidance the detail provided in the business case and the specific market analysis that we had undertaken were taken into consideration. Direct sourcing was deemed to be appropriate as the best method of Defence meeting its requirement for a bundled travel services and it was found or considered to be compliant with Commonwealth procurement guidelines. If I could refer to the specific provision of the procurement guidelines which allow for a direct sourcing in certain circumstances, one of those provisions is:

Where the property or service can only be supplied by a particular supplier, and no other reasonable alternative or substitute exists, because—

then there are a number of clauses. The clause then is applicable to Defence says—

or due to an absence of competition for technical reasons.

The business case demonstrated that in the travel and air services industry in Australia there was only one provider offering the bundled service which Defence had been enjoying since 2000 and was consistent with the business model required by Defence.

In seeking some legal advice on that, the AGS also advised Defence that the procurement guidelines provide that there is not a requirement to aggregate services in order to provide competition in the market and, because of that, it can be reasonably concluded that it is not a requirement to disaggregate the requirement for services to provide competition in the market. In considering the business case, the acquisition strategy, the legal advice and consideration within Defence of our ability to achieve value for money, it was decided that we go with a sole source procurement strategy. That led Defence to provide Qantas with a statement of work for the service, and a draft contract. Qantas were then invited to respond to the statement of work and the draft contract. We then went through a formal evaluation process against pre-determined evaluation criteria to determine if the Qantas response met the requirement of Defence, and whether it provided a value for money contract outcome. The conclusion of that process was that value for money was demonstrated. We then went into contract negotiations with Qantas leading to an eventual contract signature in February this year.

Senator MARK BISHOP—But a critical part of your response, Mr Diercks was that the advice you had from the Government Solicitor was that there was no obligation in the guidelines for Defence to seek disaggregated services—that is, air, land, accommodation and travel management—from different sourced providers.

Mr Diercks—Yes, the advice was that it was a reasonable conclusion that Defence or any other agency under the Commonwealth procurement guidelines should not be required to disaggregate the services that they required purely to provide competition in the market, and based on the fact that Defence requires a business model where we were seeking a one-stop

shop end-to-end service for travel management services and the provision of discounted airfares bundled into the one contract, and that is a term that is common in the industry. We determined that sole sourcing was a valid acquisition strategy.

Senator MARK BISHOP—What is the value of the contract for the five years?

Mr Diercks—The value of the contract over five years is approximately \$900 million, so roughly \$180 million a year and that is primarily for airfares which are booked through Qantas business travel.

Senator HOGG—What happens if you do not reach that figure of \$900 million over the five years, in round figures?

Mr Diercks—A feature of the contract is that Qantas offer a discounted airfare. Qantas also offer 'best fare of the day', which can be provided by any other airline provider, and the Defence traveller or the booking agent for the Defence traveller, selects the best fare of the day based on the offer. So, in fact, Defence could spend nothing on the Qantas contract and could spend all of its air travel dollars on a best fare of the day provider that is available in the industry.

Senator HOGG—But that money would be paid through the Qantas travel agency. Am I correct?

Mr Diercks—The Qantas travel agency would—

Senator HOGG—Would be in receipt of the money.

Mr Diercks—Yes.

Senator HOGG—And they would on-pay the other carrier.

Mr Diercks—No. They would administer that transaction. In fact, most of those transactions go through another contract we have with Diners Club for the Defence Travel Card. So a large amount of our travel is actually paid for by invoicing through Diners.

Senator HOGG—My question to you, though, was: what happens in the event that Defence does not fully expend the \$900 million over the life of the contract? Are you up for the difference between what you have spent in the unspent amount to reach the \$900 million?

Mr Diercks—No.

Senator HOGG—In the case of an overspend, that is quite obvious what happens. When did you receive the guidance from the AGS?

Mr Diercks—It is dated 9 June 2006.

Senator HOGG—Is the guidance available? Is it something that can be made available to the committee? You have read fair whacks of it, as I can see now, or I think now.

Mr Diercks—I am not sure the guidance will add to the evidence I have already given here.

Senator HOGG—When did you provide the statement of service to Qantas?

Mr Diercks—On 29 September 2006, we issued a statement of work and a draft contract to Qantas. Qantas was required to respond against that response. We conducted an evaluation.

Senator HOGG—So your evaluation then led to your decision in February 2007.

Mr Diercks—Yes. The evaluation was conducted in the early part of November. That eventually led to a decision and subsequent contract negotiations with Qantas.

Senator HOGG—Does the eventual contract cover all classes of travel, because I would presume that there are different personnel within Defence who are entitled to travel at different classes.

Mr Diercks—Yes, it does. It covers all business travel and non-operational travel of Defence.

Senator HOGG—Does it include international travel as well as domestic?

Mr Diercks—Yes, it does.

Senator HOGG—Does it go to the aircraft that I see and understood was on special lease that transports our departing troops to various theatres of operation in different parts of the world?

Mr Diercks—No. I understand those are separate arrangements.

Senator HOGG—Can I just catch up with that? Can someone tell me about that at this moment?

Air Chief Marshal Houston—Do you want to know about the charter arrangement?

Senator HOGG—I have been told about it before. I thought it must have been subsumed into this.

Air Chief Marshal Houston—No, it is not. It is a separate contract.

Senator HOGG—There was specific aircraft that was being used but I noticed another aircraft in operation more recently—a Malaysian Airline System aircraft—out of Townsville.

Air Chief Marshal Houston—Essentially, over the years we have used a variety of charter aircraft. At the moment we have a contract for an A330 that runs a sustainment service between Australia—

Senator HOGG—That is the one with the stars on the tail.

Air Chief Marshal Houston—That is the one.

Senator HOGG—I am aware of that aircraft, but as I said, in Townsville—

Air Chief Marshal Houston—Essentially there are occasions when the Joint Movement Group will charter other aircraft against specific requirements, and that has been the way we have done it for years. For example, during the 2003 Operation Falconer, we chartered a number of Qantas aircraft and, indeed, chartered other carriers as well.

Senator HOGG—Why, when we are negotiating such a substantial contract with Qantas, would we not try to include that sort of arrangement, to get the benefit of a major purchase with a major airline carrier?

Air Chief Marshal Houston—The sustainment arrangements were tendered for and the best value for money was provided by Strategic Aviation. I will get General Gillespie to take you through that if you wish. From time to time, for example, we have a major exercise

coming up and we are deploying an awful lot of troops into Queensland. It is quite normal for us at those times, through the Joint Movement Group, to charter aircraft, such as Qantas or somebody else.

Senator HOGG—I am not trying to argue against that CDF; I am trying to work out why, when we had such a major contract with the national carrier, that that contract was not rolled into this major contract when, because of the size of the contract, there may well have been some benefit to the Defence Force budget, that is all. There is no trick in it.

Mr Diercks—The Qantas travel service contract for business travel is a totally different type of contract where there is no dollar value attributed to the contract. Qantas offer services and offer discounted fares. Defence may or may not elect to travel with Qantas under that arrangement, so there is no allocated size of budget. It just so happens over recent years, we have expended roughly \$180 million on air travel, and most of that, because Qantas indeed offers best fare of the day through the arrangements we have, most of that travel happens to go to Qantas.

Senator HOGG—Thank you very much. General, you were going to enlighten me just briefly. I do not want a lengthy explanation.

Lt Gen. Gillespie—An extension of that is that the sustainment flights that we do to the Middle East, in particular, are not all about passengers, it is about freight and a program of services through non-scheduled flights, so what we do is we lease contracts that get us the best value for money for moving as we want to move with either freight or personnel on a regular basis. If we, for example, were visiting the Middle East, we will use the Qantas process to get there as individuals, but if we are doing it as form bodies of troops, the sustainment of our troops, it is a much better value for money outcome to lease from a panel of providers for logistic aviation.

Senator HOGG—I have no argument with you. I am not an expert in the field. It just seemed like an anomaly to me. You have straightened it out, thank you.

Senator MARK BISHOP—Mr Diercks, can you provide the breakdown on domestic travel, international travel and accommodation as percentages of the contract?

Mr Diercks—Yes, I can break down the domestic and international. In 2005-06, the percentage of domestic air travel was 68 per cent and international was 32 per cent.

Senator MARK BISHOP—And similar figures for the succeeding four years?

Mr Diercks—In that rough order, yes.

Senator MARK BISHOP—Do you have the further break-up of the percentages for accommodation and travel management? The contract, as I understand it, covers domestic travel, international travel, accommodation and booking issues, is that correct?

Mr Diercks—Yes, it does. I do not think it is really useful to try to divide that up as a percentage of the spend that goes to Qantas because the nature of the contract is that Qantas provides a booking service across the whole travel spectrum. For example, the service that Qantas provides in relation to car hire is to book with our contracted car hire company, which is Hertz. Qantas does the booking as our one-stop shop and provides that service to us, but the

car hire is booked with Hertz and the invoice in most cases goes through another contract we have with Diners Club for invoicing through Diners, and the money is paid to Hertz.

Senator MARK BISHOP—Your entire argument has been that you were in the market for a bundled product covering travel, bookings and accommodation. Can you give us the percentages of the contract that relate to the air travel, the bookings and the accommodation?

Mr Diercks—Yes, I have the figures. I have not broken them down into percentages.

Senator MARK BISHOP—Give me the figures then for the first full year.

Mr Diercks—For 2005-06, and this is Defence's total spend on travel-related services—

Senator MARK BISHOP—Pursuant to this contract?

Mr Diercks—In part.

Senator MARK BISHOP—We are talking about the contract given to Qantas and the spend made by Defence pursuant to that contract, and I am seeking the figures in the first available financial year for travel, accommodation and booking services. Do you have those figures available?

Mr Diercks—Yes, I do. The difficulty with the figures is that not in 100 per cent of the cases are the bookings made through our contract with Qantas. In the majority of cases they are, but we also have some bookings made through a business centre in Townsville. If the service relates to an airfare, invariably that booking is referred back to Qantas business travel, and they find the best fare of the day. If the service relates to car hire, the business centre in Townsville may make a direct approach to our car hire company, Hertz. There are other travel expenses—for example, in 2005-06 Defence spent \$15 million on taxis through Cabcharge and not all of that money went through the Qantas arrangement that we have. Breaking it down in the way that you are seeking is quite a difficult thing to do.

Senator MARK BISHOP—The average price of the contract is \$180 million per year each year of the five years?

Mr Diercks—Yes. In 2005-06 Defence spent \$181 million on air travel through Qantas.

Senator MARK BISHOP—We know that the rough percentages were 68 to 32 for domestic and international.

Mr Diercks—That \$181 million of air travel was booked through Qantas. Part of that \$181 million went to other airlines because Qantas is obliged to offer us the best fare of the day.

Senator MARK BISHOP—I understand. We are talking about the value of the contract with Qantas. How much Qantas pay onto others as part of the contract is not germane to this discussion. Now we will go to a discussion about spending on advertising and associated matters in the 2006-07 and 2007-08 financial years. Welcome, Brigadier. Where in the PBS can we find the outlays for advertising?

Brig. Gould—I can speak to marketing, branding and advertising for Defence Force Recruiting activities. I think I will have to rely on Mr George Veitch, who owns the PBS, to tell me where it sits.

Senator HOGG—That is one of the better statements I have ever heard!

Senator MARK BISHOP—Where would we find the outlays for advertising in the PBS, Mr Veitch?

Mr Veitch—Advertising forms part of the suppliers' expenses budget. In the PBS we do not list that as an individual item, although in respect of the recruitment and retention money—Brigadier Gould can talk about that—we have listed that as a separate item in terms of the new money that has been agreed by government as part of the recruitment and retention initiatives that the government has announced as part of this budget. What we have done in the past, though, which is consistent with the guidelines, is to show you in the annual report each year how much money we spend on advertising. The Defence annual report for 2005-06, for example, on page 331, shows that we spent \$31.683 million on advertising in 2005-06.

Senator MARK BISHOP—We have the table in front of us. Do we have the figures for the 2006-07 financial year in the PBS?

Mr Veitch—No. I have not got the figures for the advertising budget, other than for the one that we can talk about specifically, recruitment and retention, which accounts for the bulk of that—about 90 per cent. The remaining budget is spread across all of the three services and other group budgets as part of the supplies expense budget. So it is not visible in the budget as an individual line other than the recruitment and retention money. But I could say, I think with a fair amount of surety, that the number would be of the same order but increased by the margin of extra money we are going to put into recruitment advertising this year. If you asked me for an estimate of what I would think we will spend on advertising this year, the answer would be about \$40 million to \$45 million.

Senator MARK BISHOP—In the 2007-08 financial year?

Mr Veitch—Yes.

Senator MARK BISHOP—Across all Defence areas?

Mr Veitch—Yes, including the boost in spending on advertising.

Senator MARK BISHOP—So it is \$40 million to \$45 million in the 2007-8 financial year.

Brig. Gould—Can I just correct that. I am not the keeper of the beans that get counted. For 2006-07, the current financial year, Defence Force Recruiting has \$25.4 million in one tranche of money and an additional \$12.9 million that was allocated during the financial year. My quick maths gives that as \$38.3 million for this financial year.

Senator MARK BISHOP—That is for Defence Force Recruiting?

Brig. Gould—That is correct.

Senator MARK BISHOP—Could I ask you to hold on there—and I will come to that because it is important. I would just like to nail down the total advertising spend in the 2006-07 financial year.

Mr Veitch—What I was alluding to, if you take the figures Brigadier Gould is talking about, is that there are probably only another couple of million to add onto that because the recruitment advertising generally accounts for 90 to 95 per cent of our advertising expenditure.

Senator MARK BISHOP—The net of that is: for the 2006-07 financial year, about \$40 million on advertising across the board; for the 2007-08 financial year, \$40 million to \$45 million.

Mr Veitch—We will just check the numbers.

CHAIR—Senator, I thought Brigadier Gould was just trying to clarify the numbers so we had a total that was accurate, for starters.

Brig. Gould—Right. We have settled for 2006-07, unless you tell me otherwise. For 2007-08 I am anticipating that—again just within DFR, and noting Mr Veitch's comments that 90 to 95 per cent is DFR money—we will have two tranches: one is \$25 million and the other is \$22 million, which came out in the budget announcement a couple of Tuesdays ago. That brings us up to \$47 million for Defence Force Recruiting. And if we use George's rule of thumb, it would be up around \$48 million to \$49 million for the department.

Senator MARK BISHOP—For 2007-08.

Brig. Gould—Yes.

Senator MARK BISHOP—So it is almost \$50 million in 2007-08.

CHAIR—It just keeps going up by a quick million there!

Brig. Gould—Yes—if I had that flexibility!

Senator MARK BISHOP—I take the point.

Mr Veitch—The main point we are making is that, other than for the recruitment money, the remaining advertising is only a very small amount. That is the point we are trying to make.

Senator MARK BISHOP—All right. In the 2007-08 financial year, DFR advertising is going to be about \$47 million.

Brig. Gould—That is correct.

Senator MARK BISHOP—And we think that is 90 to 95 per cent of total ADF advertising spend.

Mr Veitch—I would say, just looking at the data on page 332 of the annual report and picking up what the CDF has just said, that at the most the other would be \$5 million. Let us put it in the band of \$2 million to \$5 million.

Senator MARK BISHOP—That is right. Brigadier Gould, can you give me the total estimated budget and breakdown of costs, including market and other research, creative, reproduction, production and media purchasing, in the 2007-08 financial year—that \$47 million—for, firstly, TV placements?

Brig. Gould—I cannot. We have not done our planning, nor have we gone to the government media buyer yet to determine how much we are going to throw on television, print, internet and the like. I can speak in detail about the 2006-07 spend to date.

Senator MARK BISHOP—Okay. Speak in detail, if you will, about the 2006-07 spend.

Brig. Gould—With your blessing, Senator, I will talk about the \$25.4 million piece and then I will talk about the \$12.9 million piece, because they have been managed separately.

The creative agency management fee for their production and their retainer is in the order of \$2.3 million. Their production fees for all our campaigns this year, which cover ADFA, direct-entry officer, air crew, postgraduate, undergraduate, Army Reserve, technical trades, packages for careers advisers in schools and a number of miscellaneous activities, is in the order of \$1.7 million for a total in that advertising production of \$4.009 million. The figure for media buy, through Universal McCann, the government media buyer, is \$16.4 million

Senator MARK BISHOP—When you say ‘media buyer’, what do you mean by that?

Brig. Gould—All media for government is bought through one company—Universal McCann, and all of our media buying goes through the Ministerial Committee on Government Communications, with the secretariat provided by the Government Communications Unit in PM&C. In terms of external service providers, which comes to your question on market research and others, we have one tranche of market research work which is \$876,000. There is some extra market research money in the \$12.9 million which I will speak about shortly. In total for external service providers, it equals \$4.6 million. That includes things like maintenance of our website and our PowerForce candidate database. It also includes Local Area Marketing, which is a company that puts ads in local media and advertises in regions and the like, some internet production money and alliances and activations, which is sponsorships at the local level. Finally, we have spent \$431,000 on special events activities. So that gives a total, noting the financial year is not yet complete, of \$25.44 million out of the allocation of \$25.472 million.

Senator MARK BISHOP—Thank you.

Brig. Gould—Would you like the break-up quickly on the \$12.9 million?

Senator MARK BISHOP—Yes, please.

Brig. Gould—The \$12.9 million was given to us to do branding for Army, Navy and Air Force, for additional market research for a more interactive local area marketing campaign and to get back into structuring alliances or activations that can be directly attributed to recruiting outcomes. In that work we have spent \$4.37 million on branding and message, predominantly surrounding Army. We have also done some branding research and some initial response work which cost \$420,000. We have had another group of market research done, which cost \$349,000. On local area marketing, which is essentially to support careers expos, work at schools and the like, we have spent \$1.4 million. We have spent \$1.9 million on internet production and our Defence jobs website, which is the No. 1 website for 16- to 24-year-old males in Australia, and we have spent \$2.3 million on alliances and activations, which have been with the AFL, V8 Supercars, the WNBL Opals and the WNBL women’s basketball competition. Finally, we have invested \$1.1 million in customer relationship management activities, which is our ability to keep candidates warm from the time they make an inquiry all the way through until their enlistment date.

Senator MARK BISHOP—Thank you. Can I ask for the figures for the two tranches in the 2006-07 financial year—the figures to date for the 2007 financial year—for TV placements?

Brig. Gould—From the information that is provided by Universal McCann, which is our media buyer, we have spent \$7,308,442 on television.

Senator MARK BISHOP—And radio? That includes both tranches?

Brig. Gould—I will just need to confirm that for you, but I will answer your questions and then come back and confirm it is for both tranches. For radio, it was \$2,549,274.

Senator MARK BISHOP—Newspaper placements?

Brig. Gould—Newspapers, \$1,530,966.

Senator MARK BISHOP—Mail-outs?

Brig. Gould—None. We do not do mail-out.

Senator MARK BISHOP—Internet?

Brig. Gould—Internet, \$2,264,751.

Senator MARK BISHOP—Websites?

Brig. Gould—I think I just answered that. Internet combined—

Senator MARK BISHOP—Total internet is—

Brig. Gould—Total internet combined was that figure of \$2,264,751.

Senator MARK BISHOP—Okay. That is the 2006-07 financial year. Now, are those figures you just gave me for the first tranche or for both tranches?

Brig. Gould—I believe it is both tranches.

Senator MARK BISHOP—Any other placements apart from the specifics I identified?

Brig. Gould—Yes.

Senator MARK BISHOP—What are they?

Brig. Gould—I don't think you asked me about magazines—\$2,207,552. Then there was cinema advertising, \$705,420; and outdoor advertising, which is a mix of buses, bus stops, billboards, around TAFEs and the like, \$1,348,186—

Senator MARK BISHOP—Okay. Thank you.

Brig. Gould—for a total cost there of \$17,611,968.

Senator MARK BISHOP—And you have confirmed that was for both tranches in the 2006-07 financial year?

Brig. Gould—Yes, as provided by Universal McCann.

Senator MARK BISHOP—Now, for the 2007-08 financial year—when do you intend to take your recommendations to the MCGC for approval?

Brig. Gould—Excellent question, Senator. The board of management for DFR will consider the media plan at its board meeting in June, so that is about a fortnight away. I will then put a broad plan to the MCGC before the end of June, and then it is a matter of how slick we are at getting the various campaigns that need development—for example, Navy brand and Air Force brand and some new work with technical trades—through the committee, because they generally have to go through one at a time. Sometimes they can take up to three months to go through.

Senator MARK BISHOP—Right.

Senator HOGG—So does this mean that you are relatively quiet for the first three months of the financial year? Is that the correct way to interpret that?

Brig. Gould—No, because we use existing material. Without giving too many trade secrets away, the Navy activity is the next one off and we are trying to align that with a popular television show that is about to be relaunched that is all about Navy. So we will try and lever off that; I think that is in about August-September. So there will not be a break. We will continue to try to project the ADF's image—Army, Navy and Air Force—throughout the year, but clearly it spikes in those key times when we are looking to fill either selection boards or recruiting vacancies coming up at the schools and the like.

Senator HOGG—Brigadier, it is just that I understood from an earlier statement—and I may well have misinterpreted what you said—that there was no firm plan in place at this stage for the 2007-08 period.

Brig. Gould—Do you mean when Senator Bishop asked me how I was going to spend the money—

Senator HOGG—Yes.

Brig. Gould—and I said I could not tell him that until the board has agreed how it is going to be spent?

Senator HOGG—Yes.

Brig. Gould—We will be in a position, once that board decision is made, to go to MCGC and say, 'We want you to buy this media,' and they will need to buy those blocks probably for the next six months. Some of it will be based on the fact that the material we wish to put to TV may not necessarily have been approved by MCGC at that time, but it is in anticipation of that approval.

Senator HOGG—Do you get a right of veto over where the placement actually goes? In other words, you are trying to project the best image for whatever element of Defence it might be, or just in terms of recruiting, but it may well be that the people who do the placement do not have in mind where it will best serve Defence purposes. How do you overcome that problem?

Brig. Gould—Firstly, I would say that Universal McCann do know where to put it because they have been doing it for quite a while. But they give us the draft plan and then our marketing people go through it with a fine tooth comb and make sure there is no *The Bold and the Beautiful* or any of those sorts of spots.

Senator HOGG—I am glad you mentioned that, not me!

CHAIR—Brigadier Gould, what is the make-up of the DFR board?

Brig. Gould—It is chaired by me. It has the CEO of Manpower Australia, which is our current recruitment service provider. It has the three service director-generals for personnel. It has the general manager and the director of military operations for Defence Force Recruiting. It has a representative from Defence Health Services and it normally has the contract

administrator as the secretary. The only other member perhaps who gets invited from time to time is from the Defence Force Psychology Organisation.

Senator HOGG—Just as a matter of interest, where is your office, Brigadier?

Brig. Gould—Mine is in the Walter Turnbull building, 44 Sydney Avenue—very close to Parliament House.

Senator MARK BISHOP—Thank you, Brigadier.

CHAIR—I assume you are going to come back to recruiting later.

Senator MARK BISHOP—Yes.

CHAIR—Thanks, Brigadier Gould.

Senator MARK BISHOP—Turning now to pages 14 and 15 of the PBS, the revised defence figure 1.2, the old output structure and the revised outcome and output structure. In terms of that table, which has the old structure and the proposed structure, what transitional arrangements apply in terms of each specific defence output from the previous to the current output structure? Is there a discussion on the transition somewhere in the PBS, Mr Veitch?

Mr Veitch—No, there is not. What we have done is just used the opportunity to flag to you that we have had a new outcome structure agreed by the Minister for Finance and Administration. The changes were agreed too late for us to be able to translate all of the information into this document this time around for two reasons. One was that we did not have enough time, but the second thing was that we were transitioning to an upgraded portfolio budgeting system. Our budgeting system, which we call BORIS, had just gone through a major upgrade and we judged that it was too risky to try in the short time frame to translate the information in here. We would rather do it in a measured way. So we have alerted you to that. What we plan to do in the additional estimates, the PAES, when we bring this back in December or January, is show you how we have converted the old structure into the new one, and the cross walk to explain that.

Senator MARK BISHOP—I might ask you, Mr Veitch, if you might take on notice to perhaps provide the committee with another private briefing in due course so that we can track the outputs under the old system to the new system and so have some familiarity with it and not have to waste a whole lot of time at the next round of estimates.

Mr Veitch—We could arrange to do that before the next estimates.

CHAIR—Thank you, Mr Veitch.

Senator HOGG—The other part to it of course—and this was raised in that private briefing we had with your officials—is that we need the annual report that you put out this year to be spelt out in these terms as well, so that we can easily move from the annual report this year to the accounts for next year—that is all.

Mr Veitch—When we do this year's annual report at the end of the financial year we would be obliged to report it in the old structure.

Senator HOGG—That is correct.

Mr Veitch—What we can do in the new structure from 2007-08 onwards is show it to you in the current structure and in the revised structure. We could brief you on that before we have the hearing into the additional estimates.

Senator HOGG—That is what we are after. Thanks for that.

Senator MARK BISHOP—That is what we are after. Turning to page 21, there is reference at the top to section 31 receipts. What is the value of each element of the section 31 receipt list shown on page 21? There are half a dozen dot points there.

Mr Veitch—I do not have the numbers with me, but I can point it to you in the document. If you go to table 2.1 on the previous page, serial 4, you will see a figure of \$709 million.

Senator MARK BISHOP—Whereabouts?

Mr Veitch—That is at serial 4—about halfway down the page you go across to the 2007-08 budget.

Senator MARK BISHOP—Yes, \$709 million.

Mr Veitch—For this year we are expecting to receive receipts which we can retain under the section 31 agreement totalling \$709 million. It is principally for those items shown in the six dot points. I could take on notice to get you some numbers, but, broadly speaking, we generally recover about \$100 million from our members for rations and quarters charges and of that order for their contribution towards the married quarters we provide them. We recover fuel from other governments—fuel we purchase on their behalf. A current example of that for the visiting US forces involved in Talisman Sabre—we purchase fuel and we then recover the costs of that from them. Under those arrangements that ensures that we are not disadvantaged by purchasing fuel or stores for other governments.

Senator MARK BISHOP—Basically that heading under table 2.1 of ‘Own source revenue’ refers to the section 31 receipts.

Mr Veitch—Yes.

Senator MARK BISHOP—If you could take that on notice and give us the figures for each of those dot points in due course, it would be appreciated.

Mr Veitch—Okay.

Senator MARK BISHOP—With respect to the sale of fuel to foreign governments—already paid for, I presume, by the taxpayer—isn’t retention of the sale money effectively a double payment? Why do you get to keep it?

Mr Veitch—No, we purchase the fuel out of our appropriations and then we recover it under the section 31 agreement we have so that our budget is not disadvantaged by providing that service. It nets out as being cash neutral to the budget generally. The only issue from time to time is where you buy fuel at the end of a financial year and you do not get recovery until the next financial year. By and large, it is neutral to the budget.

Senator HOGG—Do you buy it on a Monday and sell it on a Thursday?

Mr Veitch—No.

Senator HOGG—I was just curious. I wouldn’t put anything past Defence!

Senator MARK BISHOP—You're the only petrol retailer in Australia who doesn't do that.

Senator CHRIS EVANS—Yes, but he says, 'Now that you mention it—

Senator MARK BISHOP—Is excise included in the sale price or is it excise free?

Senator HOGG—And GST too.

Senator MARK BISHOP—And GST, yes.

Mr Veitch—I am not sure. I do not know whether we have any logisticians here or not. If not, I might have to take that on notice.

Senator HOGG—And GST.

Mr Veitch—I will take that on notice.

Senator MARK BISHOP—If you turn to page 60, you will see sale of fuel to non-government entities. Is that included in the section 31 receipts?

Mr Veitch—Where are we?

Senator MARK BISHOP—At page 60, where there is the heading 'Revenue from sale of fuel to non-Defence entities'. The figure there is \$2.3 million in 2005-06. Is that part of the section 31 receipts?

Mr Veitch—Yes, it would be.

Senator HOGG—It says it includes excise, GST and appropriate on costs. So that is the Monday and Thursday.

Mr Veitch—That is right! There are other examples there. On the previous page, for example: 59, sale of charts and maps. We produce charts and maps that we sell to other organisations and the general public. Under our agreement we are allowed to recover the costs associated with providing that service to other government departments and the public generally.

Senator MARK BISHOP—At the foot of page 27, there are administrative savings identified of \$1 billion, and on page 55 there is a list of the savings measures, and they are also in table 2.20. Can you tell me how many positions were cut from the corporate communications division?

Mr Veitch—Sorry, I missed the reference to the table, Senator.

Senator MARK BISHOP—At the foot of page 27—

Mr Veitch—Yes, I've got that number.

Senator MARK BISHOP—administrative savings are identified as \$1 billion, and on page 55 there is a list of savings measures identified and, if you go to table 2.20, starting on page 56, that shows the savings over the period of the forward estimates for each of the measures identified on page 55. Can you tell me how many positions were cut from the corporate communications division?

Mr Veitch—First of all, there is no relationship between the \$1 billion on page 27 and the figures over on page 54 and 55. They are separate issues altogether. The numbers that you are

referring to on pages 54 and 55 are a program of administrative savings that the government required us to undertake some years ago. It was a five-year program to achieve savings of \$200 million by this coming budget, and the descriptions that we have got there on pages 54 through 57 are designed to show that we are on track to achieve those savings.

Senator MARK BISHOP—Those savings there, on pages 54 through 57, the listing and the table, are unrelated to the \$1 billion mentioned on page 27, are they?

Mr Veitch—Absolutely, yes.

Senator MARK BISHOP—Right. I thought they were—

Mr Veitch—No, these are some time after that. Page 27 was talking about issues to do with the white paper back in 2000, whereas we brought in this program of administrative savings in the 2003-04 budget.

Senator MARK BISHOP—Right. I understand the background to the savings and efficiencies measures over time in table 2.20, and you have identified the amounts and told me it is on track. What then is this \$1 billion at the fourth dot point of page 27? It says:

- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings (\$1.0 billion).

What are we talking about there?

Mr Veitch—When the white paper was announced back in 2000, there was originally a \$23 billion commitment over 10 years, to the decade ending 2010-11, which in today's money is about \$29 billion. What we did was allocate that money principally to the defence capability plan, to personnel—the higher costs of maintaining military personnel—and also to the through-life support of new equipment that was being acquired through the defence capability plan. There was another \$1 billion that was allocated at the time to a range of what we termed baseline cost pressures that applied at the time. Some of those were in the logistics area, but some were just generally across the non-capital personnel area of the organisation. But at the time, in return for that funding commitment from the government, the government also required that we find further efficiencies, and part of the white paper commitment was for us to find a couple of hundred million dollars per annum in efficiencies from 2000. Now, we did that and completed that program by about 2003-04. What happened in the 2003-04 budget, which is the second tranche of information we are talking about here, was that we had identified some further cost pressures to the government and, rather than us seeking extra money from the government, the government required us to actually become more efficient and find some savings to offset those cost pressures, and that is what we have done.

You asked questions about what that meant in relation to personnel numbers. I do not have the specifics in terms of the communications area but, overall, as part of that program we reduced our civilian personnel numbers by about 1,400 in the administrative areas. That was something like 1½ per cent per annum for about three years. In addition, there were some savings around rationalisation of outsourcing of the warehousing functions. Those savings were achieved and they are part of that \$200 million program.

Senator MARK BISHOP—That is quite fascinating. Savings due to cuts to civilian numbers are shown as \$46 million over four years but, if you turn to page 112, the number of civilian staff is shown as increasing by 158. Can you explain to me that difference?

Mr Veitch—Yes, I can. I was very careful—if you had listened to my answer carefully—to say that it was a reduction in the administrative side of the organisation. We did save the civilian personnel numbers on the administrative side. Since then, the civilian numbers have increased and they have increased for a number of reasons. The most notable of those has been for new budget measures agreed to by government where they came with both additional staff and funding for those new measures. There has been an increase in the capability development side and also in Dr Gumley's side to manage the expanding defence capability plan that we talked about earlier today. We have civilianised quite a number of military positions where we have found that it is more efficient and cost-effective to have those positions in support areas performed by civilian staff rather than military personnel. Because of some current shortfalls in our military numbers, we are temporarily backfilling a number of military positions—where that is possible—to take pressure off the military workforce. In addition to that, we have substituted about 800 more costly professional service provider positions with cheaper civilian labour—civilian public servants. So, whilst the numbers have increased—and increased quite sizeably in the last couple of years—they can be put down to those five or six special reasons that I have talked about. But those original savings in the administrative functions in those areas persist and are enduring.

Senator MARK BISHOP—You say you have got the permanent savings from the administrative cuts that you have outlined.

Mr Veitch—Absolutely.

Senator MARK BISHOP—You have increased your total civilianised workforce by 158 in the 2007 financial year but that has been achieved by essentially the measures you have just outlined.

Mr Veitch—Those measures we have just outlined.

Senator MARK BISHOP—And new money?

Mr Veitch—New money for the budget measures has come with some of those but in other areas, where we have traded between the various uniforms or categories of the workforce, we did that through internal adjustments to our budget.

Senator MARK BISHOP—Understood. Going back to page 55 again, one of the savings items was the rationalisation of the civilian personnel admin centres from three to two locations with a savings of \$1.3 million. Where are those centres and which one is being closed?

Mr Veitch—I think I might defer to our good friends in the Defence Support Group to give some details.

Mr Tomkins—Your question is about the rationalisation from—

Senator MARK BISHOP—From three to two.

Mr Tomkins—We are going through a process of consolidating a number of these centres to improve not only the service delivery but also the efficiency of those services. It is not as simple as saying that we are reducing down from three down to two.

Senator MARK BISHOP—What was the phrase you used? I am just trying to find the exact—

Mr Tomkins—It is the rationalisation.

Senator MARK BISHOP—‘Rationalisation of military personnel admin centres and further rationalisation of civilian personnel admin centres’, at the top of page 56. So whether it is a reduction or a rationalisation, where are the three current locations and where are the two going to be in the future?

Ms Parr—The rationalisation of the personnel administration centres has been going on for about six or seven years. We started off with 22. We rationalised them down to nine and eventually in the early 2000s we got to three which were in Canberra, Sydney and Melbourne. In the last year or so the Canberra personnel administration centre has downsized considerably. There is still a small remnant there which picks up SES officers and some of the intelligence people, but all of the other people who were managed by the Canberra personnel centre have been now disbursed between Sydney and Melbourne. Basically, Australia is divided into two halves, alphabetically for some of it and regionally for the rest into those two centres.

Senator MARK BISHOP—When will the Canberra centre be finally rationalised?

Mr Tomkins—We are going through a process now, as Sue Parr mentioned, of rationalisation. The parliamentary secretary recently announced the starting up of a new business centre in Williamstown and—

Senator MARK BISHOP—In Melbourne?

Mr Tomkins—No; Williamstown, Newcastle. The process over the course of the next 12 to 18 months is the completion of the building and then the progressive transfer of functions from other centres around Australia into one centre.

Senator MARK BISHOP—This question is probably for you, Ms Parr. What is the nature of the rationalisation of the military personnel administration centres listed on page 57? What is the current location?

Ms Parr—The military personnel administration centres are much more disbursed at the moment because of the need to have service closer to people.

Senator MARK BISHOP—Do with we have an ongoing process of rationalisation?

Ms Parr—Yes, they are part of the same process. They will be going to Williamstown as well. Williamstown will eventually be both military and civilian personnel processing.

Senator MARK BISHOP—So you are centralising all military personnel admin processes in Williamstown.

Mr Veitch—If I could just add to that: that is one rationalisation process that we are going through, but you alluded to the numbers, I think, in 2.21 on page 57. That is a separate savings initiative again. It was a reduction in military personnel numbers in the command and control

structure that the government agreed as part of the 2006-07 budget. So that is additional to these other two reform programs that we are talking about in relation to personnel and business centres.

Senator MARK BISHOP—How many current military personnel admin centres do we have?

Mr Tomkins—I believe it is 24 that we have as discrete pay centres located around Australia.

Senator MARK BISHOP—When the rationalisation is concluded on the military side, how many centres will we end up with?

Mr Tomkins—We are not in a position to define what the end result will be. Rather, we are proceeding with the process of rationalisation, seeing how that process goes. But it is not as simple as suggesting that we are going to end up with one or two. It will take time. We must ensure that we maintain business continuity right through this process.

Senator MARK BISHOP—You have told us the civilian side will have reduced over a period of years from, I think, 22 to three to two.

Ms Parr—To one eventually.

Senator MARK BISHOP—Is the military side the same process or a different process?

Mr Tomkins—It is related. It is not the identical process; there are very different issues to work through and on a very different time frame.

Senator MARK BISHOP—And we are just starting the military side as we virtually conclude the civilian side—is that right?

Mr Tomkins—Not exactly.

Ms Parr—I can probably add a bit of background to that. What has happened in the past with the military is that it has been amalgamated into the regional centres within the Defence Support Group and, in doing that, a lot of people who were military people have been civilianised into Public Service jobs. It is an ongoing process. I think it has been a different time frame because what has enabled the civilian personnel admin centres to be rationalised quicker is the use of PMKeyS for payroll and the ability for people to do a lot more self-service. So the rationalisation has actually included the passing of some functions back to employees to do, at the same time as rationalising it and having much more of a processing task rather than a high-level admin task.

Senator MARK BISHOP—Do we have an indicative time frame for this rationalisation on the military side to be implemented?

Mr Tomkins—Not on the military side; it is far less precise than on the civilian side.

Senator MARK BISHOP—Is that because you do not have a full picture of the problems and possible consequences of what you are intending to do as yet; you have not yet done the business case planning?

Mr Tomkins—That in part, but also I think it would be fair to say that the issues around payroll for the military are far more complex than what they are for the civilians. I think we

are learning a lot about business process re-engineering through the current process and I think that will position us very well to then continue with the exercise with military payroll.

Senator MARK BISHOP—Okay. I think I have done that to death.

Senator HOGG—You have not.

CHAIR—Not quite, apparently. The death blow will be struck by Senator Hogg, perhaps.

Senator HOGG—Throughout this rationalisation, what is going to happen to the hard copy records? I presume there are a lot of hard copy records associated with the personnel. You are rationalising the centres into a fewer number of centres. Where are the records going? Obviously that becomes the only fall-back position in many instances for a lot of people.

Ms Parr—I mentioned before self-service. What self-service has enabled is for a lot more of the records to be actually handled electronically and that has facilitated the speed at which we have been able to rationalise. When each of the personnel admin centres closed and were rationalised, the files were moved with the person's name. So now Sydney and Melbourne have most of the files there, unless they are archived beyond a certain date. More recently, because all leave records virtually now are done electronically, we have got approval through the ANAO to have the records held electronically rather than hard copy.

Senator HOGG—I think that is fine. I was alluding mainly to the old system, which there would still be quite a number of people subject to. Whilst you might be moving down the path of most of this being done electronically, I was interested to preserve the rights of those who might rely on hard copies.

Ms Parr—Certainly the hard copies are there. They were used extensively when ANAO were doing the auditing of leave records in the last couple of years, so there has actually been a very good stocktake of all hard copy files. They would be either in Sydney or in Melbourne or archived.

CHAIR—Have you finished on that?

Senator MARK BISHOP—No.

CHAIR—I thought you said you had almost done it to death.

Senator MARK BISHOP—That particular issue. Can you turn to page 105, Mr Veitch, and the third dot point from the bottom: 'Implement the rationalisation and integration of the civilian and military personnel admin functions, including the transition to a new single business centre located at Raymond Terrace, New South Wales'. Where is Raymond Terrace?

Mr Tomkins—That is the same issue as we have just been speaking about. The exact location of the new business centre is at Raymond Terrace, near Williamstown.

Senator MARK BISHOP—In the electorate of Paterson.

Mr Tomkins—I am not too sure about the electorate.

CHAIR—Near beautiful Port Stephens. Well worth a visit.

Senator MARK BISHOP—At page 62, the cost of sustaining Defence personnel overseas is shown with respect to DFAT costs. Can you advise us how many personnel are overseas and at what total cost.

Air Chief Marshal Houston—We do have the total numbers of people overseas. I do not think they will be in any of these documents. We can take that on notice.

Mr Veitch—I wonder if that is one we could answer tomorrow. We should have the people here tomorrow who can handle that one.

Senator HOGG—So these are people posted, they are not people just on itinerant duties overseas looking at projects or something such as that, I presume.

Air Chief Marshal Houston—The only people it would not include are people who are on short visits for engagement purposes. This would be the people who are posted overseas, people who are with the DMO, people on exchange postings, people in the various embassies and high commissions. We have got a complete list of all those people; we know precisely how many. I guess we can get all of that information tomorrow.

Senator MARK BISHOP—That is fine, thank you. On page 63 in the discussion under ComSuper, it says there is going to be an increased cost of Comcare cover, reflecting an increase in civilian salaries of 10.8 per cent. Reference is also made to an expected ‘negative development’ of civilian compensation claims. What does that mean? Does that mean you are going to have a significant increase in the number of civilian based compensation claims or higher payouts?

Mr Veitch—The first part of it definitely, in terms of the increase, relates to the higher number of personnel that we have just talked about and the fact that they are getting paid at a higher rate this coming year because of the enterprise arrangement we have through the Defence enterprise collective agreement. So that is more of a move in volume and price which then reflects the premium that we pay to ComSuper for the services they provide to us. In terms of the negative development, I am not sure what that means and I will have to take that on notice.

Senator MARK BISHOP—It is in the second paragraph.

Mr Veitch—We will get you an answer tomorrow on that; that is one that slipped through to the keeper.

Senator MARK BISHOP—You see it there in the second paragraph?

Mr Veitch—Yes, I can. We will investigate that and let you know tomorrow.

Senator HOGG—On the same item: if you turn back to page 56, under the heading, in table 2.20, of ‘Administrative savings achieved or planned to date’, you will see it refers to ‘reduction in Comcover insurance premium’. Is Comcover different from Comcare?

Mr Veitch—Yes, it is. Someone might be able to help me on the difference, but I can explain the reduction. We went through a process with Comcover a couple of years ago because we were doing some work to improve the way in which we manage risk in the organisation and some initiatives to do with our occupational health and safety and a range of other things. What we were able to do with Comcover was to demonstrate to them that the risk upon which they were calculating the premium we paid them each year was, if you like, overstated, that we had made general improvements in that area. We were able to negotiate quite a sizeable reduction in the premium.

Senator HOGG—So what does Comcover actually cover?

Ms Parr—The difference between the two is that Comcare is the coverage that provides for employees and was established in the late nineties; Comcover, which was more recently introduced, is all sorts of other insurance. So instead of the government self-insuring we actually do it through Comcover and pay a premium, which, as George said, was then reduced after we were able to prove that our claims against the original calculations were much less than was expected.

Mr Veitch—Much less than the original numbers, yes.

Senator HOGG—I just thought there might have been some interrelationship, and I could not understand why there was a saving in one place and not in the other.

Senator MARK BISHOP—HMA Blaze is referred to repeatedly in the annual report for getting a whole range of advertising and similar type contracts throughout—

CHAIR—It is a company name, is it, Senator?

Senator MARK BISHOP—Yes. It is specifically mentioned.

CHAIR—The officers were not recognising the name you were using.

Senator HOGG—I thought they were nodding.

CHAIR—No, they were shaking their heads actually. Could you point to a reference in the annual report for them, please?

Senator MARK BISHOP—Table 6.35. What is HMA Blaze? Is it an advertising agency?

Air Chief Marshal Houston—An advertising agency.

Senator MARK BISHOP—It is one of a series of providers of advertising services?

Air Chief Marshal Houston—I do not have any detail. Brigadier Gould will probably be able to inform us.

Brig. Gould—HMA Blaze is a media placement agency. From a DFR perspective, HMA Blaze buy us spots in regional and smaller newspapers, sometimes state capital newspapers, for various ads. But I think Defence uses HMA Blaze for other media purchases as well.

Senator MARK BISHOP—Does it provide monopoly services for your side of the work or is it just one of several agencies that effectively subcontract or receives subcontracted work for media placement?

Brig. Gould—I would have to take that one on notice. My sense is that they won a contract to provide that for us, but I can take that on notice and give you an answer tomorrow.

Senator MARK BISHOP—Can you take on notice when they got the contract, was it subject to a tender process, how much they have received in payments to date in the contract and what will their involvement be, if any, in your Defence personnel recruitment ramp-up in the 2007-08 financial year?

Brig. Gould—Certainly.

Senator MARK BISHOP—Do you anticipate that they will be a major beneficiary of the new increased budget?

Brig. Gould—Not markedly because of what they do. Most of our new money, if you like, will be going into online, which they are not involved in, or in brand work, which is predominantly to do with cinema, magazines and television. So they are very local; they are very focused. For example, if we are running a careers information activity in Albany, then they will put a small ad in the Albany ‘disturber’ to make people aware of that.

Senator MARK BISHOP—Are there any ex-military personnel on the board of HMA Blaze?

Brig. Gould—I can take that on notice for you.

Senator MARK BISHOP—What is the cost of the Indigenous programs on pages 53 and 54 of the PBS?

Air Chief Marshal Houston—I do not think the costs are very high.

Mr Veitch—We could answer that tomorrow, when we have the right people here.

Senator HOGG—We could not find the reference as to the costs. That goes over the page as well.

Air Chief Marshal Houston—Just a bit of background: I do not think the costs would be very much. Indigenous people make up 0.5 per cent of the ADF. Most of those are reservists in the regional force surveillance units in northern Australia, units such as Norforce, RFSU in northern Queensland, 51 North Queensland regiment and the Pilbara regiment.

Senator HOGG—We knew it was never a big ticket item. The intention was to see what was being done in the Indigenous area, given that Defence went to the trouble to highlight that area in the PBS. There are no figures to be found.

Air Chief Marshal Houston—We are very keen to recruit more Indigenous people because clearly they are underrepresented in the ADF at the moment.

Senator HOGG—Also, page 53 mentions the community assistance program. I recall at a number of estimates committee hearings having a discussion about the work that was being done there and the cost. Again, there is nothing to it; it is a matter of interest, as much as anything else.

Air Chief Marshal Houston—It is a fabulous program and it does great work.

Senator HOGG—That’s right. I want to make sure it has not slipped or gone off the rails.

Air Chief Marshal Houston—The Chief of Army can speak to that if you wish. It is a very active program and we are fully engaged in it despite the very high level of operational tempo that we have now.

Lt. Gen. Leahy—The Aboriginal Community Assistance Program continues, I do not have an exact figure. If you could wait till tomorrow we would be able to give you the exact figure. The program has commenced again for this year. The operation will be at Doomadgee in Far North Queensland. We are certainly planning to continue it for at least the next two or three years. It is a wonderful program for both the communities, it is also supportive of our operations. Indeed the engineers who have been doing the ACAP program for the last 10 years in part have been successful in the reconstruction taskforce in Afghanistan because of their

ability to deploy long distances, to work in remote communities and particularly to work amongst different cultures.

Senator HOGG—Could you give us the 2006-07 likely outcome and the 2007-08 budget?

Lt. Gen. Leahy—We should be able to do that tomorrow.

Proceedings suspended from 8.59 pm to 9.10 pm

CHAIR—We will resume. I think we have a response in relation to the Blaze organisation.

Brig. Gould—HMA Blaze is the equivalent of Universal McCann in terms of media buy for government. That contract is administered by the government communication unit out of Prime Minister and Cabinet and so Defence does not have any option other than to use HMA Blaze. We are not involved in any of the tendering processes or in any of the issues about who is on the make-up of the board or the like. Does that answer Senator Bishop's question.

Senator MARK BISHOP—HMA Blaze is a media placement agency but it has a central contract with government for all agencies?

Brig. Gould—For all the work that they do they are the sole provider.

Senator CHRIS EVANS—As they are on a percentage, they are doing very nicely this month.

Lt Gen. Leahy—I have the figures for the expenditure for ACAP. For ACAP 05, which was May to September 2005 at Fitzroy Crossing, the army portion of the expenditure was \$2.258 million. For ACAP 06, which was May to August 2006 at Borroloola, the army expenditure was \$1.5 million. For Doomadgee this year we are planning \$2 million expenditure.

Senator CHRIS EVANS—I have a question on ACAP. It goes to the assessment of the work. It is a very good program in the sense of the work that is done but as you know one of the big issues in Indigenous communities is maintenance of facilities once built. We have a history of people going in, building things and leaving, and then there is deterioration et cetera. What assessment has Defence done on the longer term success of the projects? They are built; they are established to a good standard. Have you done any assessment of the longer term impact of the program or what has happened inside the communities where you have been and done the work?

Lt Gen. Leahy—The program is not only about delivering the physical infrastructure. I am familiar with the one over in Fitzroy Crossing. A large part of the program is about training. So our tradesmen have gone over and set up small training schools in association with local TAFEs so we have been able to leave the communities and the individuals in the community with the skills that they would need to maintain it.

Senator CHRIS EVANS—There is less focus on capital works than there was at the start?

Lt Gen. Leahy—Yes. We have seen the involvement of the communities and the local TAFEs. We give them accredited training and they are able to get the skills. We also send back our Chief of Engineer Works to assess the work after it has been delivered. In terms of the long term, I am not aware that we are going back to the very early programs and making an assessment there.

Senator CHRIS EVANS—Are you doing any capital works now or is it all the same?

Lt Gen. Leahy—There are certainly some capital works.

Senator CHRIS EVANS—I saw the press release on Doomadgee yesterday or today.

Lt Gen. Leahy—The capital works depends on what the community need, but it tends to be houses and roads. Over at Fitzroy crossing we built an airstrip. So there are a variety of things and we develop that in conjunction with the communities.

Senator CHRIS EVANS—I just want to know what the long-term impact of those capital works has been. As I say, maintenance has been the big issue. There has been lots of construction over the years that has turned to dust almost because of (1) the conditions—often we build things that do not suit the conditions—and (2) the maintenance has not then occurred and the asset has been run down quite considerably.

Lt Gen. Leahy—There is the partnership now with the TAFEs and the communities, and we are making sure that they have the skills. I know that in some of the communities they are setting up small businesses themselves, to maintain not only the capital works that we have delivered but also that which was there beforehand.

Senator CHRIS EVANS—Next time I am in Fitzroy I will have a look. Thanks for that.

Senator HOGG—I would like some indication of the expenditure on the Australian Defence Force Cadets Indigenous Participation Project and the Indigenous recruitment and retention strategy.

Major Gen. Fairweather—The Indigenous participation program is an initiative commenced several years ago as part of the Cadet Enhancement Program. The funding that goes into that is difficult to identify in total because it comes from a number of arenas. The specific initiative funding is approximately half a million dollars a year; it has been that for the last several years. That has comprised of expenditure on two full-time cadet liaison officers—one in Darwin, one in Townsville—facilities, movement activities and so forth specifically for Indigenous cadets. The program has included the revitalisation and establishment of new cadet units in a number of communities across the top end. As a result of that, other expenditure is provided largely by the services, in particular Army, in funding the staff, uniforms, equipment and so forth. That is additional funding that I am not able to clearly articulate for you.

Senator HOGG—Are you able to take on notice and give us some idea of the numbers involved?

Major Gen. Fairweather—It is a little bit of a moving feast, as a lot of these things are in the communities. I can give you some specific examples I know of, off the top of my head. When we started Bamaga unit about five or six years ago it had about six or seven cadets. It has now got 35 regularly attending and upwards of 50 on the books. Thursday Island, which is being relaunched and a new facility being established this month, has now got 66 cadets from four last year. That was a new initiative.

Senator HOGG—Are these all Army?

Major Gen. Fairweather—No, Thursday Island is Navy and Bamaga is Army. The Tiwi Islands is small. We are working on that as the next initiative. We started a unit there a few years ago, but it has not thrived; it needs facilities. Wadeye—previously known as Port Keats—has a cadet population of approximately 20 regular attendees. It goes up and down fairly regularly, which is a symptom of the community. Then there is a whole bunch of other units which have Indigenous cadets in them but there is no way I can tell you those numbers even on notice.

Senator HOGG—I was looking for indicative figures mainly to get some appreciation. You say the half million dollars per year that has been spent on the office or in Darwin and Townsville basically has not been increased over a number of years.

Major Gen. Fairweather—That is correct. There have been three major components of expenditure: putting in new facilities, and that has a very positive effect on the growth of the unit in the area and its activities; salaries of staff; and travel. It is about half a million, but where it goes in a particular year will depend upon the requirement.

Senator HOGG—Does the outcome of your expenditure—not that it is major expenditure by any stretch of the imagination—get aired in the annual report?

Major Gen. Fairweather—Not as a measurable outcome, I would not imagine. There are several outcomes; some of them are more altruistic than hard data, I think, and that is about the impact in the communities—education, health, youth attitudes.

Senator HOGG—So, unless we ask about this at estimates, it is something that does not get much of an air play—is that fair?

Mr Veitch—I think that, where a new measure is involved in these things, we make that visible in the budget papers. For example, as part of the recruitment and retention package, the government announced an additional \$10 million going into improvements and enhancements to the cadet scheme from this budget onwards. That is on top of about an additional \$6 million per annum that we put into the cadet scheme about five years ago. So there has been a sizeable ramp-up in expenditure on the cadet program, generally, even if this one has not had any specific increase itself.

Senator HOGG—Yes, but that does not distil out the additional money that will be spent on the Indigenous recruitment and retention strategy.

Mr Veitch—No, it does not, but more generally on the cadets. I just make the point about sizeable increases on the cadet program.

Senator HOGG—Thank you very much. Mrs Parr, you had something that we discussed during the break to tell me about.

Ms Parr—Yes, I have a bit more information on the Indigenous programs that relate to what was in the PBSs. There is a Defence Indigenous Study Award which is offered to APS levels 1 to 6 to undertake tertiary study on a full-time basis, and they are paid according to their APS level. They receive HECS, all compulsory fees and allowances for purchase of course books and stationery. We are currently advertising that program to get people to apply. We have a graduate development program and seek to have an Indigenous graduate development program within that. We got two graduates in our last graduate intake under that.

We participate in the Leadership in the Australian Public Service—an Indigenous experience program. An EL1 employee of Defence graduated successfully from that program in November 2006, and we are seeking people to participate this year. We have an Indigenous Australian Contract Management Traineeship Program. We currently have one participant in that program in Canberra, with three to commence later this year. We are participating in the APS Indigenous Career Ambassador Campaign, where one of our EL1 employees is participating in the Australian Public Service Commission program, and we have made a contribution to the reconciliation action plan that the Public Service Commission is sponsoring at the moment.

Senator HOGG—Thank you very much. I now turn to one of the other programs that appear to be uncoded. It is on page 59, Defence Assistance to the Civil Community—outlay 2006-07, outlay 2007-08. Is there an allocation in the budget?

Mr Veitch—We do not have that information with us readily. But I will go back to the discussion we had earlier about the new outcome structure we are introducing—the new outcomes that had been agreed from this year onwards. The information will start to be available from the additional estimates onwards and will disclose the activities the Defence Force is involved in with the civilian community, whether it be from very highly visible things like the security we are providing to the APEC forum or aid to the civil community generally in terms of humanitarian aid—assistance during disasters such as fires and floods and those sorts of things.

Senator HOGG—Cyclones and the like.

Mr Veitch—Those sorts of things, yes.

Senator HOGG—Could you, therefore, without taking the time up this evening, take that on notice and give us an answer tomorrow, if you can?

Mr Veitch—I do not think I could do that. It goes back to what I said—that we just did not have the time to do the conversion. But, as part of the brief we undertook to provide you in moving to the new outcomes structure, we could take you through that and show you what makes up those costs.

Senator HOGG—The next figure is on page 99. I am not trying to get into the substance of these. We are looking for monetary amounts, more than anything else. At the bottom of the page there are a number of dot points and the second dot point says ‘Streamlining the ADF recruitment process through the implementation of the new Defence Force Recruiting capability’. Is there a cost associated with that? Where do we find it in the PBS? Is that different from the existing Defence Force recruitment office?

Brig. Gould—Whilst George might be able to find it in the yellow book, essentially the funding for that activity was announced by the Prime Minister on 15 December last year as \$37.1 million annually for the next 10 years.

Senator HOGG—What I am trying to understand is whether that is additional funding or new money.

Brig. Gould—It is new money to me in recruiting, but I am not sure if it is new money in addition to PBS, if that is your question.

Senator HOGG—That is my question.

Mr Veitch—I alluded earlier, I think, in the discussion to the fact that the government had committed a billion dollars back in December 2006 for new recruitment and retention measures and also, as part of this budget, an additional \$2.1 billion. That information has been disclosed in table 2.2 on page 22 of the PBS for the new measures. The measures there are the ones that amount to the \$2.1 billion, although that shows the first four years of the program. The \$2.1 billion stretches over 10 years. In addition to that—this is new money in the budget—there is a baseline allocation of funding for personnel management and personnel initiatives that is over and above the new money.

Senator HOGG—Is that the \$37.1 million that Brigadier Gould referred to?

Mr Veitch—Yes. He has a recurrent budget at the existing level, and the new measures add more money to that.

Air Chief Marshal Houston—It is covered in detail on page 100, ‘Reform Defence Force recruiting (\$371 m)’. All the other measures that were announced in the budget with regard to recruitment and retention are on pages 100 and 101.

Senator HOGG—Seeing that we are on page 100, I will take you to the expenditure outlined there for a military gap year of \$306 million. Again, I do not want to dig into the scheme so much, but I am trying to understand it. It says there that it is to apply to 17- to 24-year-olds who have completed year 12 in the previous two years. I do not know how many people over the age of 22, 23 or 24 will fall into that bracket.

Mr Veitch—Our aim is to progressively bring up to 1,000 people into that scheme.

Senator HOGG—You are going to stretch the criteria?

Mr Veitch—No, I think that the years 17 to 24 are just representative of where we would expect people to fall into that category.

Air Chief Marshal Houston—I think the key thing is that you must have completed your schooling to year 12 or the equivalent in the previous two years.

Senator HOGG—As I say, I do not want drill down into the program. I am just trying to work out how the allocation—

Mr Veitch—The money is essentially to pay for the thousand young people we hope to attract as part of that scheme and also some of the costs associated with the administration of the scheme and the support to those people in terms of equipment, training and the like.

Senator HOGG—I am at page 103. I have looked for allocations against these issues. They are under ‘Improving ADF Help’, then ‘the Defence injury prevention program’—the six dot points there. Do you have allocations against each of those issues?

Mr Veitch—We do. I was explaining before that we have a baseline budget allocation and that allows us to do a number of things on a recurrent basis. Each year the budget is focused around the new money, and we go to great detail in the PBS to explain and quantify the amount of new money. It would be an impossible task for us to quantify everything else, and what we are trying to do in this document by way of words is to give you a feel of how our emphasis is changing in terms of the policy and levers we are pulling to improve particular

things. That is more an articulation of what we are doing within our current budget, whereas the recruitment and retention money which we have explained in much more depth is about the new money voted to us by the government in the budget.

Senator HOGG—In that case—and if it is not available this evening I will take it tomorrow—is it possible to get the 2006-07 figures and the 2007-08 figures for those six dot points?

Mr Veitch—Is this under ‘Conserving the Workforce’?

Senator HOGG—No, it is under ‘Improving ADF Health’. I am interested to find out what has been spent in the area, in particular the ADF alcohol, tobacco and other drugs program, the ADF suicide prevention program and the continuing health studies of personnel deployed on Operation Anode and Operation Citadel.

Mr Veitch—Sue could certainly give us some information on at least three or four of those tonight, and we will see what we can get for you tomorrow.

Senator HOGG—I will take them all tomorrow if you have got them in the one table tomorrow.

Mr Warner—If we have them tonight, why don’t we—

Senator HOGG—If you have got them all tonight, yes.

Ms Parr—As George mentioned, we have a continuing program. We run it through the Defence People Committee. I will just read through a couple of the items here. The ADF Mental Health Strategy has got \$207,000 in 2006-07 and \$33,000 in 2007-08.

Senator HOGG—Sorry; in 2006-07?

Ms Parr—It was \$207,000 and, in 2007-08, \$33,000. What happens is that we get continuing bids against this program. That was the particular bid that Tony’s people had put up last year, and then there would be further bids coming up as that particular initiative was done. The East Timor health study is \$88,000 this year.

Senator HOGG—The suicide prevention program?

Ms Parr—The recruitment drug screening and mental health program is \$979,000 this year and \$979,000 in 2007-08.

Senator HOGG—But that is part of the core business of recruitment, isn’t it?

Ms Parr—These are particular initiatives that were approved based on business cases and came out of the people plan money. The suicide intervention training was \$361,000 in 2006-07 and \$260,000 in 2007-08.

Senator HOGG—Why the drop?

Ms Parr—It is just the way in which the program was developed. It was initial implementation costs versus ongoing running costs. I think they are probably the main ones you mentioned.

Senator HOGG—Do you have the figures for the alcohol, tobacco and other drugs program?

Ms Parr—That is \$487,000 in 2006-07 and \$382,000 in 2007-08. There is also the Bougainville health study, which is \$426,000 in 2007-08.

Senator HOGG—At the top of page 104 there are the health services initiatives and, again, there are no figures in the PBS. I know you gave me a figure before for mental health.

Ms Parr—Certainly, some of those would be those I have referred to. There is the Bougainville health study, which I have mentioned, and also the Timor study; they are the third dot point there. The resilience study in the first dot point was one of those I mentioned before too. What I gave you before answered those two.

Senator HOGG—I was looking to see whether there were new initiatives.

Ms Parr—Certainly all of those I read out were new initiatives in the last year or two.

Senator HOGG—I need some interpretation with one that is on page 116. No. 11 says: Increase in staff for intelligence related liaison positions in the US as a result of the Byrne Review. It has a very neat figure of \$1 million over the next four years.

Ms Parr—That relates to 13 people. Table 4.4 on page 112 provides the numbers that relate to the money that is on page 116.

Senator HOGG—I see that now.

Ms Parr—The two correlate.

Senator HOGG—The next is a PBS matter and this is probably in Dr Gumley's area. There are a couple of notes below the table on page 155. The first says that HMAS *Sheean* entered full-cycle docking nine months early and the next note says HMAS *Dechaineux* will remain in full-cycle docking for all of 2007 with expected completion in late 2008. Why the longer docking cycle? Will that cost more? If so, where is it in the budget?

Rear Adm. Ruting—The *Sheean* will enter her full-cycle docking earlier than previously planned, so it is bringing forward expenditure that would have occurred later in the cycle.

Senator HOGG—But it is only a nine-month—

Mr Veitch—I think the wording infers that it is coming in nine months early; it is not that it is going to be there for nine months.

Senator HOGG—Is the docking cycle exactly the same?

Rear Adm. Ruting—No. In fact, we will slightly advance the full-cycle docking activity itself, as a result of the boat being available to start work on earlier. She was also sent across earlier to start the work, due to other Navy requirements.

Mr Veitch—You asked where the money for that would be in the budget. If you move to table 3.7 on page 289 in the DMO section, you will notice—I think this is the first time that we have listed it in the PBS to improve the transparency of our information—that, halfway down the table against the Collins class submarines, we will be paying DMO \$322 million this year for maintenance of the submarine capability.

Senator HOGG—Is that for both of those?

Mr Veitch—It covers the whole fleet of submarines.

Senator HOGG—So it covers the full cycle?

Mr Veitch—Yes, for the maintenance operating cost support for the whole submarine fleet. So the full-cycle docking of the two submarines that you were talking about earlier would be covered by that \$322 million.

Senator HOGG—The only other thing I could not find a figure for was mentioned on page 208, under ‘Defence Estate Management’. At the fourth dot point it talks of disposing of surplus defence properties. Is there a figure in the PBS for the defence properties that have been disposed of or intend to be disposed of in the 2007-08 year? I know there are issues surrounding the need not to flag to the marketplace what you hope to get in some instances.

Mr Veitch—We do have a figure. I will get Mr Beck to help me here. In the meantime, while he is talking about the property disposal program, I will find it in the book.

Mr Beck—On page 95, the estimate for 2007-08 proceeds from the sale of land and buildings is \$39.7 million.

Senator HOGG—I am sorry; where is that?

Mr Beck—It is in the top part of table 3.14, which is on page 95.

Senator HOGG—Is there a forward figure for the 2010-11 year?

Mr Veitch—No. Perhaps I can explain that. Each year, as part of the budget, we are required to bring forward a three-year property disposals program for government consideration. It reviews that program on an annual basis and we then publish the three-year program that the government agrees to. So those figures there—39.7, 101.3 and 4.7—represent the latest estimates of the program of disposals the government has just announced.

Senator HOGG—Does that include remediation or is it net after remediation?

Mr Veitch—That is the total proceeds we expect to get. But the government allows us to draw off from those funds the cost of things like decontamination work on the land or properties for sale in order to prepare them for sale, and we provide the net proceeds back to the budget.

Senator MARK BISHOP—Can you give me a status report on the Mulwala propellant manufacturing plant? My advice, subject to correction—although I have been through the brief and the various attachments—is that this project is designed to replace the existing facility built in the 1940s; that this project has been announced and reannounced by the Minister for Defence on nine separate occasions, dating back to his time as Parliamentary Secretary to the Minister for Defence in 2001; that each time it is released the local affected members, Ms Stone, Ms Ley and Ms Mirabella at Indi, get thanked for their fine work and nothing of the project goes forward; and that the cost of the redevelopment project has increased. When it was first announced in 2001, the project was going to cost \$200 million; at the time of the most recent announcement, on 29 March this year—the ninth announcement—the cost had risen to \$300 million. In the PBS for this year, at page 256, it is stated that the approved budget is now \$347 million. Can you advise me why the defence minister has seen fit to announce the redevelopment project on nine separate occasions and why, from 2001 to the present, it has not been able to go forward?

CHAIR—I suspect that Ms McKinnie is able to answer the second part of your question. As to matters that go to the minister's decisions, I suspect they are not matters she can refer to. Ms McKinnie, please go ahead.

Ms McKinnie—When the original Mulwala redevelopment project was announced, the intention was to try to seek a PFI approach to the project. We worked with ADI from 2001 to about 2004 in pursuing that, but we were not able to achieve a value for money PFI outcome. As a result of the tender process, we decided that the best value-for-money approach was a direct investment and commenced negotiations with Bovis Lend Lease to do a direct design and construct redevelopment of the facility. We are about to sign a contract with Bovis Lend Lease and are scheduled to do that on 8 June.

Senator MARK BISHOP—Have the negotiations concluded?

Ms McKinnie—The companies are doing final due diligence, but everything is ready to go for 8 June.

Senator MARK BISHOP—Will this be a private-public partnership, like Bungendore, or is it a direct allocation by Commonwealth?

Ms McKinnie—Direct investment, so we will own the facility.

Senator MARK BISHOP—You had some problems between 2001 and 2004 in getting a PFI up; you could not get it up. Then you had other issues as to allocation of direct funding by the Commonwealth. Why was the project announced and then continually reannounced by Dr Nelson over many years at many times when clearly, at least up until the middle of last year, there was nothing on the horizon as to completion of contract negotiations and project process?

Ms McKinnie—The real issue there is that, with the community at Mulwala and the state of the current plant and its issues with occupational health and safety and environmental requirements, there was a need to give reassurance that the government was still committed to upgrading the plant. The issue was finding the best value for money and contracting approach to do that.

Senator MARK BISHOP—But, up until more recent times, there has never been any firm commitment to contract. Is that right?

Ms McKinnie—We had issued RFTs and, as I said, we were working with ADI to try to get a value-for-money PFI proposal. You could say that maybe we should have cut our losses and made a decision earlier to go the way of direct investment, but it was thought that we would be able to get that sort of approach. It simply was not achievable. As you probably know, when you are dealing with private financing approaches, it takes a considerable time to work things through with the financiers, bankers and the like. So getting a PFI tender in and evaluated is a timely and complex process.

Senator HOGG—What was the cost of the PFI process?

Ms McKinnie—I would have to take that on notice.

Senator HOGG—When did the process start?

Ms McKinnie—The process of our working with ADI started in 2001.

Senator HOGG—And when did it finish or terminate?

Ms McKinnie—It finished when we decided to go for direct investment.

Senator HOGG—When was that?

Ms McKinnie—I would have to check the exact date.

Senator HOGG—It is between those dates that I am looking for how much Defence spent on the PFI project. Has that come out of the existing budget or were you supplemented for it?

Ms McKinnie—The costs that we paid for the PFI approach came out of the Defence budget, I believe.

Mr Veitch—The administration costs certainly would have come out of our existing budget. But you may recall that Mulwala was considered in the last budget, 2006-07; it was a new measure announced in the last budget. The government contributed \$131 million, in budget 2006-07 prices, towards the project costs and Defence was required to find the remaining funds at that time out of its investment program.

Senator HOGG—Perhaps you could give me an analysis of what was spent between 2001 and when the process terminated and where you got the funds from; that is basically what I am after.

Senator MARK BISHOP—Ms McKinnie, you say that the contract will be signed subject to due diligence on 8 June. When will construction start?

Ms McKinnie—The first part of the contract is a design phase. That design phase goes for about 12 months and, as I recall it, it will be at that time that construction will start.

Senator MARK BISHOP—Are we going to have a complete new facility or are we modernising the existing facility?

Ms McKinnie—We are building a new propellant production facility.

Senator MARK BISHOP—Does the design aspect of the contract have to go out to tender?

Ms McKinnie—No, that is the initial part of the contract that we are signing with Bovis Lend Lease.

Senator MARK BISHOP—How long do Bovis Lend Lease have to do the design work?

Ms McKinnie—As I recall, the contract schedule has that initial design work going around the first 12 months of the contract.

Senator MARK BISHOP—What funding has been allocated for that design work? Is that part of the \$347 million?

Ms McKinnie—Yes.

Senator MARK BISHOP—Do you know how much it is?

Ms McKinnie—No, I do not have that breakdown.

Senator MARK BISHOP—The estimated cumulative expenditure to 30 June 2007 is \$18 million—which might be part of the answer to Senator Hogg's question—and the budget

estimate for 2007-08 is \$58 million. Is that \$58 million for the design work, or is it for something else?

Ms McKinnie—That will be the first payments we expect in the 2007-08 financial year. The \$18 million that we were hoping to spend this financial year will move into next financial year.

Senator MARK BISHOP—What is the design component of the \$347 million?

Ms McKinnie—I do not know. I would have to get the contract work breakdown to give you that price. I would have to take that on notice.

Senator MARK BISHOP—So Bovis Lend Lease are going to do the design work. Are they also going to do the construction work?

Ms McKinnie—The main design work will be done with Bovis Lend Lease and ATK, which is a US company specialising in propellant plants. Our contract is with Bovis, with ATK as the main subcontractor. I believe that most of the work in design of the plant will be done by ATK.

Senator MARK BISHOP—Here or back in the US?

Ms McKinnie—Back in the US, I believe.

Senator MARK BISHOP—When do they have to deliver a final design product to Bovis Lend Lease?

Ms McKinnie—I do not have that level of detail of what is in the contract. I would have to take that on notice.

Senator MARK BISHOP—Please take that on notice. At this stage, do we have any firm date as to when actual construction work will start?

Ms McKinnie—That information will be in the contract. I would have to check the details in the contract.

Senator MARK BISHOP—Will you take that on notice and provide me with the date.

Ms McKinnie—Yes.

Senator CHRIS EVANS—Can I ask a couple of questions about RAAF base Pearce and the announcement of capital works there?

CHAIR—Should such questions be asked here or in the capital facilities discussion?

Senator CHRIS EVANS—I am just following on from the Mulwala issue. I want to ask about the announcement of the \$142 million for RAAF base Pearce. Can you advise me what is to be funded by that \$142 million and when it will be realised?

Mr Beck—It is a redevelopment of the base, obviously at RAAF base Pearce, and it is a combination of new construction and refurbishment of existing facilities. It focuses on the engineering services for the base, the fuel farm, aircraft hangars, the training and operational facilities, a new combined mess for the base and living-in accommodation for the student pilots.

Senator CHRIS EVANS—I know the place is very old. It looks like it did when I was an air cadet there many years ago. They showed me their plans some three, four or five years ago. They had quite a major redevelopment plan that the relevant RAAF officers were pushing for. Is this all of it, or is it stage 1? What was successful? There was quite a major redevelopment planned—or in the bid process. What does this represent?

Mr Beck—If you are after a percentage I cannot give you that, but this focuses around the core activities of the base. When we are structuring these redevelopment projects we have to do it within the allowances we have and the major capital facilities program and we try to balance priorities across different bases. So it focuses around the immediate needs for the training, obviously around some personnel aspects because of the living-in accommodation and the messing, and most importantly from my perspective around some of the engineering services which are vital to sustaining the overall base.

Senator CHRIS EVANS—Such as the fuel farm?

Mr Beck—No. I am talking about electricity, water, sewerage and the like, but we are also replacing the fuel farm.

Senator CHRIS EVANS—I am not after a percentage, but is this a planned three-stage project, or have you just approved half of that bid? This is not the complete redevelopment that they are after, obviously.

Mr Beck—That is correct. We are just about to enter another phase of redeveloping our major capital facilities program to lead into the next budget cycle. I will chance my hand: I believe that there is another stage in there, but I will take that on notice, if I can, and get back to you.

Mr Veitch—It might be worth adding that the capital facilities investment program—with the boost to expenditure on some of the new measures—will increase by about 50 per cent in the next couple of years and that is on top of the extra money that we have put in to estate upkeep, which is about \$100 million a year, and also the significant investment in living-in accommodation. We are very pleased that this area of the budget has had some attention in recent times.

Senator CHRIS EVANS—I am not at all representing a parochial Western Australian view, but it has certainly been long-needed. I think that there has always been a bit of envy that the Singaporeans live in much better conditions than our own people do there. This is the first money spent on RAAF base Pearce for a while, in terms of capital works?

Mr Beck—That is correct.

Senator CHRIS EVANS—So I have not missed an earlier round?

Mr Beck—No, you have not.

Senator CHRIS EVANS—What about the announcement in 2004 by former Senator Hill of \$87 million for capital works, which seemed to include some of these things? Whatever happened to that?

Mr Beck—That is correct, but as we were developing this project it took a little longer than we expected to get it developed to the stage that we wanted it. You can see that the total

amount has also gone up because we have included in there some of those aspects around supporting the people part of the business—the living-in accommodation.

Senator CHRIS EVANS—So what you are telling me is that the \$87 million was never expended.

Mr Beck—This is the same project.

Senator CHRIS EVANS—Yes, but the minister announced at the time that he was spending \$87 million. I gather that was not spent.

Mr Beck—That is correct.

Senator CHRIS EVANS—Was that ever budgeted for?

Mr Beck—It was part of the major capital facilities program.

Senator CHRIS EVANS—So what happened to the dollars?

Mr Beck—At that time I do not know exactly where the dollars were in the program—meaning in what exact year—

Senator CHRIS EVANS—No, I never found it in the budget papers. It was just an announcement coming out of your general capital works, was it?

Mr Beck—I believe so.

Senator CHRIS EVANS—Maybe you can take that on notice for me because Senator Hill made the announcement in September 2004, an election year, and it seems we have got another announcement again in an election year. There are some cynics around—and one of them is me because in 2004 I put out a press release that said:

Labor has serious doubts the ... announcement today that it will spend \$87 million on upgrade works at RAAF Base Pearce.

I have been proved right for once in my life. I can assure people involved with Pearce and surrounding districts that this time it is real money and that it is going to happen?

Mr Beck—Yes, you can.

Senator CHRIS EVANS—And, if it does not, I can take it up with you next time?

Mr Beck—Indeed.

Senator CHRIS EVANS—Why should I be more reassured this time? Why do I fear it might be like Mulwala and five years on we will be having another chat about it?

Mr Veitch—Because we have a chat to him every month to make sure he hits his budget targets.

Senator CHRIS EVANS—I am not worried about his budget targets; I am wondering about whether we get anything other than a press release.

CHAIR—I think Mr Beck has said yes.

Senator HOGG—They will have a 21st celebration for the anniversary of the announcement.

Senator Ellison—Madam Chair, I note for the record that we are very happy for Senator Evans to take it up with Mr Beck next time.

CHAIR—Indeed, it did not cross my mind—

Senator CHRIS EVANS—I did not mean at estimates. When will this much-heralded, long-plan work actually start, Mr Beck?

Mr Beck—We are proposing to take it to the parliamentary Public Works Committee in August. We are seeking referral. Depending on the date that it gets referred to the parliamentary works committee, we would see a start in early 2008 and completion planned for mid 2011. I do not control access to the parliamentary works committee. I can only put it forward and then the secretariat and the committee themselves decide when the hearings occur. That is our plan at the moment.

Senator CHRIS EVANS—I will certainly put in a good word for you, Mr Beck.

Mr Beck—Thank you.

Senator FERGUSON—I suggest that it would want to be very early in August.

Senator CHRIS EVANS—Is this going to be let as one contract? There seems to be a variety of works going on.

Mr Beck—We have a method of delivery called managing contractor and we are proposing to use that form of contract. That contractor oversees all work on the site because obviously during the refurbishment the base has to remain operating. That managing contractor will use a number of subcontractors to do the work required.

Senator CHRIS EVANS—I will, therefore, issue a press release making sure I welcome the development and look forward to the first sod being turned. Thank you.

[10.08 pm]

CHAIR—We now move from budget summary to people.

Senator MARK BISHOP—I have some questions about multiple deployments and I want to address record keeping issues, health issues and those type of matters—not the matter that was raised initially by Senator Evans this morning. How does Defence decide which ADF members are to be deployed to operations overseas? Is it on a unit basis, an individual basis or what?

Air Chief Marshal Houston—It all depends on what the requirement is.

Senator MARK BISHOP—The nature of the operation, yes.

Air Chief Marshal Houston—On occasions, the deployment is on the basis of a unit. Other times, depending on what we are putting together, it might be an outfit that is tailored to the task, which means people are drawn from different parts of the service or different parts of the ADF.

Senator MARK BISHOP—So it depends on the circumstances?

Air Chief Marshal Houston—Yes, it does.

Senator MARK BISHOP—It depends on the job. Does Defence keep records of deployments on individuals' files, and is this stored on a central database?

Air Chief Marshal Houston—We keep records of deployments on PMKeyS.

Senator MARK BISHOP—And that can be accessed on an individual person basis?

Air Chief Marshal Houston—That can be accessed by the individual or by those people who are responsible for our people.

Senator MARK BISHOP—As part of your process of putting together the particular team for the task, is it a consideration in selecting a person or a unit for a particular task whether that person or unit has been previously deployed before being deployed again?

Air Chief Marshal Houston—Absolutely. Going back to what I said this morning, the Chief of Army has a policy whereby if somebody deploys for six months and they come back then they have 12 months before they can deploy again. The other two services do it a little differently, but in general we try to give people a decent break after a deployment. As I said this morning, you might care to discuss that individually with each of the chiefs because they are responsible for the raising and training of the people who are assigned for operations and they are probably best placed to answer the detail that you seek.

Senator MARK BISHOP—But in principle the template you outlined for Army applies with variation to Navy and the Air Force?

Air Chief Marshal Houston—I think so, yes. Army at the moment is the service that probably has the biggest commitment, and essentially there is more of the Army deployed as a relative proportion than the other two services.

Senator MARK BISHOP—Are there any key trade or speciality occupations or classifications that have been required to deploy more often in more recent years? And if so, could you give us the detail?

Air Chief Marshal Houston—I cannot give you specific detail but I can say that there are specific parts of our organisation that are probably under more pressure as a consequence of the high level of operational tempo. We call those the joint enabling capabilities and some of those are probably more likely to have multiple deployments than other parts of the ADF. Again, I invite you to talk to the chiefs about those particular areas. Where it stands out is in tactical level intelligence, health specialists, logisticians, movements people and so on.

Senator MARK BISHOP—Are the respective chiefs here?

Air Chief Marshal Houston—Yes. We are talking about people, so they are all here.

Senator MARK BISHOP—Maybe they could come forward and answer in respect of their services; that way I do not have to ask them separately tomorrow.

Lt Gen. Leahy—After receiving the question this morning we were able to prepare some figures for you. The Chief of the Defence Force said that our aim within Army is that after a six-month deployment—which tends to be the stereotypical deployment; there are some that are not quite as long and some might be a little bit longer—soldiers get 12 months without going back on operations. CDF has mentioned some trades that are in short supply and I will mention some others here: ammunition technicians, vehicle mechanics, fitters/armourers,

intelligence, linguists, communication information systems specialists, health specialists aviation, cavalry, special forces—and they will feature in a moment—and protected mobility, who are the new Bushmaster drivers. We do not have as many of those. We are in multiple deployments and, as CDF has mentioned, these people in short supply tend to be the enablers—that is, we need them on each of the deployments in these different locations—so they may be called to go back. In the vast majority of cases, if someone deploys inside the 12-month respite guideline they are volunteers. If they are not, we try to make arrangements to say, ‘If you can do this one, we will give you more time off later,’ or something like that.

With that preamble, in Special Operations Command there are a number of people currently deployed inside the 12-month guideline. For East Timor it is about 20 per cent; for Afghanistan it is higher than that at about 40 per cent. These are volunteers and, in most cases, very enthusiastic volunteers. For those who are on a second tour in a specific theatre—and I am still talking about Special Operations Command—about 20 per cent are on a second tour of East Timor, and because Afghanistan is more topical, about 30 per cent are on their second tour. For Special Operations Command, because they do tend to be more specialised and because they are not so great in number, we are inside the respite period for a number of them.

For Land Command 1st Division, approximately one per cent are deployed inside the 12-month respite period—a much better picture. For those deploying for a second tour to a specific theatre, that is starting to increase. Again, this is particularly in the cavalry and the protected mobility areas because we do not have as many of them. About 20 per cent of the Overwatch Battle Group has previously been deployed to Iraq. This is actually a good thing. They are experienced in the area, they tend to have worked their way through and they are the NCOs and supervisors. It is good to have them amongst the group because of the experience that they bring. However, they are outside the respite period; they are just going back for another tour.

In 16 Aviation Brigade we have about 3.5 per cent inside the 12-month guideline period and, for those deploying on a second and third tour, again this is increasing. For example, for the aviation detachment to East Timor, almost all of them will have deployed there before. That is over a period of time though and as you know, we have been deploying aviators on and off into East Timor since September 1999.

In 17 Combat Service Brigade, less than one per cent are inside the 12-month guideline. That is a general picture. For the troops that we have more of we are able to achieve our respite period. For those who are in shorter supply, it is not such a positive picture. They are volunteers, and I would say for Special Operations Command, we were not anticipating the deployment in East Timor last year and that has rather blown the numbers inside the 12-month period.

Senator MARK BISHOP—Do the comments you made about the limitation of supply where you have smaller numbers also apply as we go up the chain from private to non-commissioned officer—lower ranks to more senior levels? As you get more senior in your rank, there is more demand?

Lt Gen. Leahy—There is a similar picture. Indeed, CDF and I are working at the moment on the deployment of Army brigadiers to Iraq and Afghanistan as part of the headquarters elements. I maintain a table of all of our senior officers and their operational deployments. Many have had two or three operational deployments in the last five or six years and we are just starting to send some people back at the rank of brigadier for the second tour inside a couple of years.

Air Marshal Shepherd—The Air Force deployment model is quite different in many ways. Let us take the example of Timor last year when the short notice crisis arose. Air Force would deploy to Darwin, we would insert the Army troops, we might be there a couple of weeks and once they are all inserted we then come home. Of our operational deployments since 1999, some have been long term but a lot are very short term. Currently, there are 477 Air Force people deployed in operations around the world but the overwhelming majority of those—431—are in the Middle East. CDF's policy is a six-month rotation but we have to balance up the skill sets. We do a certain type of flying in the Middle East with certain types of aircraft—Orions and Hercules. They do not get all the range of flying they would normally get back in Australia so we tend to rotate the aircrew and the technical ground crew through over a lot shorter time period. They might do two- to three- and occasionally four-month deployments so they can keep their skill sets alive, like practising instrument flying; you cannot do a lot of that in the Middle East. It corrupts the numbers. I have people in the Hercules world who have been to the Gulf six times but it is not six, six-month deployments; they might have done two, three-month deployments. Every month we run a Hercules to the Middle East to take sustainment equipment across—things like explosives that you would not put on a commercial aircraft. They may come back from their three-month deployment and then in a month's time they are doing one of those sustainment flights back there. While they are there they might be kept for a couple of weeks to ease a burden. So it is more of a random pattern. A lot of my support people, the people who run the airbase and provide the bases from where we deliver air power, do a six-month deployment. We do have a policy within Air Force that no-one goes twice if someone who has the right skill sets has not gone once.

Over the years we have been deployed, the overwhelming experience has been very positive for our people. CDF mentioned this morning the allowances, the skills the people get, the focus they get and their morale. It has also been very positive on our organisational and training structures and we have been able to lean them down to just enough training, just in time, to make sure that we get the right amount of training without overtraining at an extra cost. So there has been a very overwhelmingly positive outcome. Most of my people in the Middle East are not based in Iraq either; they are based outside Iraq in, shall I say, a more congenial area so that there certainly is not as much stress on most of my people as there is on people in the Army in southern Iraq.

If we take some of those broad figures from Iraq, since the Middle East operation began in the middle to late 2003 there have been 5,840 Air Force deployments to the Middle East—that is obviously not 5,000 people all up—of which about 960 have deployed a multiple of times. There is no data to say one, two or three and some of them have been three or four or even as high as six. Mostly the people who do the longer deployments have probably done only one or maybe two. Clearly, we do not have F111s or F18s deployed there so it is the Orion aircrew

and the Hercules aircrew who get a range of those deployments. Those people do get multiple deployments. Like Army, we have small musterings of people who support our endeavours—communications and computer technicians, electricians, carpenters and plumbers. We do not have a lot of those in Air Force so they tend to get multiple deployments, along with our Intel branch of people.

Senator MARK BISHOP—Those trades and technical levels and your Intel people tend to be in the multiple deployment area.

Air Marshal Shepherd—Probably, yes. Mail clerks and people like that tend to get one good solid six-month deployment and maybe two or three years later they put their hand up for a second one. There is enough of that sort of mustering to spread the load. I have met people in the Middle East who have been in the Air force for seven months—they have done their rooky training, their three months specialist training and they are over in the Middle East. It is a very overwhelmingly positive experience for them.

Vice Adm. Shalders—There is no set policy on the number of times RAN people can deploy. We deploy, of course, as a unit generally—as a ship's company. There are sailors and officers from the Navy deployed in staff positions, in embedded positions, in addition to the ships. I also note that we have been deployed in the Middle East since 1990 and in our current series of rotations the 14th ship is on a six-month rotation at present—HMAS *Toowoomba*—and the 15th ship departs for her six-month rotation next week. So there have been a large number of people deployed to that area of operations. The scheduling of our units for those deployments is a matter for the fleet commander and he of course prepares that plan based on suitable units that are suitably prepared and capable for whatever the deployment might be.

Our career management agencies routinely talk to their people to ascertain their interest in deploying or otherwise. We do ask them whether they want to undertake operational deployments or whether they do not want to undertake those deployments but in general the operational trips are highly sought after by sailors. We make every endeavour to ensure that there is at least 12 months between each operational deployment for our people.

We do a lot of analysis of why our people stay or want to go, and the issue of deploying for service in the Middle East has never been raised as a factor that would influence a person to leave the Navy. It is a positive experience for the majority, based on our analysis.

As I said, the 15th ship departs next week for her deployment. Right now we have 220 people deployed in the Middle East, of which 82 are on their second or third deployment—that is about 35 per cent of those who are currently there. One-hundred-and-eighty-one are in the ship that is deployed at the moment and 38 are ashore. We have two in Afghanistan. No naval personnel currently deployed has done more than three overseas operational deployments, although I expect that we will be getting close to four in the next 12 months. The areas where I would expect people would be deploying for a fourth time are in the critical categories that we have: linguists, combat systems operators, electronics technicians and marine technicians. They are the categories that are critical across the Navy. Some of those, because of the shortages, have to deploy more often than some of the other trades in the Navy.

Senator MARK BISHOP—Thank you. In answer to a question on notice from the last round of estimates, the department advised that individual services set the guideline—we

have had that confirmed this evening—of 12 months between operational deployments and this could be shortened to meet service requirements. The CDF has made the point that second and subsequent deployments are voluntary. What are the service requirements, if any, at individual service level that would mandate ADF members being deployed again within 12 months of that previous deployment?

Air Chief Marshal Houston—In circumstances such as we had 12 months ago when suddenly we had a regional crisis in Timor. Essentially, we sent quite a few people on that and a lot of them had been involved in operations elsewhere shortly before that.

Senator MARK BISHOP—It was just demand out of the blue.

Air Chief Marshal Houston—That would be the sort of circumstance where we might have to send some people for service requirements. But, I think the chiefs would have gone for volunteers in the first instance, and in those circumstances nearly all our people volunteer. I invite the chiefs to comment on those circumstances.

Lt Gen. Leahy—That is the classic example for our special forces. The deployments to East Timor and offshore Fiji meant that those who were in their respite period were called on at short notice to deploy. To maintain the tempo of operations, they have been asked to in some cases deploy again. This is not mandated. We do seek volunteer status and, for some of those soldiers who have personal or other reasons, we are able to make some concessions. The COs talk to their soldiers very closely and carefully and, for example, if there are some things going on in the family that the guy would rather not deploy this time, we will try as much as we can to allow them to continue training and deploy the next time. There is a bit of room for movement but in some of the areas, as I have suggested, in some of the trades, it is getting a bit tight and to try and make that a little easier for everybody, through our training systems, Army is making sure that we are making more cavalry drivers, for example, more IMV drivers. The Air Force is helping out with some of the skills, some of the trades, so it is a very dynamic area. We are not perfect in achieving the six months on and 12 months off but we are doing the best that we can, and I think there is a great degree of understanding throughout the army community.

Air Marshal Shepherd—I might just say that each of the services has a different culture. The military aviation culture is effectively a deployment culture anyway. Certainly, in the Hercules workforce and the Orion workforce, most of my people who will deploy to the Middle East will come home and then be deployed to Darwin for Op Resolute or Malaysia for exercises or wherever. That is the nature of aviation. That is what they signed up for. That is what they expect—in fact, that is what they like in many ways. We cannot run a 12-month rule. We do not have enough crews to do that, but that is why we do a lot more shorter deployments to spread the load and to keep those skill sets alive.

As far as volunteers, I will use one example—I was in the Middle East visiting my forces just before the Aceh tsunami and I was talking to some Herc crews that were coming home just before Christmas. Those crews were home three nights and then they were off in Aceh for months, but we did not have to call them in. They were coming into work as soon as they heard it on the news. That is what Herc crews do. That is their nature. They have got a

vagabond sort of a life in many ways. There is no shortage of people to do that work—it is true.

Senator CHRIS EVANS—They will have to send the *Hansard* to them now.

Air Marshal Shepherd—There used to be a girl in every port, but we will not go there. So each service has a different model. We tend not to deploy the Orions and the Hercules in formed units, they go in ones, twos or threes of aeroplanes, so it is more of a constant rotation of people in and out rather than big blocks of people, who stay there for months and come home. Every week there are Air Force people going, and every week there is a small number coming back.

Senator MARK BISHOP—I take the point that each service has a different culture and people join for different reasons. It is useful for you to be outlining that because this discussion is leading somewhere, and it is useful for you and your colleagues to be putting those matters of fact on the record. It does have an educative purpose as well.

Vice Adm. Shalders—I have nothing much to add to what CDF said, but there are different cultures. The Navy culture is that you are basically on operations when you let go all lines and proceed out of port. That is the way we have always been. We are talking here of operational deployments but 15 years ago was six months regional engagement activities in the Far East or wherever it was. So the culture in my service is: you are on operations as soon as the first turn of the screw.

Senator MARK BISHOP—Understood. This is probably a question for you, General: are there any special support services for or health screening of members who are required to deploy within that 12-month period—I think this is more of an Army question than the other services? Do you do any particular extra health screening or—

Air Chief Marshal Houston—I think that applies to all of our people, and Tony Austin, who is at the end of the table and is head of our health service, can brief you in detail on what the policy is right across the board.

Air Vice Marshal Austin—There is no particular screen that is additional to the routine screens for someone who is deploying short of the 12-month respite period in Australia. The individual would go through a force preparation process, which would involve a medical clearance for them to go, and there is an opportunity for the individual to flag any problems that he or she may have.

We have found there is no real value in doing pre-deployment psychological screening immediately prior to deployment because, as has been alluded to by the CDF and the service chiefs, in the vast majority of cases these people are very keen to deploy. A psychological screen requires the cooperation of the individual to reveal that they are having problems. We find that no-one acknowledges that they have a problem prior to deployment. Once they are deployed, depending on the nature of the deployment, we will provide either on-site psychological and medical support to them, or they have access to teams that can provide that support. As for all of our operations immediately prior to them returning to Australia, they undergo both a medical and psychological screen, which uses screening tools and face-to-face confidential interview, and we follow them up three to six months after they have returned with further medical and psychological assessments to identify any problems.

Senator MARK BISHOP—Is the screening when they return from a deployment mandatory; do they have to attend?

Air Vice Marshal Austin—Yes, it is. There is always a reticence, particularly in Australia and particularly amongst males, to undergo psychological or psychiatric assessment. As such, the feeling was that it should be made mandatory, and it is so regardless of rank.

Lt Gen. Leahy—Going to the heart of what Senator Bishop asked in relation to anything specific for those who are redeploying inside the 12 months, I think you heard that that is what we do for everybody. In terms of the specific nature of support, it is more in that negotiation with the commanding officer of the unit and talking to the individuals. As I have said, if there is a compelling case why they should not deploy, we will try as much as possible to make sure that they do not deploy. That is when the career management agency and Army would be notified that we need individuals to fill positions inside units, and we go more broadly outside the Army to find someone who would be a volunteer and could go there. So there is a negotiation for those who are on multiple deployments and certainly inside the 12-month period, and we would try to meet their wishes if they were not able to deploy.

Senator HOGG—Is there special consideration of Defence personnel deployed in high-risk areas as opposed to those deployed in low risk areas? I would be more concerned about someone on patrol in Afghanistan, under the pressure of fire from the Taliban, than someone filling aircraft in a friendly country in the Middle East. Whilst you have given us a fairly generic answer—and I do not doubt what you say—does Defence give particular concern to people who are in high risk areas, particularly where it is not their first deployment, but possibly their second or third, in a high-risk area?

Lt Gen. Leahy—Yes, we do. We would look at the different nature of deployments. For example, we are very aware that soldiers and officers who are involved in Iraq with the counter-IED work, who are regularly attending sites to investigate what happened and report on that, are exposed to perhaps a greater level of psychological risk than others. We have particular support available for them. For those in groups that are perhaps involved in incidents, we are able to send forward critical assessment teams—critical support teams—to provide support for them at that point of contact. We are very conscious of all of these sorts of issues and we try to moderate the support we provide.

Air Chief Marshal Houston—Before Tony starts, I will get General Gillespie to follow up. He has the accountability for operations and I think he should say a few words.

Lt Gen. Gillespie—We are hearing a lot about process and policy. Some of the things you are talking about fall directly into the realm of leadership. Certainly I and the chiefs sitting here keep a very close eye on a whole range of activities in all of the theatres in which we have our people deployed at the present time. In some cases it is pretty easy for us, through simple leadership and deployed commanders, to identify people that we need to talk to and to keep an eye on and whom we need to deploy some of our specialist assets to engage—sometimes not necessarily overtly—to make sure that the people we are responsible for are properly managed in that regard. We have a whole range of policies and procedures that everybody goes through at their step of it, and when we have people deployed we also use leadership pretty extensively to make sure that our people are properly looked after.

Senator HOGG—I will raise another issue, which is relevant in this and needs addressing as well. Air Vice Marshall, you said—and I think others at the table have said—that people are not going to knock back the opportunity to go away, that they are itching for it, but in many instances where people have a problem they find it difficult, because of peer group pressure or whatever it might be, to admit that they have a problem. I hope I am not overstating the case and I presume there is not a large number of these people who find it difficult to admit they have a problem. How do you work with the people who might be in these high-risk areas, might have a problem and cannot admit that they have a problem? How do you sift them out and ensure, where they have had their second or third deployment in a high-risk area, that they are not placed in that situation again—that is, if the individual will not admit their own shortcomings?

Air Vice Marshal Austin—The approach to that is very much a multidisciplinary approach and it really is the central, or kernel, issue to the ADF mental health strategy. The ADF mental health strategy basically sets out to lift the profile of mental health issues right across the ADF. It does that through an education program. It makes commanders more aware of psychological issues and issues of psychological wellbeing; it makes the senior NCOs and the troops themselves more aware of it; it gives them a language to describe what they are seeing; and, we believe, it empowers them to intervene much earlier when they suspect there is a psychological issue in either one of their subordinates or one of their peers. I think what we are seeing now is a much more empowered leadership, which VCDF has mentioned, because we now have a much higher mental health literacy amongst all players.

We have also increased the rate of psychological screening over what we have done in the past. It is also done more rigorously in the garrison situation when people are back here in Australia. So there is a higher probability that we will pick up incipient problems before people are nominated to deploy, and then they are processed in the normal way by our providing care and support and/or employment classification review.

You referred several times to the high-threat environment. The paradox is that it is not always those people going into the overtly high-threat environment who suffer psychological consequences. It is often counterintuitive that people who are in relatively safe and routine tasks develop psychological problems, and there is much debate as to why that is the case. Perhaps most obviously it is a matter of control. The person who is out there with a weapon often feels empowered and in control of their situation, whereas the person in a support role may not feel equally empowered and equally able to know what is going on and to control their environment.

Before we deploy our people we certainly do a global assessment of the hazards that they will be exposed to—operational, occupational, psychological and environmental. Our strategies are then driven by that assessment in terms of the support that we provide to the team. As I mentioned earlier, if we are putting people into obviously high-risk environments then we are much more likely to give those people organic medical support and organic psychological support rather than just simply relying on a screening tool at the end of the deployment.

Lt General Leahy—Can I add something. What I have seen over the last few years is an attitude change as well towards this level of psychological support. It used to be that you

would not talk to the psychs. You just did not go near them. But now I think that, because of greater exposure and the fact that we are seeing that they are helping, there is a ready acceptance that, if you are suffering a bit, you might go and talk to the psychologist. In some of the very high readiness units I think it is a very healthy thing. The guys are quite ready to accept that it is a bit like a footy injury—if my foot is sore, I will go and see a doctor; if I am suffering some problems, I will go and see the psychologist.

I should add that there is another element as well as the leadership, the psychologists and the medical support. We deploy padres with nearly all of the activities that go on. Again, there is a confidence with the padres and an ability to go and talk to them and be supported by them. It is, as Tony says, multidisciplinary. We are providing as much support as we can to make sure that our people are healthy before they go, healthy while they are there and then ready to deploy again. There are certainly circumstances where we might have very enthusiastic volunteers, but there are some examples—not a lot, but some—where the CEO or the leadership inside a unit would say, ‘No, you need to stay at home for this one; we will catch you up next time.’ So there is a lot of work going on to make sure that people who do deploy are ready for the job.

Senator MARK BISHOP—With regard to that new, different and varied work that you are starting to do, have any of the services done any empirical work to identify whether those men who are on multiple deployments suffer from a different set of mental or psychological problems on return to perhaps a control group that has not been exposed to multiple deployments?

Air Chief Marshal Houston—The statistics are interesting. I will get Air Vice Marshal Tony Austin to give them to you. We have a lower incidence of mental health problems with people who deploy than with those who stay at home. It is quite staggering.

Senator MARK BISHOP—Does that apply to multiple deployment as well?

Air Chief Marshal Houston—That is right across the board. I will let Tony cover the detail because the figures come out of his organisation.

Senator CHRIS EVANS—I am sure the troops have an explanation for that—they probably reckon that all of the senior officers stay at home! But I am only guessing.

Senator HOGG—Senator Bishop has raised this in respect of males. Is there a difference with any females who might deploy as well?

Air Chief Marshal Houston—I do not believe so, but I will let Tony talk about it.

Air Vice Marshal Austin—The data that we have is not copious at this stage. The reason that we have introduced the Deployment Health Surveillance Program is to monitor with a much higher degree of fidelity the health and wellbeing of our people during and post deployment. Statistical analysis of this with relatively small numbers is always difficult. Teasing out the multiple deployment effect is difficult. It is a relatively recent phenomenon for us to have people who are racking up a large number of deployments given the average period of service of a man or woman in the ADF—you have to remember that it is not a large number of years.

As to the issue of teasing out the data for the females, unfortunately, I think that is going to be very difficult for us because the numbers are relatively small. The trend effects that we are seeing are relatively small in themselves. To get power in a study you need large numbers of people over a long period of time. As to the data issue that CDF alluded to, when we looked at the medical discharge rate for mental health related issues, it was higher in those people who stayed home than in those who are deployed.

Senator CHRIS EVANS—How confident are you that you capture the whole market? Are the tests compulsory?

Air Vice Marshal Austin—The psychological screening that is done on return to Australia and postoperation is mandatory. That was done for a very considered reason because of the issues I alluded to earlier. So we do that regardless of rank or position and we are increasing our sophistication of tracking that data. It has already been alluded to several times, particularly by CDF, that in the satisfaction surveys we conduct when people return from operations the vast majority of people rate that experience as positive or very positive. I saw some data recently from one of the security detachments who were—to use the terms of Senator Hogg—in a very stressful, combat type environment, and 95 per cent rated their tour as positive or very positive for the reasons we have alluded to. It is an opportunity for them to practise the skills that they have learnt; it is why they joined the military. They are well led, well equipped and well trained. All of those things lead to psychological wellbeing.

Senator CHRIS EVANS—When do you do the psychological testing? Do you do it on entry for everyone? Is it mandatory on entry?

Air Vice Marshal Austin—There is psychological screening done on entry, yes.

Senator CHRIS EVANS—Is that at the recruit stage?

Air Vice Marshal Austin—Yes, it is. We also include psychological screening elements in our annual health assessments and our comprehensive five-yearly assessment. What we are trying to do is establish very—

Senator CHRIS EVANS—I understand why you are trying to do it. You test them at the recruit stage and you then test them during their annual health checks.

Air Vice Marshal Austin—To a lesser degree of fidelity, yes.

Senator CHRIS EVANS—And then you test them predeployment?

Air Vice Marshal Austin—No. As I alluded to, we found, based on overseas data, that that is a nugatory activity.

Senator CHRIS EVANS—You test them postdeployment?

Air Vice Marshal Austin—Immediately prior to their return to Australia and then in the three- to six-month window following their return to Australia.

Senator CHRIS EVANS—So you do their first test while they are overseas.

Air Vice Marshal Austin—That is correct.

Senator CHRIS EVANS—Do you do exit testing?

Air Vice Marshal Austin—Not immediately prior to discharge, no.

Senator CHRIS EVANS—So the mandatory testing is at recruit stage, at predeployment—

Air Vice Marshal Austin—No; on their return to Australia.

Senator CHRIS EVANS—On their return to Australia and then three to six months afterwards.

Air Vice Marshal Austin—That is correct.

Senator CHRIS EVANS—How do you capture information about those who are not serving overseas or are not deploying—the comparison you made between those who did and did not?

Air Vice Marshal Austin—It is being included in both the annual health assessment and the five-yearly comprehensive health assessment that we do for everyone.

Senator HOGG—Does the five-yearly health assessment give a rigorous psychological test that would pick up any changes from their—

Air Vice Marshal Austin—I am pretty sure that it is basically the same tool that we would use for the postoperation screen. The only bit that it is missing is the actual threat history—asking people if they have been exposed to potentially traumatic events, such as witnessing someone being killed, having a friend or colleague wounded and that type of thing. These questions would clearly be inapplicable to someone who was not deployed.

Senator CHRIS EVANS—Is the five-year test at the same standard as the postdeployment test? Are the annual assessments at that same standard?

Air Vice Marshal Austin—No, the annual assessments are at a lower degree of granularity than the deployment assessment.

Senator CHRIS EVANS—What has been the reach of your five-year testing so far? How long has it been in with the psychological tests included and what sort of—

Air Vice Marshal Austin—It is a work in progress. We are constantly evolving the tools that we are using based on the data we are getting and on overseas experience.

Senator CHRIS EVANS—I am trying to get a sense of how comprehensive that is currently and how recently you got to that sort of level.

Air Vice Marshal Austin—The ADF Mental Health Strategy was launched in March 2002. We have been progressively rolling out these tools that I have outlined to you since then. In statistical terms it is relatively new.

Senator CHRIS EVANS—So the number of people who have been through the five-year tests would be relatively small.

Air Vice Marshal Austin—Yes.

Senator CHRIS EVANS—What do you do with all this information? Obviously, it goes on one's personal file but, for instance, if you get a psychological assessment that raises concerns, what do you do with it then?

Air Vice Marshal Austin—There is a graded response to that. Firstly, we focus on those people who have deployed. There are two elements to the assessment; the first is the pencil

and paper test, which annotates the threat profile they have been exposed to and then uses various tools to assess whether there is any symptomatology of post-traumatic stress syndromes, alcohol abuse or depression; and, secondly, there is a face-to-face interview, which again is mandatory. Those two things test in a sense quite different things. If the psychologist who is administering the test feels that an individual has a particular problem, then they rate the severity of that problem. It can be an onsite real-time counselling session saying, 'This has come up. Let's talk about this, and this is what I think you should do.' Or it may be a recommendation that they be followed up when they return to Australia and an appointment may be made for them. That might be mandatory: 'Within three months of getting home, you're to have the following interventions.' It might be simply a wait-and-see: they are reviewed at the post-operation deployment phase of three to six months and you see what you come up with there.

Senator CHRIS EVANS—What if they are at risk or there is some suggestion that they should not be at work or on duty or—

Air Vice Marshal Austin—Then an immediate referral would be made to an appropriate clinical specialist. That may be a clinical psychologist through to a psychiatrist.

Senator CHRIS EVANS—So if there is anything of a serious nature, you refer them for a higher assessment.

Air Vice Marshal Austin—Absolutely. It is designed so that people are identified as early as possible and the appropriate early interventions are made. It follows the public health model of anything in medicine where, if you detect the problem early before it has become chronic, you have a much higher probability of a successful intervention.

Senator CHRIS EVANS—You have been rolling this out since 2002. What sort of coverage have you got in the early years? Does it catch 100 per cent of personnel now, or are you still rolling it out in some areas?

Air Vice Marshal Austin—No. For all deployments, as I said, the Return to Australia Psych Screen is mandatory. I can assure you that we would be certainly 95 to 99 per cent-plus positive that that is being done exactly as per intent. The follow-up at the three to six mark is steadily improving as we develop better tracking tools. For people who are deployed as part of formed units, we have a very high confidence that that screening will be done. It is more problematic, for instance, for people who deploy as augmentees into a unit or perhaps as reservists and may have returned to their civilian employment following their deployment. Tracking them is more difficult, but we are certainly working on that.

Senator CHRIS EVANS—So what is your degree of confidence about the capture of those returning from deployments?

Air Vice Marshal Austin—I cannot quantify that for you. Our databases are not good on that, and that is something we are working on to improve. The RTAPS, the Return to Australia Psych Screen, and the post-operation screen are now fields that have been included into the PM Keys, personal file, which gives commanders much better visibility of those people who have not had their follow-up screen. We are adopting a more multidisciplinary approach to the enforcement of that, so it is a leadership issue with command but also a health issue in that we make sure it is followed up.

Lt General Gillespie—Another part to this is if we have a critical incident—for example, the suicide bomber having a go at the reconstruction task force a couple of weeks ago—we form what we call critical incident support teams, and that will include psychs, doctors, padres and senior enlisted people like RSMs, et cetera. You fall that group in on the people who have been involved in the incident to talk, help manage the problem, see if people are unsettled, see if there is anything we need to do. That is all part and parcel of this leadership treatment regime and that is how, quite often, you can identify people. They will come to you after a while and say, ‘I’d like to talk about something.’ It might not necessarily be, ‘I think I’m going whacko;’ but, ‘I’ve got a problem. I need to talk to somebody. Can I have a chat about it?’ Those sorts of incidents create that sort of environment.

CHAIR—To provide some guidance in relation to the program for tomorrow morning before we close, I am intending to open in People, where we are in now, and then try and make some progress through the rest of the program, bearing in mind that we have Defence with us only until 5.00 pm tomorrow, and the secretary and CDF only until 3.00 pm.

Committee adjourned at 11.00 pm