



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE  
LEGISLATION COMMITTEE

**Consideration of Budget Estimates**

MONDAY, 4 JUNE 2001

CANBERRA

BY AUTHORITY OF THE SENATE

**SENATE**

**FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE**

**Thursday, 4 June 2001**

**Members:** Senator Sandy Macdonald (*Chair*), Senator Hogg (*Deputy Chair*), Senators Bourne, Ferguson, Payne and Schacht

**Senators in attendance:** Senators Calvert, George Campbell, Carr, Faulkner, Ferguson, Hogg, Hutchins, Sandy Macdonald, Payne, Schacht and West

**Committee met at 9.03 a.m.**

**DEFENCE PORTFOLIO**

**In Attendance**

Senator Ian Macdonald, Minister for Regional Services, Territories and Local Government

**Department of Defence**

**Portfolio overview and major corporate issues**

**Portfolio overview**

Dr Allan Hawke, Secretary of the Department of Defence  
Admiral Chris Barrie, AC, Chief of the Defence Force  
Lieutenant General Des Mueller, AO, Vice Chief of the Defence Force  
Mr Greg Harper, Chief Finance Officer

**Budget summary and financial statements**

Mr Greg Harper, Chief Finance Officer  
Mr Ken Moore, First Assistant Secretary Business Strategy  
Mr Rick Martin, Assistant Secretary Strategic Business Management

**Improvement initiatives (customer-supplier arrangements, efficiencies, Commercial Support Program, management information systems)**

Mr Greg Harper, Chief Finance Officer  
Mr Ken Moore, First Assistant Secretary Business Strategy  
Mr Rick Martin, Assistant Secretary Strategic Business Management  
Commodore Syd Lemon, Director General Organisational Effectiveness

**Capability development**

Lieutenant General Des Mueller, AO, Vice Chief of the Defence Force  
Air Vice Marshal Peter Nicholson, AO, Chief Knowledge Officer  
Commodore Russell Crane, Director General Intelligence, Surveillance, Reconnaissance and Electronic Warfare  
Brigadier David Hurley, Acting Head Capability Systems  
Colonel Doug Stedman, Deputy Head Reserve Policy

**Capital budget: major capital equipment and major capital facilities projects—questions to Defence Materiel, including acquisition reform, and Defence Estate**

Mr Mick Roche, Under Secretary Defence Materiel

Major General Peter Haddad, AM, Commander Joint Logistics  
Rear Admiral Kevin Scarce, CSC, RAN, Head Maritime Systems  
Dr Ian Williams, Head Land Systems  
Air Vice Marshal Ray Conroy, AM, Head Aerospace Systems  
Mr Mark Gairey, Head Industry Division  
Ms Shireane McKinnie, Head Electronic Systems  
Major General Peter Dunn, AO, Head Change Management Materiel  
Air Vice Marshal Norman Gray, AM, Head Airborne Early Warning and Control  
Ms Ann Thorpe, Executive Director Finance-Materiel  
Mr Jeff Whalan, Deputy Secretary Corporate Services  
Mr Ross Bain, Acting Head Infrastructure  
Brigadier Garry Kelly, Director General Project Delivery

**Responses to questions on notice from 2000–01 additional estimates hearing.**

**Defence outputs**

**Output 1: Defence operations**

Air Vice Marshal Robert Treloar, AO, Commander Australian Theatre  
Mr Kevin Pippard, Director Business Management Headquarters Australian Theatre

**Output 2: Navy capabilities**

Vice Admiral David Shackleton, AO, RAN, Chief of Navy  
Rear Admiral Brian Adams, AM, RAN, Deputy Chief of Navy  
Mr Les Wallace, Director General, Navy Business Management  
Rear Admiral Kevin Scarce, CSC, RAN, Head Maritime Systems, Defence Materiel Organisation  
Commodore Paul Greenfield, RAN, Director General Submarines

**Output 3: Army capabilities**

Lieutenant General Peter Cosgrove AC, MC, Chief of Army  
Mr Lance Williamson, Director General Corporate Management Planning Army  
Dr Ian Williams, Head Land Systems

**Output 4: Air Force capabilities**

Air Marshal Errol McCormack, AO, Chief of Air Force  
Air Vice Marshal Ray Conroy, AM, Head Aerospace Systems  
Mr George Veitch, Assistant Secretary Resources Planning Air Force

**Output 5: Strategic policy**

Dr Richard Brabin-Smith, AO, Deputy Secretary Strategy  
Mr Shane Carmody, First Assistant Secretary Strategic and International Policy  
Commodore Warwick Gately, AM, RAN, Director General Joint Operations and Plans

**Output 6: Intelligence**

Mr Martin Brady, AO, Chair Defence Intelligence Board  
Mr Frank Lewincamp, Director Defence Intelligence Organisation

**Business processes**

**Defence Science**

Dr Ian Chessell, Chief Defence Scientist  
Dr Roger Lough, First Assistant Secretary Science Policy  
Ms Christina Bee, Assistant Secretary Science Corporate Management

**Inspector General (including evaluations)**

Mr Claude Neumann, Inspector General Department of Defence

Mr Jason Brown, Assistant Secretary Security

Ms Margot McCarthy, Assistant Secretary Security

**Public Affairs**

Ms Jenny McKenry, Head, Public Affairs and Corporate Communication

Mr Murray Domney, Director General, Communication and Public Affairs

Brigadier Gary Bornholt, Military Adviser Public Affairs and Corporate Communication

**Corporate Services**

Mr Jeff Whalan, Deputy Secretary Corporate Services

Mr Patrick Hannan, Head Information Systems Division

Mr Peter Sharp, Head Service Delivery

Mr Ross Bain, Acting Head Infrastructure

Brigadier Garry Kelly, Director General Project Delivery

**People****Defence Personnel**

Major General Simon Willis, CSC, Head, Defence Personnel Executive

Brigadier Robert (Bob) Brown, CSC, Director General Personnel Plans

Air Commodore Roxley McLennan, Director General Career Management Policy

Mr Felix Bleaser, Acting Director General Resource Management-Personnel Executive

Mr Brendan Sargeant, Director General Personnel Policy and Employment Conditions

Brigadier Wayne Ramsey, AM, CSC, Director General Defence Health Service

Ms Bronwen Grey, Director Defence Equity Organisation

Colonel Mark Bornholt, AM, Director Defence Force Recruiting Organisation

Commodore Michael Smith, Director General, Defence Legal Office

**CHAIR**—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I welcome Senator Ian Macdonald, Minister representing the Minister for Defence; Admiral Barrie, Chief of the Defence Force; Dr Hawke, Secretary of the Department of Defence; and officers of the Defence organisation.

The committee will consider particulars of proposed expenditure for the Department of Defence, the Defence Housing Authority and the Department of Veterans' Affairs, in that order. The committee has before it the particulars of proposed expenditure for the service of the year ending 30 June 2002, documents A and B and the portfolio budget statement for the Department of Defence. The committee will first consider the portfolio overview and major corporate issues. We will then move on to outputs, business processes and people. I remind colleagues that the Senate Finance and Public Administration Legislation Committee is continuing to monitor the format and contents of the portfolio budget statements. If you have any comments that you wish to make about these documents, please place them on the record during these estimates hearings or direct them to this committee.

The committee has resolved that the deadline for the provision of answers to questions taken on notice at these hearings is Wednesday, 18 July 2001.

Before I ask the minister whether he wishes to make an opening statement, I would particularly like to welcome Dr Hawke and Admiral Barrie to this estimates hearing. With the increased interest in defence issues and a commitment from the government to spend at least an extra \$27 billion over the next 10 years on defence, their presence is particularly important

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to this committee and I thank them for that. Minister, do you wish to make an opening statement?

**Senator Ian Macdonald**—No, thank you. Admiral Barrie would like to say something, though.

**Senator SCHACHT**—Before Admiral Barrie makes his statement, I want to clarify something with the officials at the table. I have some questions dealing with the Jenkins matter at the Washington embassy. I asked questions about this at the February estimates. At some stage during the next few days, I trust there will be the appropriate officers present to answer further questions about the Jenkins matter.

**Dr Hawke**—Yes. Martin Brady, the chairman of the Defence Intelligence Board, would be the best person to handle that.

**Senator SCHACHT**—Thank you.

**CHAIR**—Admiral Barrie, do you wish to make a statement?

**Adm. Barrie**—Yes. It is just over one year ago that the secretary and I appeared before this committee and I welcome the opportunity to brief the committee today on the ADF's performance over the past year and some of the important issues for us over the next 12 months or so.

Over the last 12 months, the Australian Defence Force has been very busy, maintaining an operational tempo which has very close parallels with the op tempo we experienced during the Vietnam War. But we have met all our commitments, with a force that is considerably smaller than the force of 30 to 40 years ago, and a force comprising all volunteers. I think this is a remarkable achievement and it stands as a testament to the commitment and dedication of all our people, but particularly the young men and young women who form the bulk of the ADF today. As the committee will know, in the year that is just finishing, we continue to maintain a strong Australian presence in East Timor to provide security there, a significant presence in Bougainville to promote a lasting peace among the people of Bougainville, and an important presence in the Solomon Islands, in addition to other numerous commitments to making the peace overseas. We also opened a new chapter in our international engagement, with the successful apprehension off South Africa of the *South Tommy*, in conjunction with units of the South African National Defence Force.

At home, the Australian Defence Force was very much involved in the conduct of an extremely successful Sydney Games, with over 4,000 full- and part-time personnel deployed there for Operation Gold. More recently, the Defence Force participated fully in the high-level combined and joint exercise Tandem Thrust, which saw about 27,000 personnel involved. During Tandem Thrust, the extent of integration between the Australian and the United States armed forces in the field and in the command of a coalition force established a new benchmark for the future. I should add that, in my view, this exercise was very timely in providing our personnel with experience of top level war-fighting skills. Finally, we have been extensively involved with a range of special activities to mark the centenary of the Australian Federation.

When I appeared before this committee last year, I spoke about the importance of the white paper on defence which was then in preparation. As you know, the government released the white paper in December last year. The service chiefs and I were present in the parliament during the tabling of the white paper by the Prime Minister. The effort to produce it involved a great deal of work by my colleagues in Defence and the other government departments. It also involved a great deal of work by ministers and, through the community and defence

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consultation processes, many more people than any other white paper on defence that has been produced.

I am satisfied that, in our present strategic circumstances, the journey we have embarked on to equip and prepare the Australian Defence Force to meet the various challenges we may confront is the right one. I and the service chiefs endorse the capability plan set out in the white paper. It is the right basis for the development of our Defence Force. The budget papers before this committee represent the starting point for an ambitious path towards our future.

I do not underestimate the challenge that we face in delivering the objectives of the white paper. In this context, we will have much work to do to deliver the program of capability updates and enhancements to the force, to budget and to timing. For those defence people who work in Canberra, this sense of priorities will be a preoccupation, but with first-class leadership and good management, it can be done. This is one reason why the secretary and I have devoted so much effort to sharpening the leadership skills within our organisation, particularly amongst our top leadership team.

We believe that it is critical for leaders in Defence to be acknowledged as amongst the best in our country. Accordingly, we have invested in a range of programs that involve us personally in working with our people to develop a good understanding of the leadership imperative, a commitment to working with people at all levels to meet the challenges in front of us in the most effective and efficient ways and preparing the organisation to be on the front foot in thinking ahead so we can shape and influence, where possible, outcomes that will enhance Australia's, and our region's, security.

As a very high priority, we will continue to work on strategies to improve the recruitment of our young people into the organisation, and on measures designed to enhance the retention of the people we need to retain within the Australian Defence Force and the department, ensuring that the work environment in barracks and office spaces all round the country lives up to people's expectation in a leading-edge organisation. These demands are inextricably linked, but if we are successful, many people will see service to their country by working within defence as a career of choice.

In terms of people who serve on a part-time basis in our reserve forces, there are many positive initiatives that are coming into place to ensure that their contribution to the ADF effort will be substantial and appropriate. We are intent on promoting the concept of all of one company in respect of our Defence Force. We will be working together with key reserves personnel to bed down new arrangements for their employment needed as a consequence of important changes to the reserves legislation last year. This is perhaps the right time for me to point out how significant the commitment of reservists all over Australia was in the achievements of the Australian Defence Force during the year, at the Olympic Games and on overseas deployments. In all the instances I can think of, these people stood side by side with their regular counterparts and excelled themselves—truly gold medal performances. I personally gained a strong sense of pride and satisfaction from their commitment, especially when I had the pleasure of meeting them at work.

Another important shift for Defence this year will be to put in place high-quality arrangements for delivering to the young people in Australia a first-class cadet scheme. Yesterday, I was present at the RAAF Base Richmond together with the three service chiefs when we announced the creation of the Australian Defence Force cadets and the components of the Australian Navy, Army and Air Force cadets. This announcement followed on from the review delivered last December. Increased support for cadets was set out in the white paper. It will start to flow from 1 July with an additional \$6 million or 25 per cent increase in the budget. The services are strongly committed to providing for our youth a valuable and

rewarding experience from their involvement with the Defence Force. Along with a lot of first-class work being done by our reservists, I fully expect that the new impetus given to cadets by this shift will add significantly to the bridges we are building with the Australian community.

Let me conclude with two observations. Firstly, although the year has presented us with the continuing challenge of sustaining a high operational tempo, our personnel have met the considerable demands placed on them by continuing to deliver highly professional world class performances. Our people are good, make no mistake. Secondly, I have no doubt that, with their exceptional talents, the men and women of the Australian Defence Force will continue to rise to meet the challenge on every occasion. Their expertise and dedication will continue to be an example to the Australian community. Our community made it clear in the consultation process last year that they were proud of our achievements, and we are committed to continue to make them feel proud of us in the year ahead. Thank you.

**CHAIR**—Thank you for your comments, Admiral Barrie.

**Dr Hawke**—I think I would add to what the CDF has said: we are continuing with the program of organisational renewal, which we discussed in this committee about 12 months or so ago. We can go into some of that in the course of the questions if members wish.

**CHAIR**—Thank you, Dr Hawke. We move firstly to the portfolio overview and major corporate issues, so I am sure they will be covered.

**Senator HOGG**—Senator Faulkner, I want to clarify the arrangements this morning. I understand Admiral Barrie is leaving us by 11.00 a.m. to go overseas.

**Adm. Barrie**—I am going to East Timor this afternoon.

**Senator HOGG**—That is fine. I presume that Dr Hawke will still be available post eleven?

**Dr Hawke**—Indeed.

**Senator HOGG**—Thanks very much.

**Senator FAULKNER**—I will be brief in these opening questions. Dr Hawke, these questions might be best directed to you. Has Defence done any study on the impact of AWAs in the department and, if it has, could you briefly outline to the committee what the nature of any such study has been?

**Dr Hawke**—I am not sure about study, Senator, but our approach to AWAs has essentially been that so far they are confined to the senior executive service of the department and the corresponding parallels in the Defence Science and Technology Organisation, where we have chiefs of division and the like. So they would be the equivalent of the SES. We have what is essentially, I suppose, a generic AWA; in other words, it is one that applies across the whole of the SES. Within that, there is a table which shows what the pay ranges are at SES band 1, band 2 and band 3. Within that context, we have a couple of specials, if you like. For instance, the Director of DSD and the Director of the Defence Intelligence Organisation are paid above the normal level of the top of the band 2 in recognition that in the past, and when we brought AWAs into being, they were classified at the old level 5, which of course has disappeared under the new system. So they get a fixed pay rate, and there are one or two other examples of that as well.

**Senator FAULKNER**—Yes.

**Dr Hawke**—The schedule of the pay rates basically sets out what the bottom rate is and the progression through that range to the top of the range. That is the sort of general approach that we have taken to AWAs.

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**Senator FAULKNER**—I appreciate that. Have you undertaken any assessment of the effectiveness of AWAs or their impact in the department?

**Dr Hawke**—I am not aware that we have. I happen to think that AWAs at the SES levels are quite a nice way of expressing the nature of the employment contract between the secretary to the department and the SES who are among our senior leadership team. When we do a generic AWA, we involve our SES in working on the nature of what is in that document and people's responsibilities and what they get out of it.

**Senator FAULKNER**—What about more specifically, say, the capacity of the department to attract or retain staff? I am interested in the impact AWAs may have had in that area.

**Dr Hawke**—Unlike other departments, we do not have performance bonuses or performance pay. In some cases, I think some organisations have what might be regarded as some form of golden handcuffs on their key staff. We prefer to have our system, which basically involves people at the end of 12 months being assessed against what we call a 'plan on a page'. A plan on a page establishes for each supervisor and subordinate the five to seven, with a maximum of nine, things that they are going to do over the course of the next 12 months. They are supposed to meet quarterly or six monthly to review progress towards that. Then, at the end of the 12 months, if people have basically satisfied that, they go up the next increment. We call this 'performance-linked remuneration'.

The second part of the plan on the page focuses on what the supervisor and the subordinate are going to do to develop that person towards their potential and their career aspirations. So it serves two purposes. Each time they meet in this quarterly performance exchange, which is a two-way process, they discuss both the work and how the person is developing. At the end of the 12 months, people go up one step. Some people say, 'What happens when they get to the top of the range?' My answer to that is that we adjust the top of the range, having regard to what is being paid in other departments and agencies. That occurs about every two years, so that we keep in touch with the market.

A second issue that is often raised is whether this penalises your best and brightest, because they simply go through the same process as everybody else. My response to that is that the best and brightest are the very people who are likely to be competitive and to win promotion in the system. So, in my view, they are looked after in that way.

Our system of course counts for superannuation, and that provides some offset against other organisations who might offer quite significant elements of pay-at risk and the like.

**Senator FAULKNER**—Dr Hawke, the system that you have just outlined, which I am in a general sense aware of, is unique. I think it is fair to say that it is unique to Defence.

**Dr Hawke**—I am not sure what is in play in Transport and Regional Services now—

**Senator FAULKNER**—I see.

**Dr Hawke**—but it is the system that we had in place there before I departed, and it is the system that we have introduced in Defence since I have come there.

**Senator FAULKNER**—You describe that as performance-linked remuneration. If you compare the Defence system, for want of a better description, and the performance pay system, I wonder if any assessments have been made in terms of any advantages or comparative disadvantages of what is happening, comparing Defence to the remainder of the Australian Public Service.

**Dr Hawke**—Yes. The Management Advisory Committee, which is chaired by the Secretary of Prime Minister and Cabinet, comprises the secretary and some agency heads. When



they met earlier this year, they decided that a series of across-the-APS studies would be undertaken. One of those is some work on what is called performance management, and I am one of the subcommittee members on that group. That committee is due to complete its work in the next few weeks. The report of that subcommittee will then go to the full Management Advisory Committee and it will be up to the chairman and that committee to decide what happens. I think that is a rather nice piece of work because, as well as doing some analysis across the service, it has some case studies of different approaches to performance management, including what we do in Defence.

**Senator FAULKNER**—I am aware of that initiative. Apart from that initiative, are there any others that you are aware of?

**Dr Hawke**—There is one other. There is some work being done by the Institute of Public Administration. I think I am right in saying that Ken Matthews, the Secretary to the Department of Transport and Regional Services, is still president of that group. They have commissioned some people from outside the service to do some work on that, but I am a bit unsure where they are at on their project.

**Senator FAULKNER**—I am aware of both those studies that you mention. There is nothing being generated internally in Defence, apart from your own involvement on the Management Advisory Committee's review?

**Dr Hawke**—No, not to my knowledge. We do of course go to the normal, almost monthly, meetings in Employment, Workplace Relations and Small Business, chaired by Dr Shergold, where there are discussions about AWAs and certified agreements from time to time and they compare what is happening across the Public Service. I am not aware of anything specifically that we have done. We are having a look at arrangements for a new certified agreement in Defence towards the end of this year and, at the same time, we will be looking at revising our generic SES AWA approach.

**Senator FAULKNER**—Does this leave you personally in a rather unique position in Defence in relation to the arrangements for departmental secretaries and performance pay?

**Dr Hawke**—I think most other secretaries would say the same—that their system is unique to their department and what they regard as their requirements. But, yes, my system is different to the others.

**Senator FAULKNER**—Except that performance pay is part and parcel of processes relating to senior officers in other departments.

**Dr Hawke**—In most but, again, I am a bit uncertain of Centrelink's processes, which is probably a step out of the mainstream of departments of state. At one stage I thought its system might have been pretty close to the way in which we do it.

**Senator WEST**—That is not a government department.

**Dr Hawke**—That is what I said. It is outside of the mainstream of departments of state.

**Senator WEST**—It is contracted to Family and Community Services and also sells some of its contract to health, AFFA and Veterans' Affairs, I think.

**Senator FAULKNER**—In relation to your own performance pay, Dr Hawke, as I understand it, there are effectively two completed cycles—for want of a better description of performance pay. From evidence I have gleaned at other committees, performance pay has obviously been paid in the first cycle, which was concluded well over a year ago, and the second cycle, if you like, has just been completed. Does that conform with your understanding?

**Dr Hawke**—The second round is not yet completed. It is completed—again, perhaps I do not know all this—in respect of myself, where I provided a draft report to Minister Moore as the portfolio minister. I had discussions with him about that document and then I lodged the final version of that, in the light of the discussions, with the then minister, the Secretary to the Department of the Prime Minister and Cabinet and the Public Service Commissioner. My understanding is that they are in the process of talking to portfolio ministers. You probably know that a report from them is then made to the Prime Minister who determines the outcome. As far as I am aware, that report has not gone forward.

**Senator FAULKNER**—What I meant by the completion of the cycle—I accept what you say completely—was that the period on which the performance was based has been completed.

**Dr Hawke**—That is correct, yes.

**Senator FAULKNER**—In relation to the last cycle—that is, the one that would have concluded, in terms of the assessment period, in March this year—did you have, and I want to be clear on this, a formal written performance agreement with the Minister for Defence?

**Dr Hawke**—No, I did not.

**Senator FAULKNER**—Could you explain why not, in this instance?

**Dr Hawke**—Under the situation that prevails, some ministers choose to do that. Other ministers choose to have a general discussion and then have either a written agreement, in terms of an exchange of letters, or a record of the discussion of what is to transpire between the minister and the secretary.

**Senator FAULKNER**—This raises the issue of on what general criteria your own performance is assessed or determined.

**Dr Hawke**—What happens is that, at the end of each assessment period, the secretary is required to write a performance self-assessment as a basis for discussion with the minister. That covers a range of particular issues and they are: meeting government objectives; management; strategic, high quality, frank and timely advice to ministers; leadership; professional and personal integrity, and the APS values code of conduct. I do not know what others do, but I cover a range of other issues under a heading called ‘other aspects’.

**Senator FAULKNER**—That is the self-assessment. At what point of the cycle does that self-assessment come in?

**Dr Hawke**—That comes in at the end of the assessment period.

**Senator FAULKNER**—Did you have a discussion with your minister about your performance at the midpoint of the cycle?

**Dr Hawke**—No. I had ongoing discussions with my minister almost every week that the parliament was sitting and then on occasions outside of that process, but there was no fixed review date or discussion of the kind that I think you are referring to.

**Senator FAULKNER**—What about any involvement of the Secretary to the Department of the Prime Minister and Cabinet during the cycle?

**Dr Hawke**—At the end of the cycle—the one that has been completed, not the present one—the secretary of Prime Minister and Cabinet spoke to me about my assessment.

**Senator FAULKNER**—So you have spoken with the secretary of PM&C about your assessment?

**Dr Hawke**—After the process, yes.

**Senator FAULKNER**—You have spoken with the Minister for Defence, your portfolio minister, about your self-assessment?

**Dr Hawke**—Yes.

**Senator FAULKNER**—I think it is reasonable for me to ask this in relation to your self-assessment: do you make a recommendation about the level? For those who do not understand it, we have been talking about no performance pay, 10 per cent performance pay, or 15 per cent performance pay. Do you make a recommendation in your self-assessment about that?

**Dr Hawke**—No, I did not. I thought that that judgment was best left to the portfolio minister and the discussions that he might have with the secretary of PM&C and the Public Service Commissioner. My assumption is they arrive at a conclusion which they include in their report to the Prime Minister.

**Senator FAULKNER**—I do not think you were there for the full first cycle.

**Dr Hawke**—No.

**Senator FAULKNER**—At what point did you come in, in terms of the performance pay cycle?

**Dr Hawke**—I did two reports in respect of the first cycle that has already been completed. I did one which covered my period in Transport and Regional Services and another one for the period that I was in Defence. Both portfolio ministers were involved. As far as I am aware, there were discussions with both portfolio ministers in arriving at a conclusion about my performance.

**Senator FAULKNER**—The first cycle involved, effectively, two departments and two portfolio ministers.

**Dr Hawke**—Yes.

**Senator FAULKNER**—In relation to that first cycle which has been concluded, and was concluded when you were secretary of Defence, I was just interested how and by whom the decision in relation to a performance bonus was communicated to you. How was it done and who did it?

**Dr Hawke**—In this case, the secretary of PM&C spoke to me about it. That was followed up by a letter, which I am pretty sure was signed by the secretary of PM&C—but I am not absolutely sure of that. That is the authority to pay or not pay, I would guess.

**Senator FAULKNER**—In relation to the first cycle, were you given an opportunity to comment on your own self-assessment in that cycle too and an opportunity to comment on the final decision in relation to the level of performance pay?

**Dr Hawke**—That is a difficult issue. I will answer it by saying that I am satisfied that I had sufficient opportunity to discuss my performance with the two portfolio ministers and the secretary of PM&C.

**Senator FAULKNER**—I appreciate the fact that you came to Defence during the first performance pay cycle, but are there any insights you can give to the committee in relation to any changes in the way that performance pay has applied to or worked for you as secretary to the Department of Defence when you compare the first cycle with the nearly completed second cycle?

**Dr Hawke**—I am essentially in a similar position, having had two portfolio ministers in that period. The system is pretty much the same for me the second time around as it was the first time. The only point I can add to that is that the secretary of PM&C has not yet spoken to

me about my performance assessment. I expect that is because he and the Public Service Commissioner have not yet completed their part of the exercise.

**Senator FAULKNER**—As I understand the cycle, you would expect that to occur pretty soon.

**Dr Hawke**—I would.

**Senator FAULKNER**—Concluding this matter, my only general question is: you have made public comments over the years, it is fair to say, on your views about performance pay. You are in a unique position to make such comments given that you are one of the secretaries who is involved very intimately in the system and who, I hope, receives performance pay. Have your general views changed as we reach the end point of the second cycle?

**Dr Hawke**—No, my views have not changed. My approach is quite consistent with the government's workplace relations guidelines.

**Senator FAULKNER**—Thank you for that.

**CHAIR**—I thought that Senator Schacht was going to make a small contribution, but he is not here.

**Senator HOGG**—Senator Schacht has now deferred his contribution until after smoko.

**CHAIR**—Senator Hogg, would you like to proceed then?

**Senator HOGG**—At page 3 of the PBS, at the second paragraph, it says:

The revised outcome reflects the reality that activities inimical to Australia's security and national interests may not necessarily involve the use of armed force. For example, hostile foreign intelligence activities, directed and hostile economic aggression, deliberate introduction by a foreign power of non-weaponised biological agents, or cyberattack on economically or militarily sensitive cyber-sites are activities that do not involve the use of armed force but may be extremely damaging to Australia and its national interests.

Will Defence be diverting funds from its current functions to meet the requirement capabilities of the revised outcome of Defence? Does this revised outcome mean greater demand on the existing defence resources?

**Dr Hawke**—Before I answer that, may I say one other thing in relation to Senator Faulkner's line of questioning that perhaps I should have said. There is one substantive change between the first round of performance pay and the second round. That is, in the second round, the Minister for Defence has actually issued a directive to the Chief of the Defence Force and me. The directive sets out his expectations of the way in which we will work together and gives some pretty straightforward guidance about what we can and cannot do. I think perhaps I should have added that when Senator Faulkner was here.

I will go to the question that Senator Hogg has raised. My understanding of the way this system works is that the Defence outcome is a matter for the government. That is the result that they are seeking. You will see here it is the defence of Australia and its national interests. You might recall the previous one was something along the lines of to prevent or defend Australia from armed attack. The discussion about this matter then led to the fact that, as we go into the 21st century, some forms of warfare might not involve armed attack, such as cyber attack. So the minister then considered, and put to the government for approval, in the context of the budget a change to the outcome. That is what you see in front of you.

Underlying that are six Defence outputs which contribute towards that outcome. There is a change there. Last year I think we had five outputs. This year there is a sixth one which contributes to that outcome. The way we look at this is that each year in the budget context

the government purchase from us, if you like. They are the purchaser, the customer, for the six outputs. They pay a sum of money for those outputs which contribute towards the outcome. So the whole budgeting process depends on delivering those outputs as a contribution towards the Defence outcome. That is my understanding of the accrual based outcome budgeting process.

**Senator HOGG**—Yes, but is there any diversion of funds that may have been previously allocated or currently allocated to projects as a result of this revision of the Defence outcome?

**Dr Hawke**—Not as a direct result of this revision, but certainly there will be some changes to funding in this PBS simply as a result of the white paper of government decisions on funding, changes in priorities for projects and the like.

**Adm. Barrie**—Perhaps I could add to that, Senator. My understanding of the change that has occurred here is simply how the use of armed force by the Defence Force would fit into a whole lot of government framework to secure Australia's security. One of the concepts that underpinned those changes was that national security is not just a matter for Defence; it is a matter which reaches into a whole range of portfolios. Specifically, in answer to the question you have asked, I would say no, there is no diversion of funds to deal with those issues, except as they would still apply to how we might use armed force to counter those things. The sorts of arenas which have added to the complexity of our strategic environment—and these are the concerns that I have as the chief—are transnational crime and drug smugglers using very sophisticated command and control and intelligence capabilities similar to those that we deploy. That demands a much more significant and more substantial response than anything we have seen up until now. So they are issues that are emerging which we must think about. To go back to my definition about how we might use armed force to secure our interests, it is hard to say precisely how that would influence us.

**Senator HOGG**—Does this imply that there will be a greater demand on Defence resources, or will you be looking for input from other areas across other portfolios?

**Adm. Barrie**—I do not think it makes a change as to how we see the use of Defence resources.

**Senator SCHACHT**—Will you be making more integrated use of the augmented and expanded Coastwatch arrangements? I understand they have a whole range of new boats coming.

**Adm. Barrie**—We already do that, Senator.

**Senator SCHACHT**—But there is no increase in that augmentation or the integration of the activities so that the left and the right hands both know what you are doing?

**Adm. Barrie**—Admiral Shalders, who now heads up Coastwatch, was offered into that opportunity simply to get the coordinating and cooperation mechanisms right. I think there is a very seamless exchange between the two agencies.

**Senator SCHACHT**—But, in view of the outline on the opening page, the strategic assessment, there is no further intention of the government to increase the integration or the facilities available to Coastwatch or, conversely, to Defence to deal with drug smuggling, international crime and people smuggling?

**Adm. Barrie**—In terms of the integration, I am not aware of any plans to do more. All I would say is that as particular cases come up to be dealt with operationally, if that is assigned to us because there is perceived to be a requirement for the use of armed force in that context, that is what we will do.

**Senator SCHACHT**—There is already full cooperation between DIO and Customs over the assessment that DIO may pick up through its electronic surveillance to provide information to Coastwatch; for example, that illegal boat people may be coming?

**Adm. Barrie**—Yes. We bring all the resources available to our country to bear on that problem.

**Senator SCHACHT**—Does that mean that Customs or someone from Coastwatch may be attached from time to time to the operation of DIO in, say, things such as the operation of Jindalee?

**Adm. Barrie**—I could not speak specifically to that, but certainly I can say that the outplacement of liaison officers between the two organisations occurs quite regularly.

**Senator SCHACHT**—Is any information from the joint facilities at Pine Gap provided to Customs so that it can pick up illegal boat activity coming across the Indian Ocean and the Timor Gap and so that they can be more easily detected—not only detected but apprehended?

**Adm. Barrie**—All I can say is that all the resources of government are brought to bear on that problem.

**Senator SCHACHT**—You would say that, wouldn't you? Despite the opening statement, there is nothing specific to tell me that you are doing more next year than you did last year to handle the issues of organised crime, drug smuggling, people smuggling, et cetera?

**Adm. Barrie**—I think the opening statement included reference to the recent apprehension of the fishing vessel off South Africa. I would say that that is a new chapter in the way we think about securing our region. As far as the Australian Defence Force is concerned—

**Senator SCHACHT**—But did you apprehend that because you were provided extra facilities or was it just good luck on the existing services?

**Adm. Barrie**—I would not describe it as good luck, Senator; I would say it was good management.

**Senator SCHACHT**—I know it was good management—I am not denying the good management of the department—but was it an increased activity or services provided in this area, according to the opening statement on page 3?

**Dr Hawke**—It is something that we had not done before.

**Senator SCHACHT**—You haven't apprehended someone near South Africa?

**Dr Hawke**—No, we have not, so that is a new use of the Defence Force to do something that the government wanted—

**Senator SCHACHT**—No, you missed the point: did you apprehend them way out there because you were provided extra resources, or did it just so happen that you caught them?

**Dr Hawke**—It is not extra resources that—

**Senator SCHACHT**—So there are no extra resources from last year going into next year, despite what you say in the opening paragraph of page 3. You talk about—

**Dr Hawke**—I am not sure that I follow you where the 'extra resources' comes from, Senator.

**Senator SCHACHT**—Admiral Barrie said that one of the areas we are looking at is the strategic environment, organised crime, et cetera. Organised crime is into people smuggling, drug smuggling, et cetera. I agree with him; I am not disputing it. I just wanted to get it clear

that as a result of this new identification we are providing additional resources in this coming year, the year after and the year after than we already provide.

**Dr Hawke**—We are providing additional resources in the—

**Senator SCHACHT**—Tell me what they are.

**Dr Hawke**—intelligence area.

**Senator SCHACHT**—But you cannot tell me what that is, because that is confidential?

**Dr Hawke**—No. I think that would be an entirely appropriate question for you to ask—

**Senator SCHACHT**—I am asking it now.

**Dr Hawke**—Martin Brady and his colleagues, when they come. They are the experts. If you want to get them here now, we can do that.

**Senator SCHACHT**—No, we will mark it now. It think Mr Brady—

**Dr Hawke**—It is specifically in the intelligence output where we are providing additional resources.

**Senator SCHACHT**—Is Mr Brady here—just as a matter of interest—listening? Is he on the monitor back in Russell?

**Dr Hawke**—We can get him if you wish.

**Senator SCHACHT**—No. I just want to make sure that he understands that this is a line of questioning.

**Dr Hawke**—Okay, we will make sure he does.

**Senator SCHACHT**—I think it will be tomorrow when he turns up.

**Dr Hawke**—The reason I say that is that I am not completely across where those additional resources are going, and my expectation is that—

**Senator SCHACHT**—A commendable bit of honesty, Dr Hawke, as a secretary to recognise that you are not across everything!

**Dr Hawke**—I am not. And he would be best placed to comment on where those particular resources go.

**Senator SCHACHT**—Fine, I will not go any further on that.

**Senator HOGG**—To go back to the question I originally asked, there is a change there. How do you now define the ‘national interest’, given the changes to the start of the PBS at page 3? Has that changed?

**Dr Hawke**—We do not define the national interest. That is a matter for the government of the day.

**Senator SCHACHT**—No, but you are the government.

**Dr Hawke**—We are not the government.

**Senator SCHACHT**—Yes, you are.

**Dr Hawke**—We advise the government.

**Senator HOGG**—But Defence must have some idea what the national interests are and how they are going to see—

**Dr Hawke**—No, I have to disagree with you here, Senator. I think this goes to the root of accountability arrangements. This goes to the very root of whether or not people see

themselves as serving the government of the day and the minister of the day. And I have seen it said before that we do not serve the minister or the government of the day because we have a broader national interest. I put it to you that it is not the place of unelected officials to decide on the national interest. That is the view that is decided by ministers and the government of the day.

**Senator SCHACHT**—Dr Hawke, you write policy documents under direction from the minister every day of the week, and a good department would be having those prepared in a proactive way on a range of issues that may be emerging. You provide them to the government. The government can reject or accept them. They are government policy.

**Dr Hawke**—They are government policy.

**Senator SCHACHT**—You put them forward, the government decides. But to say that you are not part of the government—well, what are you?

**Dr Hawke**—The Australian Public Service—

**Senator SCHACHT**—But you are part of the government. Taxpayers pay you money; you are part of the government.

**Dr Hawke**—Well, I have a slightly different view. We do not determine what is in the national interest.

**Senator SCHACHT**—No, but you put forward policy. The minister decides—

**Senator HOGG**—You must know what the national interest is. That is the question.

**Dr Hawke**—I disagree. I think that is a matter for the government. Public servants should not be determining what is in the national interest.

**Senator WEST**—When you are giving advice to the government or to the minister you are not aware of what the national interests are?

**Dr Hawke**—We can give that advice, but it is a matter for their decision. That is the distinction I am trying to make. I think it is a very dangerous road to go down for public servants to be deciding what is in the national interest.

**Senator SCHACHT**—But don't you put forward papers that have options?

**Dr Hawke**—Yes.

**Senator SCHACHT**—On what the national interest is? You say, 'Minister, if you adopt this, this is the national interest and consequence A, B and C will occur'?

**Dr Hawke**—We provide the advice, they make the decision.

**Senator SCHACHT**—Yes. And in that discussion he says, 'Dr Hawke come over, I want to have a chat about this.'

**Dr Hawke**—Yes.

**Senator SCHACHT**—He then makes the decision, which is fine.

**Dr Hawke**—Correct.

**Senator SCHACHT**—But you as the government then go and implement it, because the Public Service is part of the government. And it will be the same when we win the election at the end of the year.

**Dr Hawke**—You can have that view, but I see a distinction. I mean the Public Service is there to do what the government of the day and the minister directs within the law, within the legal framework.



**Senator Ian Macdonald**—You have got Dr Hawke's view.

**Senator SCHACHT**—There are more important things to tackle in one sense at this estimates hearing, but I have to say, Dr Hawke, I cannot quite agree that you are so dysfunctionally separate.

**Senator Ian Macdonald**—That is a debatable point. For what it is worth I agree with Dr Hawke, but let us not—

**Dr Hawke**—Can I just add one point to this? It is the Public Service, not the government service.

**Senator SCHACHT**—It is the Public Service carrying out the direction of the government. But a good department is proactive in preparing a range of option papers, policy papers, for the government. So when some new crisis occurs, you pull them out and say, 'We are prepared for that. Here is the document, Minister', and then you carry out the policy.

**Senator Ian Macdonald**—Well, is there a question?

**Senator SCHACHT**—I just think that maybe we have had a semantic difference here. I give you the benefit of the doubt, Dr Hawke, but we have a semantic difference here.

**Senator HOGG**—I understand the semantic debate that has taken place but I think that nonetheless it is an important debate. In terms of the CDF and the forces that you command, do you have a concept of what comprises the national interest, and has that changed? I am not asking if you set the determinants. I am just asking whether those have changed.

**Adm. Barrie**—It is my responsibility to consider how the armed forces might be used to support whatever the government decides is the national interest. Of course, it my responsibility to provide the appropriate response options. I think the definition of 'national interest', as you would probably see it right now, is well set out in the white paper for Defence.

**Senator HOGG**—Whilst you are still with us, I want to traverse the issue of personnel. Do we have a crisis currently in personnel and, if so, can you identify the main areas that are of concern and how they are being addressed?

**Adm. Barrie**—I would be very shy of saying there is a crisis. What I would say is that there is a constant challenge about recruitment and retention of appropriate people for the Australian Defence Force. As long as I can remember, that has been a constant challenge because we operate an all-volunteer force. The statistics themselves go up and down month by month and, when you get onto the people issues, the head of the personnel executive can give you some figures about how that works.

**Senator HOGG**—Yes, I intend to pursue these further there.

**Adm. Barrie**—I do think, for a couple of reasons, attracting volunteers into our Defence Force is a very important priority for this organisation over the next couple of years. The first one attaches to reducing numbers in the overall availability of the people we want in the Australian population. Without some very significant change to the figures as they are currently before us, the base from which we will have to recruit is gradually diminishing in terms of the age profiles. That is going to be one set of challenges. In relation to the second set of challenges, I think we are in a very competitive market, not just with industry but with the people in the service industries as well. I think frankly, although I have no evidence to back it up, that our young people are seeing the attractiveness of going offshore to start their work careers. All of that says to me that trying to find solutions to make defence, or service in the ADF, a career of choice for young people is a very important imperative for us to continue

the work. There is a range of initiatives that we have put in place. Certainly the priority we are giving to the people matters over the next couple of years underpins that sense of priority and the urgency of trying to find other solutions.

**Senator HOGG**—How severe do you rate the problem? The Senate references committee has launched an inquiry into recruitment and retention, and the department has made a submission to that inquiry. I will not trawl over some of the comments that are in that now. I think that is better left for later on, but there are a couple that I will put to you before the end of the day. It seems to me that there is a real concern about Defence's inability to attract a number of people in a number of specialist areas—

**Adm. Barrie**—Yes.

**Senator HOGG**—It leaves the Defence Force severely understaffed. It raises the question of whether Defence will be able to operate all the platforms that are available to it currently, let alone worrying about the platforms that will come on line down the track. It is in that context that I am raising with you—and, of course, the fact that there are problems in the reserves and there are problems in recruiting—that, if we are not at crisis point, then we must be very close to it. Whilst I understand the initiatives that you have spoken about—and, undoubtedly, when we get to the references we will pursue these at some length—what initiatives are you taking to overcome the immediate deficiencies that lead to the hollowness that is described innumerosly throughout the submission to the Defence inquiry and is spoken of elsewhere?

**Adm. Barrie**—There is no doubt, in my view, that the essential ingredient in the ADF's overall capability is the quality of its people. You can buy smart platforms and smart weapons—anybody can do that—but, unquestionably, on the ground it is the way our people use those capabilities that makes the very significant difference. So we continue to have a demand for what I would call first-class people across the board.

There is also no doubt that, although our overall demands for numbers has reduced over time, we are still challenged in trying to get the numbers through into the recruiting schools and into the initial training arena. We are also challenged in retaining some of the higher skills—pilots, for example, being a constant thorn in our side—as we try to compete in a very commercialised market. There are a whole range of initiatives that you will hear from later concerning the Defence People Council, a look at the remuneration arrangements, thinking about different ways of recruitment and so on and so forth. But I find it rather interesting that it does have a sort of month-by-month air of crisis about it. Then in some months you will find we have been enormously successful. I am given to understand, for example, that right now there are no vacancies in our recruiting schools, that they are full of people waiting to come through into the ADF.

The issue that we have to come to terms with over the next couple of years is how we can try to smooth the sort of stop-start impression that we get and, secondly, how we are going to continue to attract people in what I think is a shrinking and very demanding labour market.

**Senator HOGG**—Can I turn to one comment that is in the Defence submission to the Senate inquiry because I think this has emanated out of both a comment by you and the Secretary on an internal Defence consultation program. I quote:

The challenge goes deeper still. Cynicism and criticism are so widespread that the Canberra based hierarchy has lost touch with the needs of a force that undertakes difficult operations at short notice. Acceptance of responsibility at all leadership levels will need to be demonstrated actively during the renewal process. We will be working with our Senior Leadership Group to that end.

I think that is a very honest statement and a very concerning statement. Whilst I have got you here, I want to know how you see yourself as the CDF. Undoubtedly, the Secretary will comment later—and has made comments to that end already—as to how you are grappling with that issue.

**Adm. Barrie**—Senator, I said in my opening remarks that there was a real focus on leadership within the organisation—that in my view leaders inside our Defence Force ought to be recognised as amongst the nation’s best. The real issue, in my view, on the retention issue particularly attaches a lot, I think, to the quality of leadership in the field. There are two aspects to that. One is the engagement of commanders and leaders with the people who work for them. The second one is the satisfaction that the people who are in the workplace are feeling about the quality of their particular leaders. In the last couple of years we have put a hell of a lot of focus on trying to reshape how leadership works inside the defence organisation. For example, we embarked two years ago on a 360 degree leadership reporting profile for top leaders in the organisation. That has produced some quite interesting results—more so for the leaders themselves, who perhaps had not appreciated what the people who worked for them thought about their leadership style and their engagement. That is ongoing work.

The second level that the Secretary and I particularly try to get around is having focus groups at all levels inside the organisation. I do not know precisely how many hours we have invested in looking at a cut across the organisation both in terms of the people themselves and the organisations they work in, but it is quite a substantial number of hours. That gives us pretty instant feedback about what people are thinking in their workplaces and the sorts of challenges they face. I am not saying that is a complete list of all the things we need do, but all of that ought to demonstrate to people that we do take this very seriously; we understand the difference between the imperative of leadership and the workplace and in units and on deployment and what I call the management factors—the remuneration, the packages and all of those sorts of things. But pulling that together is the journey we have embarked on, and that is something we are strongly committed to.

**Senator HOGG**—How well are you convincing those you lead that the leadership is taking them down a positive path, that there is not still the cynicism and the criticism that they obviously face in Canberra? I am not just targeting that at you, I am talking about that in the broader sense.

**Adm. Barrie**—It is a straw poll, and it always is going to be. I think there is a deeper level of understanding now about that leadership imperative than there was in, say, mid-1997. Let me give you an example. We now run what we call a Capstone program for the band 1, one-star level people entering the senior leadership group. It runs over five days. We run that ourselves, by and large, and it gives people an opportunity to talk quite frankly with their leaders to try to find out what is in their heads. At the end of the first one, a general response from the 20 or so participants was that they had suddenly understood that it is not just our problem, it is their problem. To me, that was a significant breakthrough—that no longer was the challenge of dealing with these issues the secretary’s and my problem; it was everyone’s problem. And that meant that out at the workplace people had to start seeing it that way. They are examples of the sorts of things that I see.

**Senator HOGG**—In terms of the difficulties you are facing, what would you rate as the bigger problem—retention or recruitment?

**Adm. Barrie**—I would have to give you CDF’s view on this because you will find, if you ask some others later in the day, you will get a different view.

**Senator HOGG**—That is all right.

**Adm. Barrie**—You cannot retain people you have not recruited. So, in my view, recruitment is always more important than retention. I see new retention measures as a band-aid to try to solve the recruitment problem.

**Senator HOGG**—All right. What is the difficulty with retention currently? Is it a matter of conditions, in the broader sense, or are there far-reaching issues?

**Adm. Barrie**—I think it depends largely on individuals. I see two things. I think the mobility around the Defence Force once people have done their 12 to 20 years becomes a serious factor, and I think that is a factor that arises from family needs more than individual needs. The second one is that, in some very important trades for us, the perceived levels of higher remuneration out in the rest of the Australian workplace overcome the excitement and challenge people think they are getting in the Defence Force. That remains a constant theme. In my view, when somebody tells me there is a higher paying job over the hill that says more about the way they are feeling, about their sense of self worth in the organisation than it does about the remuneration itself.

**Senator HOGG**—How do you feel you are addressing those issues of self worth, how people feel? The very issue there, of course, is morale.

**Adm. Barrie**—One of the important measures we are focusing on is where the places are that people are leaving from—that is, are we seeing high numbers of people leaving particular units or organisations inside the defences? I think that gives you a pretty good measure of how people are feeling in that particular occupation.

**Senator SCHACHT**—Admiral Barrie, I have two issues. Recently there were press reports that the senior review in Defence had recommended that there be no restriction on women in combat roles. Does that report go to the chiefs or does it go straight to the minister for government to consider, seeing that Dr Hawke's definition may not be part of the government? Where are we at with that report?

**Adm. Barrie**—The first thing I would like to place on the record is that I am the Chairman of the Chiefs of Staff Committee and I find it rather unusual and pretty annoying to read in the newspapers about the business of my committee before I have even had an opportunity to think about it. Having said that, let me update you on where we are at.

**Senator SCHACHT**—Welcome to politics and leaks. Welcome to the world. We put up with it every day. Go on; I understand your point.

**Adm. Barrie**—The issue of women in combat has been with the Defence Force for many years. Let me go back a few years—

**Senator SCHACHT**—Other than for three years, I have been on the defence committee for 14 years and that issue has been before the committee in one form or another every year I have been on the committee.

**Adm. Barrie**—From the point of view of the chiefs of staff, three years ago we committed ourselves to keeping under review opportunities for women inside the Defence Force. We have an ongoing process of examining those occupations inside the Defence Force which are not available to women to see if there is any recommendation for change we might make to government. As you would all know here, we have opened up pretty well the whole of the ADF for service to women with some notable exceptions which would broadly be described as areas where there is a very high risk of hand-to-hand combat in the battlefield. In 1998, when I took over as the chief of the Defence Force, we had a—

**Senator SCHACHT**—I am sorry. Hand-to-hand combat obviously relates to the Army. Are there any areas in the Air Force or Navy?

**Adm. Barrie**—Clearance divers in the Navy and air defence guards in the Air Force. In 1998, the Chiefs of Staff Committee considered the current position with women in the combat arms and we decided to commission a work in two parts. The first part was to look at what I describe as the competencies required to do particular work inside the ADF. The second part was, having decided the competency work and what that might mean across the profile of physical characteristics available in the ADF, to then look at any management issues that would flow from that. We had expected the competency work to be completed last year. Regrettably, it has taken a little longer than that and, within the next couple of months, I anticipate that we will look at the competency issue. At this stage, I should say that the work we are doing on prescribing the competencies we require in the various trades in the ADF will be benchmarking material in the world.

**Senator SCHACHT**—So that is totally an objective, empirical testing arrangement, not like some years ago before the Joint Committee on Foreign Affairs, Defence and Trade, when some senior uniformed members of the Defence Force said, ‘Whatever else the reason is, I just don’t like having women in. I can’t psychologically put up with the idea of women in body bags, women being shot, having a leg blown off, or women having to be rescued from no-man’s-land.’ There was even reference to collapsed uteruses in women fighter pilots, which was basically a prejudicial view; it was not based on empirical evidence. So we have moved on from that level of prejudice and there is now purely an empirical test.

**Adm. Barrie**—And of course the competency work is equally as relevant to men as it is to women.

**Senator SCHACHT**—Yes.

**Adm. Barrie**—Many men would not be fit or appropriate for those arms.

**Senator SCHACHT**—Including myself and many other men I know in this place.

**Adm. Barrie**—That competency work is very important and that is what we are going to look at next. Having decided what the competencies look like, and I anticipate that we will be able to reach agreement on that pretty easily, the next thing to do will be to try and match that across the availability of people with those characteristics coming through recruitment processes. Let us say we prescribe a certain set of competencies for the infantry. If they agree, we would have to see what kind of percentage of people would fit those physical characteristics and capabilities. If you ended up with half a dozen or so women who might come to the recruiting office able to go to the infantry, we might say that we are not going to put half a dozen women in an infantry battalion for all sorts of management reasons that we know and understand. I think that that is the most appropriate way of taking the gender bias issue out of this and trying to make it a very sensible approach. In spite of what was in the media, I can say that we are not yet at all ready to put any recommendations for change in front of government.

**Senator SCHACHT**—I see. The way the media reported it, it seemed that the work had been completed and a report was about to go to the government.

**Adm. Barrie**—The competency work is about to come to us, but there is still a way to go beyond that.

**Senator SCHACHT**—Did you anticipate getting that before the government by the end of the year?

**Adm. Barrie**—It is very hard to say. I have not seen the competency work yet, so I do not know what the implications of it will be.

**Senator SCHACHT**—In the work being done on the competency, is there a reasonable balance, where appropriate, of women officers in the Defence Force being involved in putting forward their views as far as the competency test goes and their experience already?

**Adm. Barrie**—I would expect so, but I would have to take that on notice.

**Senator SCHACHT**—Fine. On the issues that Senator Hogg raised about recruitment, the unfortunate incident at 3RAR and the harassment issue, is there any evidence that, when there is publicity about things like that or about sexual harassment, that actually scares parents away from encouraging their kids to go into the forces? Or does it make them discourage their kids from thinking about a career in the Defence Force and say, ‘Why would I want my son or daughter to go there when it is possible that something like that might happen to them’?

**Adm. Barrie**—There is plenty of anecdotal evidence about that. More importantly, for me as CDF, any of those issues which appear in the media attack the brand name of the Australian Defence Force and, as I said in July 1998, people inside the force have to understand that it is not an issue of telling the media that they cannot publish those stories but of solving and managing the problem so it does not get out of control.

**Senator SCHACHT**—I think you called the stand-down for two hours. What was the reaction to and feedback from that? It was a unique set of circumstances—and I congratulate you for doing it. Was there anecdotal comment that a lot of old-timers said, ‘What a waste of bloody time. What a wank this all is,’ or is there some feedback that people are starting to understand that physically assaulting another member of the Defence Force under any guise is illegal?

**Adm. Barrie**—There are two sets of feedback. The first is the external feedback. I think the Australian community applauded that initiative. I was surprised when a cab driver in Sydney told me two days later that it had been the only topic of conversation in his cab on the previous day and then he said, ‘By the way, I’ve got a son who wants to join the Defence Force, so how did it go?’ So I think the community applauded it. Inside the Defence Force, the response was mixed. However, my judgment overall is that two-thirds or possibly three-quarters of our people also applauded it. The reason why we decided to take that step was that we frankly assessed that we had done everything else. If we wanted to make people conscious of just how seriously we took this issue, and more particularly that all our people at whatever rank level had to understand about the rule of law and why these issues were important, we could think of no better way of underscoring it.

**Senator SCHACHT**—Again, congratulations for doing it. On the 3RAR episode, a parliamentary report has now been published—unfortunately we could not reach a bipartisan position; and we always try to do that on the joint committee so I think it underscored the fact that the committee members from both sides treated the matter very seriously. We await the response of the government. I am sure you will all put a contribution forward on that. In the last two months I have been travelling overseas on veterans issues. Where young Australian men and women from our services have been participating—including a significant number of young women—I have been very impressed with their forthrightness in expressing their views to a politician on any number of issues without fear or favour. On that side, it is a plus. My views on this have been known for 13 years: I think there should be no discrimination other than an empirical test—

**Senator Ian Macdonald**—Is there a question here?

**Senator SCHACHT**—No, I just want to put it on the record. When you ask these questions, people think you are having a go at the standing of the staff. I am not—I am very impressed with them.

**Senator WEST**—I want to take the admiral back to his saying that personnel is not in crisis at the moment. The latest ANAO report outlines that most non-central parts are empty, there is the use of the phrase ‘plugging gaps’, that separation rates are above normal levels—in some areas they are historically at highest levels—and that in 1999-2000 only 76 per cent of the recruitment target was reached. If that is not a crisis, how far away from a crisis are we?

**Adm. Barrie**—When people come to me and say it is a crisis, I have to try and separate this year’s crisis from last year’s crisis. As I tried to indicate—

**Senator WEST**—You are not going to tell me one—

**Adm. Barrie**—in my earlier response, in the six years that I have been in Canberra I cannot recall one year when we have not had a crisis in recruiting and retention. I know it has different shapes, depending on which year it is and what has happened to us. But the sorts of issues that are of concern to the chiefs are: do we have the sorts of technicians we want? The specialised trade issues are very significant for them and I am sure that they will give you their views. My difficulty is that if these crises have been running on for six years or more, that I know about, clearly we need a new system. I have not seen a new system yet. It is still the same sort of system, so the crises cannot have been that bad. If they had been as bad as were predicted in 1995 we would not have a Defence Force today. Yet we have one. That is my issue about people who describe us as having a personnel crisis. I know it is something that we have to take seriously; it is something we have to really work on. But many of those themes that you have just outlined are the same themes I have been hearing for a long time.

**Senator WEST**—So this is having no impact upon our capability?

**Adm. Barrie**—It is having an impact on capability in some areas, but there is nothing new in that.

**Senator WEST**—What about the fact that the specialist areas and some of the trade areas are the areas identified by the ANAO as the worst affected by this?

**Adm. Barrie**—That is always the area in which you have the most difficulty.

**Senator WEST**—From this ANAO report, it seems that we have actually stepped up to a higher level of concern.

**Adm. Barrie**—The sorts of people we are employing in the ADF today are also changing in profile. The technical skills we require of all people today are really quite different from what they were 20 years ago.

**Senator WEST**—What about the impression—it is more than an impression—from the ANAO report that the Navy informed them that the difficulties in recruitment were of more concern than the separation rate of Navy personnel, and that the recent decrease in Navy personnel was thus more the result of difficulty in recruiting personnel than in retaining them? What are your comments about that?

**Adm. Barrie**—I think you would have to ask for some amplification from Chief of Navy. I think the Navy is right to focus on the fact that recruiting is, on a rough scale, more significant an issue than retention. The difficulty, I suspect, for Navy is the whole issue of going to sea and how attractive that stays over a career which spans, let us say, 12 to 20 years.

**Senator HOGG**—It is also the fact that, as a result of the DRP, a number of the positions that they could get shore leave on have just folded—

**Adm. Barrie**—That is right.

**Senator HOGG**—and that is a real problem in Navy.

**Adm. Barrie**—I agree.

**Senator WEST**—The ship to shore ratio. I will leave that there because I have a lot more questions.

**Senator HOGG**—We keep hearing about a re-rolled and re-tasked reserve force, but we never actually get much detail as to what this will look like. Are you able to tell us what the new role and the new tasks for the reserves will be? Will reserve units train and operate as a unit or do you envisage that it will be like the East Timor situation, where they were cherry picked for both personnel and admin?

**Adm. Barrie**—That is a question for which I do not have a lot of the answers right now. But let me just illustrate why I think we are doing a body of work on what the answers ought to look like. I think the change to legislation, which meant that reserves could now be called out in certain circumstances—and I do not mean for trivial circumstances—really does change the basis on which you would attract, retain and use reservists inside the whole Australian Defence Force. What we have to do through all three services is to now look at what are the jobs, skills and capabilities that can be provided by part-time people, versus what are the jobs, skills and capabilities that you would need full-time people for. So this comes back to what does our strategic workforce plan look like in terms of the balance between the part timers and the full timers. In answer to the question about formed units versus plugging gaps, I would expect in the fullness of time you will have both. There will be a body of reservists, perhaps with highly specialised skills—for example, doctors. They will be there to supplement and complement the skills in the full-time service. On the other hand there will be, for example in the Army, a range of reserve units which are almost entirely reserves based raised in particular areas.

**Senator HOGG**—So when do you believe there will be some form of template or plan in place which we will be able to scrutinise?

**Adm. Barrie**—Because I think there will be some issue about resources for this, we should broadly have completed that work by this time next year.

**Senator HOGG**—And what are the resource considerations that you are looking at?

**Adm. Barrie**—It is just the balance of resources between the full-time and the part-time force and making sure that it is an efficient use of resources as well as maintaining effectiveness.

**Senator HOGG**—I was talking to a reservist the other day who was complaining to me that when resources come on line they are snapped up by the permanent Defence Force, and it leaves the reservists with poor equipment or no equipment at all with which to train, and what they talk about is the sharp contrast between the reserves and the permanent defence forces. That gets to another issue of the culture that exists within the Defence Force, whichever of the streams of the Defence Force it might be, that they treat the reserves differently from how they would treat the permanent force. How are you going to address the issue of culture? Given that you are still in the process of unfolding some sort of plan, some sort of program, that culture issue seems to be an important issue that needs to be addressed, and also the issue of making the people who want to sign up for the reserves feel as if they are an integral part of the Defence Force.

**Adm. Barrie**—That really goes to the heart of the issues confronting reserves over many many years. The implications of that change to legislation have not been well understood

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inside our defence community. It is actually a very significant change. After all, under the previous arrangements if you had a limited number of dollars in the barrel as the CDF does, you would have to be worried about the extent to which you put resources into things that would not be available for use if you there was a need to respond in the national interest. And as you flow that through the organisation you can see that. If you are in an organisation that is at 360 days notice to move and you are facing the sorts of challenges that we have in the strategic environment right now, the answer is fairly obvious. That is the reason why, in strategic workforce planning terms, we have to scrub over now this balance between the full- and the part-time mix. I personally think the all of one company philosophy has to be strongly promoted throughout the force. There should not be any difference in capability for deployed troops, irrespective of whether they are regulars or reserves. For the job they are deployed to do, they ought to look the same, be the same and act the same. And if you can make that work, and the chiefs and I are all committed to this, then you do reinvigorate the reservists, whose commitment has been outstanding.

**Senator HOGG**—Interestingly enough, you said they should look the same. The reservists that I had a lengthy discussion with the other day told me that they even wear a different uniform. They do not get to wear the cams uniform and that makes them distinguishable from the permanent forces.

**Adm. Barrie**—I do not know the truth of that.

**Senator HOGG**—I understand.

**Adm. Barrie**—If that is the case, I can understand the perception. I think that is wrong.

**Senator HOGG**—That is why I am anxious to find out about the re-roled and the re-tasked reserve force. You say 12 months, and you talk about additional resources, possibly. Are there any additional resources?

**Adm. Barrie**—A balancing of the resources. I do not think we are going to get a dollar extra than what is delivered in the white paper, but there might be a rebalancing of the resources between the full and the part-time mix.

**Senator HOGG**—Professor Paul Dibb and Air Marshal O’Loughlin were commissioned to do a consultation with the defence organisation prior to the white paper and to prepare a report. I think we discussed this the last time. We discussed how a whole edition of the *Army News* was pulped because someone dared to include an executive summary of that report. Has that report been published yet?

**Adm. Barrie**—Yes, it has.

**Senator HOGG**—Is it publicly available?

**Dr Hawke**—I am not sure whether it is. The CDF and I certainly released, I think, our conclusions on that. Can I take that on notice? We will find out and get an answer for you.

**Senator HOGG**—Thank you. If a copy of the report is available, we would appreciate a copy being made available to the committee.

**Senator WEST**—If a copy of the report is available, why was *Army News* pulped?

**Dr Hawke**—For the simple reason that that report had not been considered by CDF or me or the government at the time that the extracts were put in *Army News*. I would have thought that, since the report was commissioned by us, we deserved the opportunity to consider what we were actually going to do about the report, rather than simply have published in *Army News* what the views were.

**Senator WEST**—So you do not think there was any waste of money?

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**Dr Hawke**—I am not sure, but the person who did that did it without the proper authority, in my view.

**Senator WEST**—That does not answer the question. Was there a waste of money?

**Dr Hawke**—That is a question that you might form a judgment on. In my view, we gave explicit instructions that that was not to be done and it was done despite that.

**Senator HOGG**—That cost about \$20,000, if I recall correctly.

**Dr Hawke**—I do not know.

**Senator HOGG**—If a copy is available, you will make it available to us?

**Dr Hawke**—We will find out during the break.

**Senator HOGG**—There was a report in the media last month that several people were caught in relation to the leaking of classified material relating to the Collins class submarine and the East Timor operation. I presume that article was correct.

**Dr Hawke**—I am not sure which article you are referring to.

**Senator HOGG**—An article in the *Canberra Times* of 16 May 2001 under the heading, ‘Leakers allowed to leave Defence’.

**Senator WEST**—Lincoln Wright was the by-line.

**Dr Hawke**—Could we come back to that after the break as well? I will ask Jason Brown, who would be the assistant secretary in charge of that issue, to be here to answer that.

**Senator HOGG**—I was curious to find out if the headline ‘Leakers allowed to leave Defence’ is correct. We can go into the substance of it a bit more as to—

**Dr Hawke**—I do not know whether that headline is correct; that is why I would like to ask Jason Brown to answer that.

**Senator HOGG**—It also refers to the fact that a new security body has been established within Defence, called the Security Investigation Unit. Is that correct?

**Dr Hawke**—I think that is in the process of being established, but again, Jason Brown is the best person to tell you about that. We are in the business of putting new arrangements in place on the back of a review by Mr Tony Blunn, the former secretary of the Attorney-General’s Department, who came and had a look at some of these issues and did a review for us.

**Senator WEST**—Was that a civilian review or mixed military and civilian, or military only?

**Dr Hawke**—Again I would rather wait until Jason is here to field those questions. These things are all due to come into effect in the next couple of weeks, from my recollection.

**Senator WEST**—I see. But you do not have all the information on them?

**Dr Hawke**—No.

**Senator HOGG**—Do you want a copy of the article?

**Dr Hawke**—No. He will be able to find that.

**Senator WEST**—Has either the secretary or CDF received any requests from either of the ministers’ offices or the parliamentary secretaries’ offices that it has refused to undertake because they were political in nature?

**Dr Hawke**—I have not.

**Adm. Barrie**—No, I have not.

**Senator WEST**—Has Defence, either the secretary or the ADF, been requested to dig up information for the minister relating to the period that Mr Beazley was Defence Minister?

**Dr Hawke**—Not that I am aware of.

**Adm. Barrie**—Not that I am aware of.

**Senator WEST**—Has Defence ever refused to undertake a request from the minister's office or asked that it be changed because it would not be appropriate for it to be undertaken by the department?

**Dr Hawke**—I am not even aware of there being such a request.

**Adm. Barrie**—No.

**Senator WEST**—The minister released a discussion paper several months back called *Defence 2000 and the defence of Australia*. How many Department of Defence or ADF personnel were used in the preparation of that document?

**Dr Hawke**—I do not even know if there were any. That question would be best addressed to the head of the public affairs and corporate communications area when she is here.

**Adm. Barrie**—I do not know the answer.

**Senator WEST**—So you do not know whether any Defence resources were used in assisting in the preparation of that document?

**Dr Hawke**—No. It may be that there were not any.

**Senator WEST**—So you think that this was probably done entirely by the minister's own office?

**Dr Hawke**—It could well have been.

**Senator HOGG**—Is it a document that you are familiar with?

**Dr Hawke**—I have seen the document, yes.

**Senator HOGG**—But you would know if any of the resources of the department were—

**Dr Hawke**—Not necessarily. That might have been done out of Jenny McKenry's area. She would not necessarily seek my permission unless she thought there was some matter of sensitivity.

**Senator HOGG**—All right. We can pursue that. Could I take you to page 4 of the PBS, where it states:

Our forces will be large enough to undertake some simultaneous operations in widely separated areas in defence of Australia.

What is the minimum number of full-time uniformed personnel that you believe is required to properly fulfil this requirement? Do you have a target as such, given the question that I asked about the reserves?

**Adm. Barrie**—It is quite well set out in the white paper. The white paper states that our readiness ought to be centred on having a brigade ready for deployment as well as a battalion group for a different area.

**Senator HOGG**—How many full-time uniformed personnel do you believe you need for that, given the experiences that you have—

**Adm. Barrie**—Broadly, I would describe a battalion group at about 1,200 and 1,500 people, and a brigade, in this sort of context, as potentially up to 5,000 or 6,000.

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**Senator HOGG**—Page 4 also states:

Our forces will also be able to undertake a wider range of operations to promote Australia's broader strategic objectives—contributing to the security of our immediate neighbourhood and supporting wider interests.

What are the limits of this sort of activity considering the capability that we currently have and what we plan to have over the next 10 years?

**Adm. Barrie**—The wider range of operations that promote the broader strategic objectives would principally go to how we might use the Defence Force in peacetime to promote a strong and accurate perception of capabilities inside the region. With these sorts of capabilities being brought on line we will get slightly greater flexibility in how we work on exercises around the region and the sorts of things we do. I think there would be some additional capability enhancements to do different kinds of operations from the ones we have done to date, particularly attaching to the acquisition of an AEWACS, for example, and a significant amphibious capability.

**Dr Hawke**—If I could answer a question that was asked earlier, the *Defence 2000* paper was prepared entirely in the minister's office. I am advised that no defence resources were used. If I can answer a second question, we can get you a copy of the Dibb-O'Loghlin report. CDF's and my views about that and what we were to do about that were made public, and we will get you a copy of that.

**Senator WEST**—When?

**Dr Hawke**—I think it was in December last year, but again I will get you the date. The full Dibb-O'Loghlin report has not been released, and our view was that we should be telling people about what we had decided to do about what was in that report rather than release the report in its entirety.

**Senator WEST**—What did *Army News* publish?

**Dr Hawke**—They published, extracts of the Army part of that report, from memory. I would have to ask for that and come back to you.

**Senator HOGG**—Page 5 of the PBS mentions the maintaining of some forces at a higher readiness than others. Can you give a rough outline, perhaps by battalion size, of what you believe the readiness levels will be over the next one to two years?

**Adm. Barrie**—Perhaps I should say, in answer to this, that that is an issue that the chiefs of staff and I keep under constant review. You will be aware, of course, that in February 1999 we approached the government, and the government lifted the readiness of another brigade level of capability against contingent circumstances. At the moment, if I look back over the last two years, there has not been a change to the readiness profile that we have recommended. If I trended it out over the next two years, barring unforeseen circumstances in the inner arc and our region, there would not be a significant change to the current readiness profile.

**Senator HOGG**—There would be no substantial change at all. That would be catered for in the forward budget outlook?

**Adm. Barrie**—The current budget has been constructed around the situation as of right now, because we do not anticipate a change. If, in the next review of our strategic circumstances, we thought that there were an issue to put in front of the government, there might need to be a change to that, but I cannot foresee it now.

**Senator HOGG**—Page 5 of the PBS states that a variety of strategic environment challenges could arise in light of this assessment. Is the capability plan going to ensure that

ADF does have the kit to maintain the required capabilities? Are you comfortable with the situation of an 11-year gap in Australia's maritime anti air warfare capability, considering the current strategic environment?

**Adm. Barrie**—That goes to the heart of our support for the capability plan as presented in the white paper. I think the broad answer to your question is yes, although that is an issue that we do keep under review. We are in the business of doing the comparative studies and deciding for ourselves where the priorities ought to lie in terms of the force development. Germane to that are the technologies, and maritime warfare is changing quite rapidly. I think Australia will be better served by an answer in that length of time than by jumping into an answer now.

**Senator HOGG**—Do we have the kit to maintain the required capabilities?

**Adm. Barrie**—Yes.

**Senator HOGG**—Also at page 5, it mentions the importance of strategic analysis and intelligence. Do you believe that Australia's current capabilities in this area are adequate? Do you believe that the structures and relationship between the various Australian intelligence agencies is effective? Could it be improved?

**Adm. Barrie**—Could I start the opposite way around? There is always room for improvement.

**Senator HOGG**—I understand that. Where could it be improved?

**Adm. Barrie**—I think the intelligence community has served us pretty well. We play our role in all of that through our own agencies. The central issue I suspect on intelligence is discerning the difference between what you can and cannot know. I suspect that many public commentators think that an intelligence view will get all the answers you need. I do not believe that to be true. The one big unknowable in my business is what is in the mind of your opponent. As we see events unfolding in our region, that is an unknowable because you can never be quite sure. In terms of how the system serves us today, with the exception of the initiative announced on the co-location of the permanent headquarters of Australian theatre, I think the system operates pretty well.

**Senator HOGG**—On one other issue—and it is something that you mentioned earlier—I understand that you are now gathering together senior personnel within Defence. Are there two groups that you gather together? I think you mentioned a group of 20. Is that correct?

**Adm. Barrie**—Yes.

**Senator HOGG**—There also seems to be a larger group which is in the order of a couple of hundred. I think the couple of hundred might, if my recollection is correct, have met earlier this year in Canberra and in the middle of last year in Wollongong. Could you describe the difference between the two groups and what you achieved with the two groups?

**Adm. Barrie**—The larger group is effectively all the senior executive service—the science equivalents to that—and, on the Australian Defence Force side, the one-star and above officers. In total, that comes to around 230 or so at any one time. We manage to get about 220 of those people together twice a year. We normally have a two- or three-day program in February and then we have what we call a recall day in June before the start of the new financial year. We call that group the senior leadership group.

**Senator HOGG**—What does that cost?

**Dr Hawke**—I do not know what it costs, but we could find out. You are correct to say that, in February 2000, that group met in Wollongong, but my recollection is that the meeting that

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occurred in June took place here in Canberra, the February meeting was here in Canberra, and the forthcoming meeting on 22 June will also be in Canberra. It costs us less to run them in Canberra than in Wollongong.

The smaller group that the CDF referred to earlier is, I think, what we call the Capstone program. These are people who are new to the senior leadership team. They are people who have been promoted to one star in the military or into the SES on the civilian side of the house. We are putting them through a bit of a program so they can understand what being part of a senior leadership team actually means. That goes to issues like accountability, responsiveness, expectations and the like.

**Senator HOGG**—How often does that second group meet?

**Dr Hawke**—The Capstone program meets on an as-required basis as we get the new people into the one-star positions and into the SES. We have just finished the first of those, which was a pilot, and we are making some changes for the next session. We are about to commence the second of those programs.

**Senator HOGG**—If I could have costings and breakdowns for those groups for the last two years, that would be helpful.

**Dr Hawke**—Would that be in respect of how much it was in February for the retreat and what it was in Canberra for the summit?

**Senator HOGG**—Yes, for the senior leadership group for the last two years. I think that would be helpful. As the Capstone group is new, perhaps I could have an indicative cost of that program.

**Dr Hawke**—No problem.

**Senator HOGG**—Do you still have that other group that used to meet? I understood they met at Bowral once. Those with longer memories around here might recall that a select group met at Bowral one weekend.

**Adm. Barrie**—I did one at Bowral, I think in about 1991. It was called the senior defence leaders program or something.

**Senator HOGG**—No, this was a lot later.

**Senator WEST**—Is this in recent memory? It is not ancient history?

**Senator HOGG**—Yes, in recent memory. It was within the last four or five years, I think. I thought it was aimed more at a small group in terms of a range of skills and activities over a weekend at Bowral.

**Adm. Barrie**—We went to Bowral, I think, in July or August 1998 to do media training.

**Senator HOGG**—That might be it. Does that group still exist?

**Adm. Barrie**—No.

**Senator HOGG**—So it does not exist anymore. Are there any more groups like the senior leadership group or the Capstone group, where you bring people together to discuss strategies and plans?

**Dr Hawke**—Yes. I suppose you are getting at the higher level defence arrangements which include the committee structure. There is a Chiefs of Staff Committee which is chaired by the Chief of the Defence Force.

**Senator HOGG**—I am looking more away from the mainstream groups.

**Dr Hawke**—No.

**Adm. Barrie**—I would imagine that, in each of the groups, there would be similar sorts of gatherings as you try to cascade and filter down agendas through the organisation. For example, when I was in Maritime Command we got our people together once a year for a similar sort of gathering.

**Dr Hawke**—But the ones you are talking about, Senator, come together at the specific request of the CDF and me.

**Senator HOGG**—That is correct. I consider the others to be normal committees.

**Dr Hawke**—They are the two groups. The senior leadership team is the 220 to 230, the top lot, and the Capstone program comprises the new entrants to that team.

**Senator HOGG**—How much is allocated in the budget for retention or recruitment initiatives over and above what might previously have been there or planned for? Have you injected any new funds into this area?

**Dr Hawke**—We have specifically identified a sum of \$100 million which goes to recruitment and retention issues and is also involved in initiatives in respect of the reserves and the cadet scheme.

**Senator HOGG**—I accept that, but the point of my question goes to the fact of whether there is additional money being allocated over and above that.

**Dr Hawke**—Yes, this is additional. It is \$100 million per year over four years. It is additional money.

**Senator HOGG**—You are saying that the \$6 million which goes to the cadets—

**Dr Hawke**—Yes, it is an additional \$6 million—that is correct.

**Senator HOGG**—Right, that is an additional \$6 million.

**Dr Hawke**—That comes out of that \$100 million.

**Senator HOGG**—What is the rest of the break-up?

**Dr Hawke**—My recollection is that the only other specified figure was \$20 million for the reserves.

**Senator HOGG**—So it is \$20 million for reserves.

**Dr Hawke**—Yes. We are going through a process of identifying where the additional money will be spent. That is a group which is chaired by the deputy secretary of the corporate services program. It comprises the head of the Defence Personnel Executive, the three assistant deputy chiefs of each of the services, and one or two other people who are considering proposals.

**Senator HOGG**—Are you saying that, in broad terms, the remaining \$74 million has not been specifically allocated at this stage?

**Dr Hawke**—Our first round is to assign some money for child-care initiatives. I am not sure what the total of that is but we could get you that figure. My understanding is that the second round of proposals will be coming forward some time later this month.

**CHAIR**—Are you happy to take a break now, Senator Hogg?

**Senator WEST**—Can I ask a question before we do? The date of these estimates hearings has been known for some considerable months. At the last round we did make a request for the presence of the secretary and the CDF, for which I am grateful. But two hours is not adequate. We have had to curtail and rearrange our questioning. Admiral, when did you have the trip to East Timor put into your diary?

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**Adm. Barrie**—I cannot say off the top of my head.

**Senator WEST**—We are appreciative of your attendance but we are sorry that you have to leave before we have finished our questioning. We will have to modify our questioning when we return after the break. I am sure Dr Hawke would be quite capable of carrying on. We will be continuing this—

**Senator HOGG**—Before we break, there are two things I want to clarify with Dr Hawke while the CDF is still here. Is the \$20 million that you mentioned for reserves the hangover from last year or is it new? Remember, there was an amount last year and a hangover that was to be spent this year, but there was no certainty. I remember going on at length on questions on this at additional estimates.

**Dr Hawke**—I am not sure. The additional \$20 million per annum for the reserves was a part of the white paper initiatives, so it might be the same sum.

**Senator HOGG**—What I am trying to identify is whether it is new money.

**Dr Hawke**—It is new money. I think the \$20 million you are referring to was a one-off. That was a one-year amount of \$20 million. But there is an ongoing amount of \$20 million—

**Senator HOGG**—My question then is: was the \$20 million that was allocated to be spent spent this year and, if not, has it been brought forward into this forward year?

**Dr Hawke**—We will ask about that. Of the additional moneys that we have got, so far we have approved \$13.2 million to enhance the current defence employer sponsored child-care program. We have allocated a sum of \$2.25 million to the design, development and delivery of a spouse induction program as a means of developing spouses' understanding of service life and culture. A sum of \$0.1 million is for the defence community organisation welfare crisis fund, which provides immediate welfare relief and support to ADF families in crisis. That was the first round of the money. The next round will be decided later this month.

**Senator HOGG**—Before the CDF leaves, I must make a comment about the way in which estimates has taken on a more realistic look, as a result of intervention, to ensure that we do not have this room absolutely jam-packed with military personnel. I think we still get the same quality of answers that we require and, where we cannot, we know that they are all watching back there at Russell, and we send our regards to them. They have got my email address if they think someone has been messed up on.

**Senator Ian Macdonald**—I bet they are pleased not to have to be here.

**Senator HOGG**—That was never our desire, Minister, as you know, but something should be put on the record because it is something that has been worked at over a period of time.

**Senator WEST**—For about 11 years, that I know of, Minister, it has been a complaint on this committee, so we are glad that we have resolved the issue.

**Senator HOGG**—Yes, and it is important that the committee acknowledge that to the CDF while he is here. Whilst we know we are going back over the wires on web cast and other links back to Russell, I think you should convey that to people that it is a precedent.

**Senator Ian Macdonald**—I hope most of them are doing more productive work than sitting watching this estimates committee.

**Senator HOGG**—You would be surprised, Minister.

**CHAIR**—Point taken, Senator Hogg. Before you leave, Admiral Barrie, thank you very much indeed for making your time available. We look forward to you coming before our committee certainly next year, and perhaps also later in the year.



**Adm. Barrie**—Thank you.

**Proceedings suspended from 11.02 a.m. to 11.23 a.m.**

**Dr Hawke**—Mr Chairman, I wonder whether we might answer a couple of the issues that were raised earlier. The first one goes to the Lincoln Wright article and I ask Jason Brown to address that.

**CHAIR**—Certainly, Dr Hawke.

**Mr Brown**—The article in question of Wednesday, 16 May, referred to ‘Leakers allowed to leave Defence’. It is not the policy of Defence, nor has action been allowed, to allow leakers to leave Defence and the introductory component of that article is not accurate. If we have a prima facie case in respect of leakers, the directions of the secretary is that it is either referred to the Federal Police or if administrative action be applied those actions are taken and no one is allowed to resign from Defence until those actions have been taken through to determine whether a case exists or not. So that is in fact a misleading article.

**Senator HOGG**—Were there in effect leakers identified within Defence?

**Mr Brown**—If I am talking—

**Senator HOGG**—I am referring to the article now—

**Mr Brown**—Indeed.

**Senator HOGG**—you are saying that they are not allowed to leave. Were leakers identified and, if so, how many?

**Mr Brown**—The process of identifying those involved in the investigation is a process of narrowing down to a number of persons. There were a number of persons investigated as part of submarine leaks who have since departed Defence and who cannot be ruled out but certainly could neither be ruled in.

**Dr Hawke**—On the other question—

**Senator HOGG**—Before you get me on the other question—

**Dr Hawke**—This is the same issue. You asked whether people had been caught or charged with leaking. There are at least two such cases to my knowledge that are being processed at the moment. They do not relate to the submarines issue.

**Senator HOGG**—So, two on the submarines—

**Dr Hawke**—No. These relate to East Timor issues.

**Senator HOGG**—They are just in the general area of leaks?

**Dr Hawke**—Yes. They do not relate specifically to the submarines issue.

**Senator HOGG**—Two have been charged; how many others—

**Dr Hawke**—No. Two are in the process of being charged.

**Senator HOGG**—No formal charges have been laid yet, but—

**Mr Brown**—Administrative charges are being developed to be laid on two cases.

**Senator HOGG**—Administrative as opposed to civil charges? If there is a difference, please advise.

**Mr Brown**—Yes, there is a difference. With the cases that are handed to the Federal Police it is within the Federal Police’s consultation with the public prosecutor to determine whether criminal charges will be laid or not. The department will arrange for administrative charges

because some of these actions, if they fall short of the criminal, could be handled in an administrative fashion in terms of a breach of the Public Service Act.

**Senator HOGG**—So the two that we are talking about at this stage are people who fall under the administrative charges area, but they could fall under the civil or criminal charges area as well?

**Mr Brown**—Yes, they could also.

**Senator HOGG**—How many more people are subject to consideration for either administrative charges or criminal charges, or both?

**Mr Brown**—At the moment, there are two Defence members whom the department is looking at for administrative charges.

**Senator WEST**—The Department of Defence?

**Mr Brown**—The Department of Defence is looking at them for administrative charges.

**Dr Hawke**—I think Senator West's question goes to whether they are uniformed or civilian?

**Mr Brown**—One uniformed and one civilian.

**Senator WEST**—Will there be differing charges that can be laid under the Defence Force Discipline Act?

**Mr Brown**—Yes, and as also reflects the nature of the incident or activity—the Defence Force Discipline Act or the Public Service Act as appropriate.

**Senator HOGG**—All of these people remain members of the Department of Defence?

**Mr Brown**—Until such time as the actions are taken.

**Senator HOGG**—Have any of them been suspended from service?

**Mr Brown**—One is suspended from service, and one restricted to supervised duties.

**Senator HOGG**—From when was the one suspended from service?

**Mr Brown**—From September.

**Senator HOGG**—From September last year.

**Senator WEST**—Is that Department of Defence or ADF?

**Mr Brown**—It was an AFP investigation, and elements of that would need to be referred to the AFP.

**Senator WEST**—Was the person who was stood down ADF or DOD?

**Mr Brown**—We are getting into the details that may identify the person, or otherwise, in the administrative actions, and possible police actions may still be pending. Do you want me to proceed with an answer?

**Senator WEST**—That is fine. How did the AFP become involved?

**Mr Brown**—When there is an identified prima facie incident that could lead to a criminal charge, it is the process of the department to refer that matter to the AFP for investigation. On the latter case, the AFP initiated the investigation themselves. In respect of Timor, Defence asked the AFP to investigate; in respect of the other matter, the AFP initiated the investigation.

**Senator HOGG**—How did the AFP know to initiate the investigation? There must have been some contact from Defence.

**Mr Brown**—The AFP was investigating a matter that had Defence connections, and that led to the subsequent investigation.

**Dr Hawke**—Again, the investigation was not our request.

**Mr Brown**—It was not our request that they do it.

**Senator HOGG**—Are we able to know what matter that was?

**Mr Brown**—Broadly, it was in relation to the Lappas matter that is currently before the courts.

**Senator WEST**—I am fascinated that you cannot tell me which one has been stood down. You have fairly much identified them to anybody in the department, but the rest of us would not have a clue whether it was the Department of Defence person or the uniformed person. I am wondering how identifying whether they are stood down or not would compromise the situation.

**Mr Brown**—I am content to answer that the person stood down is a civilian member.

**Senator HOGG**—I want to wind that up. There are actually two cases of administrative charges under consideration and, as I understand it, one of those is uniform and one is civilian. Are there any other personnel?

**Mr Brown**—Involved in current administrative charges?

**Senator HOGG**—Yes.

**Mr Brown**—Not currently. There are a number of investigations continuing, but no charges are being drawn at the moment.

**Senator HOGG**—Who is conducting those investigations? Are they related to the article that appears in the *Canberra Times* on the 16th?

**Mr Brown**—No, there are no current investigations related to this particular article. In the case of the submarine investigations, some of them remain open because no conclusive evidence has been found for the source of those leaks. We do not close the book on them in case other information comes forward.

**Senator HOGG**—The article also stated that a new security body, called the Security Investigation Unit, has been established. Is this part of the Intelligence and Security Group that is mentioned on page 12 of the PBS?

**Mr Brown**—The group was formed last year in response to having a formal group developed to raise security investigation standards. It was formed within the Defence security branch as an investigation unit for cross-cutting Defence investigations, where it did not fall to any service authority to investigate.

**Senator HOGG**—All right. But that still does not answer my question. If I can refer you to the PBS at page 12, the second paragraph in the first dot point refers to the new Intelligence and Security Group.

**Mr Brown**—Yes.

**Senator HOGG**—Are we talking one and the same?

**Mr Brown**—Not until 1 July. The Defence security branch and a number of other security elements are being reconstituted from 1 July as part of the Defence Security Authority that will be a member of the Intelligence and Security Group, which has been renamed from that point.

**Senator HOGG**—Are there any additional roles and functions for that group to play that they did not otherwise play previously and, if so, what?

**Mr Brown**—The issue was a Commonwealth one. The Protective Security Policy Committee is examining the difference between the Commonwealth guidelines on investigations that relate to criminal related investigations and how they may marry up and join with ones that can take on the recommendations from Tony Blunn in respect of the Jenkins case for a less intrusive approach to security investigations. It would be focused in that direction.

**Senator HOGG**—I am not sure I quite understand. Does the new unit have a different role and function to play than the old group?

**Mr Brown**—Not at this time. It will be for security investigations.

**Senator HOGG**—Will it have a different role?

**Mr Brown**—We are examining how we do security investigations more broadly than the current Commonwealth guidelines in order to take into account the recommendations made by Mr Tony Blunn in respect of the Jenkins case.

**Senator HOGG**—Are there any formal functions, roles and descriptions of the way in which this will operate?

**Mr Brown**—Yes. The members of that group have to be fourth level accreditation investigators in the ANTA framework. Under normal circumstances, which have applied to date, they have to follow the Commonwealth guidelines on investigations. We are looking to develop additional guidelines for security investigations in the light of the recommendations mentioned previously. As those are developed, the way they do their business may therefore change. At the moment, they do their business in accordance with the current and direct Commonwealth investigation procedures.

**Senator HOGG**—Where their charter differs from that—

**Mr Brown**—It does not at the moment.

**Senator HOGG**—It does not, but where it does in the future, I presume that is something that would be readily available to the committee.

**Mr Brown**—There would be no problem with making those available. The supporting manuals and Defence documents will be readily available—unclassified.

**Senator HOGG**—Who will be heading up the unit?

**Mr Brown**—The unit itself? That position has yet to be determined. It is currently administered as part of a section within the organisation, but I would like to see it strengthened in the new defence security authority.

**Dr Hawke**—The branch head who will be acting in the position is Margot McCarthy, while we go through a process of interviewing and selection for a generic SES band 1 campaign in the department.

**Senator HOGG**—You are obviously undertaking that process currently. When will that be completed?

**Mr Whalan**—Within three months.

**Dr Hawke**—Jeff Whalan, who is the deputy secretary of the corporate services area, is coordinating this. We would expect the process, which is for generic band 1s and band 2s, to be completed within a period of three months.

**Senator HOGG**—So the unit will be in operation before its new head is—

**Dr Hawke**—Yes, there will be somebody there in an acting capacity. The new head of the defence intelligence group takes up his appointment later this month. That is Shane Carmody.

**Senator HOGG**—I saw that in the PBS.

**Senator WEST**—Normally, how many administrative actions have you taken against staff in previous years over the issue of leaking?

**Mr Brown**—It is hard to provide statistics on that other than the previous year's, which were reported to this body in a question on notice, because we had not been collecting the data before the beginning of last year. I will hunt and get some more details for you.

**Senator WEST**—So previously you had never known how many disciplinary or administrative actions had been taken against staff in Defence?

**Mr Brown**—In terms of security, each group administered their own and there was no formal requirement to report those outcomes to the security authority, or the security branch as it is now constituted. The Army, Navy and Air Force would conduct their own security breach investigations and take action as they saw appropriate within their authority. Civilian units of the defence organisation would also take the appropriate administrative action.

**Senator WEST**—Other Public Service departments have better reporting than that and they are not dealing with areas that are as sensitive.

**Mr Brown**—They get locked into the other administrative actions in terms of the way they are counted. We have now taken a step to tease them out of any other administrative action that might have been taken for fraud or other misbehaviour.

**Senator WEST**—I am sure Mr Whalan can remember an incident or two in past history in another department, but I will not go through that.

**Dr Hawke**—If we are finished on that, Mr Chair, we could go to the issue of the reserves. Colonel Doug Stedman, who is working on that program, can answer the question that Senator Hogg asked about the money—what we have spent and what might be remaining.

**CHAIR**—Senator Hogg?

**Senator HOGG**—I think the question is there, Chair.

**Col. Stedman**—Senator, you asked about the \$20 million allocation for reserves. Firstly, as Dr Hawke indicated, the \$20 million per year for next year and the subsequent three years is an ongoing commitment. Approximately \$18 million of that is earmarked for the employer support payment. Turning to the \$20 million provided in this financial year, at the time it was allocated that was a one-off allocation. It covers six initiatives, which were dealt with in some detail at additional estimates. The expectation at present is that we will achieve expenditure of about \$2.7 million across those initiatives this financial year—

**Senator HOGG**—That is \$2.7 million out of the \$20 million?

**Col. Stedman**—That is correct, Senator.

**Senator WEST**—In 2000-01?

**Col. Stedman**—That is correct.

**Senator HOGG**—I do not have the Senate additional estimates *Hansard* with me, so I am going strictly off the top of my head, but I understand that in the order of \$10 million was expected to be spent this year. The reason for the other \$10 million not being spent was purely and simply because the appropriate legislation was not in place. If \$2.7 million out of the \$10

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million has been spent—and I am using a round figure, so I would be pleased if you would let me know if I am a little out—what has happened to the \$7.3 million that was supposed to be spent?

**Col. Stedman**—As I indicated, there were six initiatives. The largest was for the employer support payment. The original allocation was that \$10 million of the \$20 million was identified for that payment. Because of the time it took for the legislation to be passed and then for the determination for that payment to be drafted and approved—and we are expecting that that determination will be signed this week—we have requested that \$2 million be reprogrammed into next year to cover the financial liability that will accrue for the one month of this financial year.

**Senator HOGG**—So that is \$2 million out of the \$10 million?

**Col. Stedman**—Yes.

**Senator HOGG**—So that is a carryover.

**Col. Stedman**—Correct. The second largest initiative was for a civil accreditation of reserves training which was forecast at \$4.8 million. That is a complex task. We have done scoping studies for the training undertaken by each of the services of their reserves and we have now moved into the implementation of the training done by Air Force and Navy. Accreditation of the training done by Army will be undertaken next financial year. That is the largest component of that training regime. With the figures, we are expecting that \$1.1 million will be expended this financial year covering the scoping studies and that part of the Air Force and Navy training that can be accredited, and \$3.6 million has been allocated as funding in the next financial year to complete that accreditation task. I can go to the other four initiatives if you wish, but those are the largest two initiatives taking up the bulk of approximately \$15 million of the \$20 million.

**Senator HOGG**—That is \$7.5 million. That still leaves \$2.5 million out of the \$10 million. I am thinking in those broad terms. I accept that the \$10 million was not going to be spent this year, and you are seeking \$2 million of carryover there—I understand that—but that still leaves \$2.5 million.

**Col. Stedman**—I could go through the other four initiatives if that would help.

**Senator HOGG**—It might be a good idea to do that quickly.

**Col. Stedman**—The third initiative was the communications and public affairs strategy, for which \$1.9 million was identified. Again, that has been impacted by the time lines with regard to the passage of the legislation and of the determination on the employer support payment. We anticipate expending about \$940,000 this financial year and \$850,000 reprogramming into next financial year.

**Senator HOGG**—I presume that all these reprogrammings have been ticked off on.

**Dr Hawke**—Yes. The balance of the money that is not spent in this financial year will all be carried over to next financial year. It will still be spent on the reserves. We have put a ring fence around that in our budget.

**Senator HOGG**—If I can just cut you off briefly, Colonel Stedman, in effect we are looking at \$20-plus million for the reserves in the next financial year, are we?

**Dr Hawke**—Yes. The balance of the money that was not spent in this financial year will be carried over into next financial year.

**Senator HOGG**—Please continue, Colonel.

**Col. Stedman**—The fourth initiative was the reserves attitudinal survey, which was funded for \$1.5 million. Because we had some delays in getting responses from the reservists in returning their surveys, we extended the closing date for the surveys on two occasions, and that has impacted on the ability to do all the analysis of the surveys within this financial year. We have also found that we were able to conduct the survey and to conduct the analysis that we wish to do with the data for less funding than was originally allocated for it. The expectation is that we will expend \$430,000 this financial year, and an additional \$500,000 has been programmed to next financial year to complete the analysis.

**Senator HOGG**—So that will be an underspend in that area of nearly half a million dollars?

**Col. Stedman**—Correct.

**Senator HOGG**—So I presume you will lose that funding?

**Col. Stedman**—Yes. The fifth initiative was the enhancement of the Defence Reserves Support Council, which was funded at \$700,000. The National Council of the Defence Reserves Support Council has been expanded and its role and work have been enhanced this financial year. The state committees and the state chairman and, indeed, most of the members of the national council are volunteers who do this on a part-time basis. The state committees have developed an expanded program of activities, which will take effect from next financial year. Our expectation is that we will expend \$230,000 this financial year and, within the \$20 million allocated on an ongoing basis, is the same level of funding for this financial year in future years for the Defence Reserves Support Council. So we will be handing back \$470,000 this financial year.

**Senator HOGG**—Are you saying that the ongoing allocation out of that \$20 million is about \$230,000 each year?

**Col. Stedman**—No. The ongoing allocation is about \$700,000 each year.

**Senator HOGG**—If you have been unable to spend the full allocation this year—and I understand the circumstances—will you be able to spend the full \$700,000 next year?

**Col. Stedman**—Yes, we believe will be able to, and that will be tied both to the state committees and to other initiatives, such as the employer support payment and ongoing work with the employer community tied into that.

The final initiative was the provision of swipe card technology, for which \$1 million was programmed. The original intention was that swipe cards would be provided to reserve units through a defence project that had been identified. Undertaking it through that project was found not to be feasible and it is now planned to provide that capability through the e-defence project. The \$1 million has been reprogrammed to fit in with the time lines of the e-defence project.

**Senator HOGG**—So you have retained the \$1 million there?

**Col. Stedman**—Correct.

**Senator WEST**—Can I get something clear? There is \$20 million that is ongoing in the forward estimates for the next four years and, because there are some carryovers into the coming financial year of about \$17 million, this will give you a total of about \$37 million next year. Is that correct?

**Col. Stedman**—No, I think it is in the order of about \$28 million or so next financial year.

**Senator WEST**—So, basically you are carrying over about \$8 million?

**Col. Stedman**—Yes. I am not sure, on the financial side, exactly how the reprogramming and carrying over works, but yes, that is in the order of the total amount of funds that we will be allocating to the reserve initiatives next financial year.

**Senator WEST**—I am a bit confused, because I thought that, at previous estimates, we had been told that one-off money was not being carried over.

**Mr Harper**—In this case, on page 15 of the portfolio budget statement there is reference to inclusion of funding originally planned for 2000-01 in relation, among other things, to enhancement to reserves arrangements. At that stage, we probably thought that a somewhat smaller amount was available for rollover into the following year than has subsequently transpired, but whatever is underspent on reserves in 2000-01 will be carried forward into the subsequent year.

**Senator HOGG**—Now you have confused me.

**Senator WEST**—That talks about \$45 million.

**Mr Harper**—That is because it includes other matters, being improvements to management information systems. The figure of \$45 million included \$35 million, which we thought would be management information systems, and \$10 million for reserves.

**Senator WEST**—The improvements to the management information system do not necessarily relate to reserves?

**Mr Harper**—Correct.

**Senator HOGG**—Of that only \$10 million is for the reserves?

**Mr Harper**—Yes.

**Senator HOGG**—Where is the \$20 million?

**Mr Harper**—The \$20 million for—

**Senator HOGG**—Reserves?

**Mr Harper**—For 2001-02. I will take that on notice, if I may, Senator, and get back to you shortly.

**Senator HOGG**—I am a little bit confused. You said that \$2.7 million will be spent out of the \$20 million. I understand that some money is being held back. I have not been able to identify exactly how much, but there seems to be a gap between the figure of \$28 million that Colonel Stedman is talking about and what I think is left after you have handed money back. I thought that Senator West was on about \$38 million—

**Senator WEST**—I was totally confused.

**Mr Harper**—We will get the figure worked around.

**Senator HOGG**—There is a figure there somewhere that we need to find.

**Dr Hawke**—The last point related to the report on the internal defence consultation program. Through the minister, may I table that report, which was put up on our internal Defence web site on 10 November 2000?

**CHAIR**—Thanks very much.

**Senator HOGG**—There is one issue that I want to finish before we move to Senator Carr's questions. We tried to concentrate on our questions to the CDF because of his need to leave, but over the break I had a discussion with Dr Hawke, and I think it would be useful for Dr Hawke to address at least one of the issues that we raised with the CDF, and that is the



operation of the senior leadership group, the Capstone group. I would welcome your comments, Dr Hawke.

**Dr Hawke**—Part of what you were asking CDF this morning goes to how we can be sure that our senior leadership are engaging with their people to assist with retention and morale issues, with a view to making Defence a better place to be. A series of points is worth making. The first is that we have developed a Defence people leadership model. That sets out CDF's and my expectations of how they will engage and interact with their people. That leadership model was developed by the senior leadership team itself. We had a staff attitude survey not long before I came to Defence and we have had a subsequent one. We would expect to have the results of that later this month. That will give us some indication about whether we have made any progress and, hopefully, it will allow us to separate the results into group, division and branch levels. That will give us some indication of how individuals are engaging their people.

**Senator HOGG**—You mention your Defence people leadership model: is that a model designed to change the culture?

**Dr Hawke**—It is designed to change the culture and the behaviour of our senior leadership group and the way in which they interact with their people.

**Senator HOGG**—All right, and what audit process do you have in place, apart from this survey, to ensure that you are achieving the result that you state in your model?

**Dr Hawke**—I actually was just coming to that: how are we going to know? We will know as a result of issues like the staff attitude survey, we will know as a result of the round tables that CDF referred to earlier today and we will know because we are including some of this information in our version of the balanced scorecard, to get reports on how people are going. There are a couple of other little issues that we are doing too which will give us some feedback on how and whether people are engaging their people, and whether or not that is working. So we do have a very clear focus on evaluation of individuals in the senior leadership team and how they are going against that. If I could go on just to make a few other points—

**Senator HOGG**—One of the things I referred to earlier this morning was the criticism and the cynicism of certain people in your own report towards the fact that people see this as being Canberra's centric—if we can say that—that you people are at the top and you really do not listen to what is going on down below. How does your model take care of that problem that seems to exist within the Defence Force?

**Dr Hawke**—It involves our people out in the field connecting with their people as well as with Canberra. This is a much broader approach. They will be able to listen to the concerns of their people outside Canberra as well as inside Canberra and have a way of raising those concerns, listening to what they are and then dealing with them; and that is the sort of route that CDF and I have been pursuing.

We have done some work on what the difference in the nature of the role of one-star, two-star and three-star level is. We have done quite a bit of work—Brigadier Nick Jans has—on why people are leaving and what are the factors behind retention or people leaving. Those issues are being considered by the Defence People Council, which I referred to earlier this morning. They are providing a rather nice input into where we are spending our money. And we do, of course, have a review at the moment of ADF remuneration, headed by former Major General Barry Nunn, which is due to report I think in the September time frame. There are a range of the issues. There are other sorts of initiatives that we are pursuing as well.

**Senator HOGG**—Do you feel sometimes that you are endeavouring to reinvent the wheel? I have read a substantial amount on retention in your submission and a number of your documents, as well as the PBS and so on, and I get the feeling that there is a real endeavour to reinvent the wheel, and that jargon is important. People get caught up in the jargon of the day and at the end of the day people get lost in the jargon and do not achieve the goals they are hoping to achieve. How do you overcome that, because that is a later issue I have got for you as well?

**Dr Hawke**—I am trying to get away from the jargon to make things more simple, better communicated and better understood in the organisation. In the past, if what you are saying is true, it was because we had not focused enough on execution and implementation. We are making quite a deal more effort now in following through on the whole range of reports that come before our senior committee system. We have got a structured way of approaching things that we may not have had in the past.

**Senator HOGG**—Thank you.

**CHAIR**—Senator Hogg, have you finished for the moment?

**Senator HOGG**—On that, yes.

**Lt Gen. Mueller**—Earlier this morning a question was asked with regard to the level of consultation with Defence women in developing the report on women in combat. Briefly, the study team conducted focus groups with 9.5 per cent of Army's female officers and soldiers at all rank levels. There are other details here. If I may, I will table this through the minister.

**CHAIR**—Thank you, General. Senator Carr, I understand you have some questions in this section on contracts between the ADF and educational institutions.

**Senator CARR**—Dr Hawke, I begin by drawing attention to a submission that your department made to the Senate inquiry into higher education. Are you familiar with that submission?

**Dr Hawke**—No, I am not.

**Senator CARR**—Do you have an officer here who would have signed off on that?

**Dr Hawke**—Yes—Major General Simon Willis, who is the head of the Defence Personnel Executive.

**Senator CARR**—Could you give the committee further advice on what you refer to in the defence department's submission in the following terms:

Defence experience suggests that the universities have some way to go in becoming effective business partners in the delivery of education services.

What did you mean by that?

**Major Gen. Willis**—I do not actually remember the context which you are referring to there. But I would like to say that we are working more and more with the tertiary sector in all sorts of educational programs and, if you went back a number of years, we have come from a low base and now we are getting more and more expert in our relationships with the universities and other institutions of tertiary education.

**Senator CARR**—You go on to say:

Performance across the sector is uneven. Issues include their ability to devise innovative solutions to meet Defence needs; recognition of studies undertaken at other universities; the uneven quality of teaching staff made available to Defence sponsored programs; initiatives in creating partnerships with other institutions to deliver programs at multiple points across Australia; and the extent of support for Defence programs from the university staff. Where universities have initiated their own programs to

meet perceived market needs, the subsequent cancellation or restructuring of programs due to a lack of numbers suggests individual institutions may be struggling to accurately gauge demand.

What did you mean by those matters, particularly in relation to the cancellation and restructuring of programs and the uneven quality of teaching? How is that affecting your capacity to provide good educational services for students enrolled in Australian universities?

**Major Gen. Willis**—As far as the subsequent cancellation is concerned, I have not got the statistics and I will have to take that on notice. The elements within the report about the uneven approach by some tertiary institutions is only a very small part of the report, as you would probably acknowledge. Given that there are 42 tertiary institutions in the country and we work with about 39 of them, I think it goes without saying that there would be some unevenness in the support we get and the quality of presentation of courses that we use. So I do not think that would be any different from any other organisation.

**Senator CARR**—I see. You also say:

Anecdotal evidence from Defence-sponsored students includes frequent reports—  
and I emphasise the words ‘frequent reports’—

of administrative problems, and highly variable levels of teaching quality, campus infrastructure and resources, with some having excellent libraries and other facilities, while others are barely adequate.

Can you give us any indication of whether or not the Department of Defence thinks they are getting value for money out of these programs?

**Major Gen. Willis**—We believe we are getting value for money out of most of them. From time to time they do vary, which is not unnatural. If we discern that there is a fall-off in quality being produced by a particular program, we will take the appropriate action. A lot of the courses that defence people undergo are personally initiated and they get refunded for their courses, and they then report back to us on whether they thought they were good, bad or indifferent. That is why it is essentially anecdotal.

**Senator CARR**—However, you do say in your submission:

A potential concern for Defence concerns the pricing policies universities adopt for popular courses where demand exceeds the supply of places, especially the extent to which universities might seek to exploit the shortfall for revenue raising purposes, thereby increasing the pressure on limited Defence training dollars.

What did you mean by that?

**Major Gen. Willis**—Supply and demand, I guess.

**Senator CARR**—Can you give us some examples?

**Major Gen. Willis**—I do not have the particular facts before me, but I can take that on notice and get back to you.

**Senator CARR**—Would you please do that. I am particularly interested in the value of the contracts the department has entered into with Melbourne University Private since 1998. Do you have that available?

**Major Gen. Willis**—I do not have the detail. If I understand you correctly, it is the contract with the Australian Defence College at Weston Creek and the senior course out there.

**Senator CARR**—No, this is Melbourne University Private in Melbourne.

**Major Gen. Willis**—Yes, that is correct. We have a number of contractors and as I understand it they provide a significant part of the Centre for Defence and Strategic Studies education at Weston Creek.

**Senator CARR**—They teach off campus from Melbourne, do they?

**Major Gen. Willis**—Certainly. They won the contract. That happens in a lot of areas these days where there is not necessarily a geographic boundary for the provision of education services because of the facilities available. They tendered and they won the tender.

**Senator CARR**—I have to go back to the department of education with a number of these questions; that is why I am seeking to explore these issues with you now. Would it be possible to get information concerning these matters prior to Wednesday?

**Major Gen. Willis**—It depends on what sort of information it is.

**Senator CARR**—I will go through a list of issues. Perhaps you could give me some advice on the following matters. How many defence sponsored students have attended courses at Melbourne University Private and in what years?

**Dr Hawke**—Do you mean at, or in association with?

**Senator CARR**—In association with. What is the location? You will indicate to me, presumably, if they are at the Carlton site or other sites.

**Major Gen. Willis**—Yes.

**Senator CARR**—You would be able to provide me, I trust, with the value of contracts between the department and Melbourne University Private since 1998 and whether or not the material that you referred to in your Senate submission, which I have cited today, is in any way related to the activities of Melbourne University Private. Is that one of the places you are referring to in your submission, and if so, what detail can you provide? Can the department either confirm or deny the suggestion that the University of Melbourne has been advised that the possibility of future education contracts with the department would have a greater likelihood of success if they did not include Melbourne University Private? Is it the case that the defence department has contracted the politics department at the University of Melbourne through Melbourne University Private to provide one or more courses in strategic studies? If you have, could you give me an indication of what evaluation of this course or courses has been undertaken by the department and the level of service provision that has been undertaken for those students? Has any evaluation of the experience and the opinion of students undertaking such courses been gathered? What is your evaluation of that survey, if you like, of student satisfaction—or whatever title you use within the department?

**Major Gen. Willis**—Validation.

**Senator CARR**—Yes, the validation of the program. Could you provide us with advice as to the opinion of senior officers regarding the course that is undertaken?

**Senator Ian Macdonald**—I do not know that the opinion of officers is a relevant question for the 2001-02 estimates committee. This committee need no doubt deal with facts and figures and budget estimates, but not opinions.

**Senator CARR**—What I am looking for is: in the validation process, were the opinions of senior officers sought, and if so what judgments were reported? Could you confirm that the university, either at the departmental level or any other level, has been advised that, if it wishes to tender for the provision of strategic studies courses in the future, Melbourne University Private should not be included in the tender? It is a similar question but I want to know specifically about the strategic studies courses.

**Major Gen. Willis**—By Wednesday may be a bit tricky but I will certainly put all hands to the pump.

**Senator CARR**—I appreciate that. I know that the defence department is always quick off the mark on these things.

**Senator Ian Macdonald**—We will take that on notice. Of course, they all have to be signed off by the minister and I am not sure of the minister's availability between now and Wednesday and it will depend on that. Obviously, the department will do what it can, as it always does.

**Senator WEST**—Thank you, Minister. Major General Willis may be able to provide us with some of this when we get to the People section of the PBS tomorrow afternoon.

**Senator HOGG**—We will accept the answers tomorrow afternoon.

**Senator WEST**—What you can give us, and we will pursue it further then.

**Senator CARR**—Thank you, Major General. I appreciate your assistance on that.

**Major Gen. Willis**—Thank you, Senator.

**CHAIR**—We will continue with other aspects of the portfolio.

**Senator HOGG**—As I flagged over the break, Dr Hawke, I want to consider your due diligence report of 12 months ago. I then want to consider the statement you made a year on, on 27 February this year. You put down some fairly significant markers 12 months ago in your due diligence report and it is important that we get your view as to where you are and then refer to your current statement to see where we are going from there. In the due diligence report, you said:

Being from Transport (and Regional Services), my 'road test' of a sample of Defence's people about our mission, vision and values demonstrates that they are not well understood - even at the senior levels within the Organisation.

In the next paragraph, you went on to say:

Nor are all in Defence sufficiently seized with the importance of serving the nation through its ministers and the government of the day. It is far too inwardly focussed.

How have you turned around Defence's understanding of the mission, vision and values as part of your road test, and how have you also turned around the inward focus that you believed existed with Defence when you took over?

**Dr Hawke**—As you rightly say, in the address that I gave at the Press Club this year, I reported what had happened in the 12 months since the 17 February 2000 address at the same venue. That was done publicly to explain what has happened, what the issues are and where we are going. On the two specific issues that you have raised, the mission of Defence is the same as the outcome recorded in the present portfolio budget statement. We derived that by discussion among the senior leadership group and we had discussions about a range of outcomes or purpose statements, and the minister decided on the one before you, to defend Australia and its national interests, and that was endorsed by the government in this year's budget deliberations.

In terms of the values, I would approach that by saying that basically we have three services: the armed services—the Navy, the Army and the Air Force—and the fourth one is the Australian Public Service. Each of those has its own ethos, traditions and values and we would expect people to act in accordance with those. However, when they become part of the senior leadership team, there is a requirement that they work more significantly across the organisation as well as within which service uniform they happen to wear. The senior leadership group considered this and derived a set of values that it wanted to guide its own work. It decided on those and further work is proceeding on that and the issue, if you like, of

what the vision or the future of defence should look like. The white paper sets out the blueprint for the future of defence in the immediate period ahead and there are perhaps some dotted lines on a road map about where we might be in 10 or 20 years time.

**Senator HOGG**—I accept that, but given that your statement went to the fact that the mission, the vision and the values demonstrate that they are not well understood, what has changed the understanding?

**Dr Hawke**—I think it is the fact that the senior leadership group has been working on these issues themselves, so that they have had an input, they understand what the outcome is and, in my view, they own the outcome in a much clearer way than they had done in the past.

**Senator HOGG**—If you say they own the outcome more than they did in the past, how is that translated down the line? It is one thing to have the senior leadership group on board; the next big task is to translate that down into the broader—

**Dr Hawke**—That is part of their responsibilities—to communicate those issues to their people.

**Senator HOGG**—How successfully do you think that that has been done?

**Dr Hawke**—We have not yet measured that, but we will be doing so in the not too distant future. The second issue you were raising was about how well aware the senior leadership group is of the nature of serving the Australian nation through the portfolio minister, the minister assisting, and the parliamentary secretary. We have had a series of workshops and information systems on that precise topic. The third of those was just last week. I could get details for you about how many of our senior leadership group have been through this program. I have provided a written paper in support of that approach, so that people can understand clearly what it means. We have also commissioned some work with a former Defence officer. He did some of this work when he was there, and he has continued to do it following his departure. He is a fellow called Allan Behm. That work deals with two issues: firstly, what does quality in policy advice and service to the minister and the government of the day actually mean? Secondly, what sorts of performance indicators should you have to look at how successful you are in this regard? The first part of that was actually published in a paper, and the second part is being completed with a view to publication, again in the not so distant future.

**Senator HOGG**—Will those key performance indicators be available publicly?

**Dr Hawke**—I expect the paper will be published. It goes broader than just Defence. This issue is across the Australian Public Service. What does quality and policy service mean? How do ministers see this? How do they judge it? What sorts of criteria should be used to measure how you are performing against those expectations? I might say this work covers former ministers of the Labor government as well as ministers of the coalition.

**Senator HOGG**—On the issue of being inwardly focused, have you been able to remove that completely, or is there still a residue of it?

**Dr Hawke**—These sorts of exercises expose our people to the broader world, and what they are there to do and why. It puts it in a context, which I think helps them to look outward more. If I could add one thing to that, CDF and I have set a challenge to all of our senior leadership group, which is basically to look at how they set the standard. What that means is: what sorts of criteria are they looking at in order to measure and improve the area of the department or the ADF that they are responsible for? Each of those people is writing to CDF and myself about how they are going to approach that issue.

**Senator HOGG**—You said Mr Behm has a contract.

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**Dr Hawke**—I do not know whether he has a contract. He has left the department. He had been doing some of this work while he was within the department with a private sector person called James Cummane, and I think there was a third person involved in the first part of the work—I cannot remember her name. I am not sure whether she is involved in the second phase of the work.

**Senator HOGG**—Is this an external contract now and not an internal process, or is it partly internal?

**Dr Hawke**—They may be just giving that to us as part of the exercise. I am not sure whether we are being charged for it.

**Senator HOGG**—The second thing I wanted to turn to in your statement was where you said:

The current state of Defence's financial situation against the Forward Estimates might best be described as parlous.

I will not go on from there because I think that is now well reported. How do you see the situation of Defence's financial situation now? Given that you described the situation against the forward estimates as being 'parlous' on that occasion, has the situation improved, and, if so, in what way?

**Dr Hawke**—Yes. That issue has been put well and truly to bed with the launch of the government's white paper on 6 December last year.

**Senator HOGG**—But I thought the description that you put in your statement on that occasion also went to the fact that you said the Auditor-General and senior staff had left you in no doubt that Defence's financial statements were at risk of being qualified the next year.

**Dr Hawke**—That is a subsidiary issue. I would say to you that I think we are still at risk in that regard.

**Senator HOGG**—Still at risk?

**Dr Hawke**—Yes. We have now put in place arrangements to monitor each and every one of the Australian National Audit Office recommendations. We established, on 1 July last year, a new Defence Audit Committee which is chaired by Paul McGrath, a former chief executive officer of a couple of places. The deputy head of that committee is also from outside of the Australian Public Service. We are bringing much more attention to those sorts of issues. We continue to have problems with our internal systems and in resolving just what has been spent and where. The government has allocated a sum of money for us to address that issue over the next little bit.

In terms of raising the awareness of these things as an issue within the organisation, for the very top level, the defence committee and its financial advisers are being put through the Australian Institute of Company Directors course, which has some special elements for us. The reason for that is that if you are on the Defence Committee it is a bit like being the director of a very large company, in terms of the fiduciary duties and the approach that should be brought to that work. The Defence Committee itself and its financial advisers are going through that. We have had a series of sessions with a fellow called John Petty from the Australian accountancy—

**Mr Harper**—He is lots of things. He is the president of CPA Australia in New South Wales. He is also, probably more relevantly, the head of the Strategic Business Management Centre of Excellence of CPA Australia.

**Dr Hawke**—What he has been talking to us about goes to our governance arrangements, the way in which we should collect and process financial information, what the Defence Committee should be focusing on in its work to that end, and bringing to our attention models of best practice elsewhere in the private and the public sector that we can draw on in putting our system in place and getting our house in order on this front.

**Senator HOGG**—What is it costing to send people to the course at the Australian Institute of Company Directors?

**Dr Hawke**—I would have to get that for you.

**Senator HOGG**—Thank you. I come back to the issue of ‘parlous’ because I am not thoroughly convinced yet. I understand you are saying that you are still in difficulty in terms of maybe being qualified—and I understand the significance of that—and that the white paper has overcome the ‘parlous’ financial forward estimates situation. But that surely is just to meet ongoing initiatives which the government have flagged in the white paper as such. Were you alluding to the fact, last year, that certain inefficiencies, certain wastage, existed and that needed to be addressed, regardless of what you were to receive as top-up in the white paper? If there were inefficiencies, if there was wastage, has that been addressed?

**Dr Hawke**—I was actually alluding to the fact that Defence was living beyond its means and did not have the wherewithal to meet the expectations that the government of the day were placing on it and that that needed to be fundamentally readdressed in the context of the white paper. In the white paper, the government first of all considered what sort of strategic outlook we had. They looked at what sorts of capabilities we had and could provide by way of military response options if the government were to ask us. They went through the public consultation process with Mr Peacock, as you are aware. At the end of that, the process was that the Chiefs of Staff Committee met to consider, in light of the strategic outlook that the government decided upon, what sort of force structure and capabilities we would want to meet that.

That report was subsequently provided to the minister, considered by the government and basically endorsed in its entirety. So we got from the government what we asked for. The difference is, of course, that it was only right at the end that the government looked at the funding required to support the white paper, and they decided that that level of funding would be forthcoming.

**Senator HOGG**—As part of the process, given that you thought you were in a parlous state even with the top-up from the white paper, have you identified any inefficiencies and wastage occurring in the department and, if so, have you overcome them?

**Dr Hawke**—We have an ongoing program of identification of opportunities for savings, and we are pursuing those.

**CHAIR**—Senator Hogg, we should be breaking for lunch at 12.30, and I understand that Senator Schacht has a question he would like to ask Dr Hawke before he leaves.

**Senator HOGG**—You are coming back after lunch, I presume?

**Dr Hawke**—I was not intending to, but if I am required to I will do so.

**Senator SCHACHT**—I have only got a couple, but you might have a lot more, John. It is up to you.

**Senator HOGG**—I have got quite a few more, if that is all right.

**Dr Hawke**—Sure.



**Senator SCHACHT**—Can I do mine now? I have got to go back to another estimates committee after lunch. Mr Hawke, I am sorry I was not here for much of the morning—I had to go to another committee—and you may have already answered this question. You made a public statement some time ago, which was reported in the press, that the Department of Defence, in particular on the uniform side, had to understand that they were responsible to the minister. You indicated some dissatisfaction that that ministerial responsibility was not clearly understood. Are you happy now that that message has got through to all the department and that people understand?

**Dr Hawke**—Yes, I am, and Senator Hogg did indeed ask the question which goes directly to that. I have placed on the record why I think we are okay on that front now.

**Senator SCHACHT**—Fine. The other question I wanted to ask, since you will not be here tomorrow, is about the Jenkins case—I wanted to ask you, even though Mr Brady will be appearing. Did you approve the fact that the Department of Foreign Affairs, Defence and Trade would conduct the investigation and interview with Mr Jenkins about a possible breach of security at the Australian Embassy?

**Dr Hawke**—No, I did not.

**Senator SCHACHT**—Who approved that in Defence?

**Dr Hawke**—It was before my time. Mr Brady will be able to answer that question.

**Senator SCHACHT**—Can you ensure us that he can answer that? Is it unusual that a Defence officer, about whom there is a claim of breach of security, would be investigated by an official of another department, though obviously interested in foreign affairs, defence and trade issues?

**Dr Hawke**—I think it is unusual, but I do not know what circumstances were prevailing at the time when whoever it was took that decision.

**Senator SCHACHT**—You say ‘unusual’; I think it is unusual too. I know you are very busy, this is before your time and you have enough on your plate, but have you been able to make any inquiries about why Foreign Affairs did the investigation?

**Dr Hawke**—It was in the past. I am more interested in where we are at now and where we are going.

**Senator SCHACHT**—Mr Hawke, we have the Blunn report before us, and we have had some press coverage—I think it was a *Four Corners* program a month or so ago, during the period you were secretary—of the circumstances of Mr Jenkins and his death. Do you think they have raised issues that, even though it is before your time, for the sake of the institutional memory of the department you may wish to have a look at?

**Dr Hawke**—No, I am satisfied that the issues are being dealt with appropriately by Mr Brady and the Inspector-General of Intelligence and Security, Mr Blick.

**Senator SCHACHT**—In future, if a defence department official were under investigation, would you insist that the investigation be conducted by the defence department rather than by a member of another department?

**Dr Hawke**—That would be my preference.

**Senator SCHACHT**—Do you think that Mr Brady might be able to give me a reason why that did not happen on this occasion?

**Dr Hawke**—I am not sure that he would be able to give you a reason, but he would be able to explain to you what the facts were at the time.

**Senator SCHACHT**—I appreciate the fact that you have put that on the record, and that is an appropriate response, but it does seem to be a very strange set of circumstances. Normally, I would not worry about chasing down a bureaucratic dispute between departments, but, if someone has taken their own life in circumstances that are very unfortunate, I do not think it is something that we can avoid asking further questions about.

**Proceedings suspended from 12.31 p.m. to 1.32 p.m.**

**Dr Hawke**—Mr Chairman, in response to questions from Senator Hogg this morning, I managed to get hold of the paper *A value-creating model for effective policy services*. If you wish, I will table that for the benefit of the committee, through the minister.

**CHAIR**—Thank you.

**Mr Harper**—Senator Hogg asked this morning how much we had spent on company directors courses. It is about \$150,000 for two courses.

**Senator HOGG**—For the last two courses?

**Mr Harper**—For the only two courses that we have run so far.

**Senator HOGG**—For the two courses.

**Mr Harper**—They are five-day—

**Senator HOGG**—What about the Capstone course?

**Mr Harper**—The Capstone course? I do not have it. We can take it on notice.

**Senator HOGG**—You can find that and give it to me at some stage throughout the proceedings this afternoon. Dr Hawke, I return to your statement of last year. There is only one other issue on which I want some explanation as to where the department has gone. Last year you said:

I also take this opportunity to mention that the \$380m reduction in the 1999-2000 Defence equipment investment program effected during last year's Additional Estimates process was designed to accommodate cost pressures at that time—

Then you listed what they were. I have two questions. Are those cost pressures still around and, if so, what are the cost pressures? You referred to 'readiness'; 'Y2K', which is no longer with us; and 'maintaining a Defence Force of 50,000 people'. Can you identify the cost pressures for us, if there are any?

**Dr Hawke**—The white paper provides for 54,000 full-time people in uniform, and the funding basis to do that. In terms of Y2K, that is correct. That is now an issue which is behind us. What was the third issue, Senator?

**Senator HOGG**—The third issue was increased readiness, which you referred to. Are those the pressures that are still in your budget in terms of the constraints?

**Dr Hawke**—There are still issues relating to readiness, that is true, but they are being dealt with in the confines of the white paper funding.

**Senator HOGG**—But in no way is your budget now suffering the need to cut \$380 million out of capital equipment, such as you did on the last occasion?

**Dr Hawke**—That is correct. The capability plan and the white paper set out the sorts of capabilities we are going to acquire and the time frame to do that. They even give some indication of the costs that we expect to do that. Mr Mick Roche, the under secretary, who will be here later, can deal with all issues relating to the capital acquisition program.

**Senator HOGG**—But given that you made the comment that it was necessary to cut \$380 million out of the Defence equipment program last year, are you able to comment on whether that \$380 million has been put back into the Defence equipment budget, or was that \$380 million cut?

**Dr Hawke**—My recollection is that it was a one-off and that the capability program which is in the white paper and which has found its way into this year's budget is fully funded.

**Mr Moore**—The \$380 million reduction referred to was a one-off in that particular year to fund a number of pressures that were evident pre-white paper. You mentioned a number of them, including increased readiness and Y2K. The increased readiness in particular was the requirement to raise that second infantry battalion group to 28 days notice prior to Timor. We have managed to fund that on an ongoing basis, and that is part of the white paper funding baseline that we now have. We can not only keep the additional forces that we raised for Timor but also keep up that increased readiness level for the second Army brigade.

**Senator HOGG**—I accept that, but it meant that \$380 million, uncharacteristically, because in reasonable recollection it had not been taken out of the capital budget before, was taken out of the capital budget and, from what I can see, has not been put back in. That is my question.

**Dr Hawke**—We are dealing with different issues. The capital equipment program that is in the white paper and catered for in the budget and the forward estimates is fully funded.

**Senator HOGG**—I understand that.

**Dr Hawke**—The \$380 million is a one-off figure. If you start again from a zero base about what sorts of capabilities you are going to acquire for the future, which is what the white paper does, then that is fully funded, so we do not need to return the \$380 million from that back into the capital equipment budget.

**Senator HOGG**—But surely that \$380 million was there as part of the then budget to fund ongoing projects?

**Dr Hawke**—It was, but those projects now are fully taken care of in the funding that flows through in the budget and the white paper.

**Senator HOGG**—In which case, whole or part thereof of the \$380 million has been returned to the capital budget and it needs to be taken off the additional expenditure that has been included in the white paper.

**Dr Hawke**—We are starting from a different financial base, and that may be where the confusion may arise.

**Senator HOGG**—There is no confusion in my mind: \$380 million clearly went out of the capital budget.

**Dr Hawke**—That is true, but much more than that has been put back into the capital budget.

**Senator HOGG**—I think that is marvellous—I am not knocking that for one moment. But, at the same time that that money is put back into the budget, it takes away from the additional money that had been put into the budget—it must have, if it has been put back.

**Dr Hawke**—That is correct.

**Senator HOGG**—I am just trying to establish this. There is no trick in the question.

**Dr Hawke**—Yes. I know there is not.

**Senator HOGG**—I am just trying to find out about this. Some \$380 million went out in extraordinary circumstances to fund certain necessary activities within the Defence Force.

**Dr Hawke**—Correct.

**Senator HOGG**—I understood that. Whether I agreed with it or not is another issue, but that is what you had to do: you were faced with that circumstance. You have done that, so I now want to know whether the \$380 million has been returned and, if it has been returned, under what guise.

**Dr Hawke**—I am saying that the two issues were prepared on different bases. The \$380 million came out of what was then intended to be capability acquisitions and the like—so there is no need to return that \$380 million because the white paper sets out that these are the capabilities that the government is now notifying that it will purchase over that period of time, and all of the funding required to do that was approved. So I think there is a disconnect between the past, where we are at now, and where we go, because of the white paper itself.

**Senator HOGG**—I think there is a disconnect in the sense that there are new projects which have emerged through the white paper—and I clearly acknowledge that—but have any projects that were previously in the capital budget project been dropped or deleted from the program as a result of the white paper?

**Dr Hawke**—I think some of them have been rephased in terms of the date that we bring them online, so I think the answer to that is all three.

**Senator HOGG**—Yes, but that still does not mean that the \$380 million should not have gone back into the process.

**Mr Moore**—If I could add to the response: we review annually, with the Defence Materiel Organisation, the cash flow requirements for all the projects in the new investment program, and you are right that we did take \$380 million away in 1999-2000 for the projects that had already been approved and were already in contract or were about to enter into their contracted phase. We have done the same for 2000-01 and looked at the cash flow and at when the new investment program would require an adjustment to accommodate their contractual requirements. Post additional estimates, we identified the opportunity to put some additional funding back into the white book this year of about the order that we took from it last year. These are just normal cash-flow management arrangements, but I do acknowledge that over time the DMO has to be given the funding for the scope and the cost of the projects that it is responsible for. We do look at that on an annual basis, so in 1999-2000 there was a reduction of \$380 million. We have been able to put a lot of that back into the new investment program this year, and we will keep the situation monitored on a yearly basis depending on progress against each of the individual contracts that predated the white paper, but also include the new white paper projects as they come on stream.

**Senator HOGG**—All right. In simple language, whilst there is money there for the white paper initiatives—and, taking Dr Hawke's point that there is a line in the sand, it picks up the point from beyond that line—nonetheless, in the context of the ongoing funding of projects within the budget estimates, the \$380 million has been in effect put back, according to what you were saying, and therefore must come off the other end.

**Mr Moore**—No, we have not had to touch the white paper funding at all. We balance each year, through the course of the year, including up to 30 June, the funding required between our capital budget requirements and our operating requirements. This year we have been able, because there has been an underachievement in some of our operating expenses, to move funding back into the capital budget without detriment to our operations. We do this as an

annual exercise, or more frequently as required, to ensure that the capital funding requirements are equal to the contractual commitments.

**Senator HOGG**—Can we turn to page 71, and I accept what Dr Hawke said that Mr Roche will be here later to answer some of these questions. Table 3.4 refers specifically to capital expenditure and the purchase of specialist military equipment in the additional estimates 2001-02—I do not know if that is the right heading?

**Mr Harper**—It is the portfolio additional estimates estimate of what would be required in 2001-02. The figure to its right is the figure which prevailed at budget time.

**Senator HOGG**—No. I think the column headed '2001-02 Additional Estimate' is meant to be 2000-01.

**Mr Harper**—I disagree, with respect.

**Senator HOGG**—You are telling me that you know what the additional estimate figure for 2001-02—

**Mr Harper**—I am looking at the PAES for last year, the analogous table. I think that figure will appear—

**Senator HOGG**—Yes, I am not disagreeing with you. I am talking about the heading. If that is the figure for the additional estimates, it is the 2000-01 budget and not the 2001-02 budget?

**Dr Hawke**—Are these the additional estimates?

**Mr Harper**—Yes. On page 37 of the PAES for 2001. At that time, bearing in mind the document was largely about the remainder of the 2001 year, there are also figures published for three succeeding years. The figure published for 2001-02 in last year's PAES is that figure there.

**Senator HOGG**—All right, that then makes my question even more important. If that was the published forward figure, why is the current budget \$130 million shy of that figure?

**Mr Harper**—If we look at the total capital payment figures, which show \$3.390 billion and \$3.290 billion roughly, there has been a reduction there of roughly \$100 million. That is largely due to the removal of \$380 million, which occurred after the additional estimates were put together, and \$190 million has been accelerated to 2000-01.

**Senator HOGG**—Take me through this slowly. You are saying the reduction of \$130 million in table 3.4 is due to the fact that not all of that \$380 million—and this is the question I asked before—has gone back in. That would say to me that, of the cut in the capital budget of \$380 million that Dr Hawke spoke of in his address back in February last year, only \$150 million has gone back in and \$130 million has not gone back in.

**Mr Harper**—There are a number of ups and downs. In short, take the total capital payments figure of \$3.390 billion.

**Senator HOGG**—It is about \$100 million, without messing around.

**Mr Harper**—Yes. Let us try to get to \$100 million. If we minus \$380 million, to meet operating pressures, and minus \$190 million, brought forward to 2000-2001 for accelerated capital expenditure, that takes you down by \$570 million. Of what was \$500 million before it was out turned, the capital component of that is \$470 million. That brings it up to that apparent reduction of minus 100. We have gone down by the 570—being minus 380 and minus 190—and up 470, being the capital component of 500.

**Senator HOGG**—Yes. But the cut that was specifically announced last year was not in respect of the purchase of property, plant and equipment. It was in respect of specialist military equipment.

**Mr Harper**—I understand that is true.

**Senator HOGG**—It seems to me that, in reality, there is a \$130 million cut in what would have been the expected expenditure on the purchase of specialist military equipment for the coming financial year.

**Dr Hawke**—Let us ignore the 380 and the 470. If you added \$190 million back to the budget estimate figure that would get you to \$2.993 billion. The \$190 million planned to be spent this year has been brought forward to this financial year. The figures are roughly the same. The \$190 million that we were planning to spend in 2001-02 is now being spent in 2000-01. We can confirm that with Mr Roche when he arrives.

**Senator HOGG**—I am not doubting you but I would like to go through this.

**Dr Hawke**—So you can make sure.

**Senator HOGG**—Yes, and I understand your explanation. Speaking of him, here he is.

**Dr Hawke**—Yes, we will get Mick Roche, the under secretary of the department, to further this debate.

**Mr Roche**—You have the advantage over me. I did not hear the start of the question but I can confirm what I heard the Secretary saying and that is that there has been \$190 million brought forward from next year to this year.

**Senator HOGG**—I have no doubt about that. That \$190 million I would say to you has to be in that \$2.803 billion.

**Dr Hawke**—If we had not brought the \$194 million forward then that figure of \$2.803 billion would be \$2.993 billion.

**Senator HOGG**—Why?

**Dr Hawke**—Because that \$190 million that was there we are spending in 2000-01. We had intended to spend that in 2001-02. We are now spending it in 2000-01 in the budget context.

**Senator HOGG**—That is 190 million of that 380 million; isn't it?

**Dr Hawke**—That is a separate figure. That is why these figures get confused. A lot of the \$380 million was to meet our operating pressures. There was 190 of the capital program, which was accelerated, and then there was 470 added back as a result of the White Paper but not all of that goes to capital equipment. Some of that is operating expenditure as well. That is where the 100 million comes from. If you compare those figures at the bottom of total capital funding that is why there is a 100 million difference.

**Senator WEST**—When was this \$190 million brought forward from—

**Dr Hawke**—From my recollection, that decision was taken in the budget context.

**Mr Harper**—That is correct.

**Dr Hawke**—For this year's budget.

**Senator HOGG**—Do you mean in the 2001-02 budget?

**Dr Hawke**—Yes, in the processes that have led to this budget.

**Senator HOGG**—Where do we see that \$190 million?

**Dr Hawke**—You do not see it, because of the figures that I have just given you. The problem is that more than one figure contributes to that difference. Are you asking what has happened to the \$190 million?

**Senator HOGG**—Where is it? Where do we find it? This is about being able to follow the accounts and transparency.

**Dr Hawke**—That \$190 million is being spent this year and I will ask Mr Roche to explain what it is being spent on. That will be brought to book in this year's accounts, not next year's.

**Senator HOGG**—I accept that, but to my way of thinking, you have taken \$380 million out of the 2000-01 budget.

**Dr Hawke**—Out of 2001-02.

**Senator HOGG**—No, 2000-01. Isn't that where you took the \$380 million from and did not replace it?

**Dr Hawke**—There may be two lots of \$380 million. Whereabouts is the—

**Senator HOGG**—I am referring to the \$380 million—

**Dr Hawke**—Yes, where does that come from?

**Senator HOGG**—Sorry, out of the 1999-2000 budget.

**Dr Hawke**—Senator, where are you getting that figure from?

**Senator HOGG**—Yes, that comes from your speech 12 months ago.

**Dr Hawke**—Which one?

**Senator HOGG**—Your due diligence speech.

**Dr Hawke**—The due diligence speech? There are two sets of \$380 million; that is where the confusion arises. This is a different \$380 million.

**Senator WEST**—Can I seek some clarification? Going back to last year, in the 1999-2000 PAES, I thought that for 2001-02, the \$2.935 billion was already down for the coming financial year.

**Dr Hawke**—That is correct.

**Senator WEST**—But now you are telling us that by putting \$190 million in, you are taking it back to \$2.935 billion.

**Dr Hawke**—No.

**Senator WEST**—You have taken \$190 million off at one stage, and you have put more back in.

**Mr Harper**—The \$190 million is moved from 2001-02 to 2000-01. So in the documents, it has moved to the column at the far left of the table.

**Senator WEST**—But the estimate for 2001-02 remains at \$2.935 billion as forecast by the PAES in 1999-2000.

**Mr Harper**—Not exactly, Senator. That was the estimate at the time of the PAES. The estimate now is \$2.803 billion.

**Senator WEST**—That is still not \$190 million.

**Mr Harper**—No, so if you took the figure of \$2.9 billion—

**Senator WEST**—And removed \$190 million, you get \$2.745 billion.

**Mr Harper**—That is right, and if you also took off—I am sorry, I have forgotten what we took off the first time.

**Senator WEST**—We took \$190 million off the first time. If you are getting confused, how do you think we are going?

**Mr Harper**—Okay. If we take the \$2.9 billion and remove the \$190 million—

**Senator HOGG**—So 2.9, right.

**Senator WEST**—And we remove the \$190 million, it gives you \$2.745 billion.

**Mr Harper**—Yes, and if we also remove \$380 million that was taken from the capital budget to meet operating pressures, the sum of those two is a reduction of \$570 million.

**Senator WEST**—That takes you down to \$2.305 billion.

**Mr Harper**—And if you then add the capital component of the white paper, the \$500 million, you get up to a figure that is \$100 million less than was estimated at the time of the PAES.

**Senator HOGG**—All right. So that \$100 million is therefore in the capital budget area which has not been picked up, or is it picked up elsewhere?

**Mr Harper**—The \$100 million that we have explained is just the difference between the prediction of what the total capital payments would be at the time of the PAES and the prediction of what capital payments will be at this time for the same year.

**Senator HOGG**—I accept all of that, but is that brought about by the reduction in the capital budget in that statement—which now goes back 12 months—that Dr Hawke was referring to?

**Dr Hawke**—This is a different \$380 million. That is the problem.

**Senator WEST**—Next time, can you just take different amounts?

**Dr Hawke**—This is not the same \$380 million that I referred to on 17 February 2000.

**Senator HOGG**—All right. Was that \$380 million that you referred to on 17 February 2000 ever put back in to the capital—

**Dr Hawke**—That is what I am trying to say to you: that is where you draw the line in the sand because, after 17 February 2000—when I said to you that is what we had brought forward—the white paper came down on 6 December that year, and so the whole base of the budget and the forward estimates changed as a result of the government's decisions announced in the white paper. It is like comparing apples and oranges.

**Senator HOGG**—I do appreciate what you are saying. I am just trying to track this down because it is important in terms of trying to trace the whole thing just to make sure that the allocations that were there previously—and if they had to be cut they were cut, as I said, but not for any reason I might agree with—have found their way back into the capital budget. I understand what you are saying about your line in the sand but nonetheless many of those projects would have been an integral part of the budget that was brought down on that previous occasion. So what I am trying to find out now is whether the capital budget has, in effect, been reduced by an amount of \$100 million or \$130 million—I am not wedded to the figure, but it seems to be at least in the order of \$100 million—over the longer term period. Or are you telling me that there is repricing and a number of other issues? But that is always going to happen.



**Dr Hawke**—There is always repricing and changes for exchange rates as well. So it is impossible to say to you that the \$380 million has been put back. The government has put back a sum of money far larger than that \$380 million into the capital equipment program.

**Senator HOGG**—I accept that—

**Dr Hawke**—You cannot say that that \$380 million came back.

**Senator HOGG**—I think that that is an important thing that the committee should be able to identify because otherwise it may well be that at other times there will be an occasion where you will, for reasons, cut the capital budget, and one needs to be able to trace whether or not that money has been returned to the capital budget or the capital budget has in some way suffered as a result.

**Dr Hawke**—We can still do that. That \$380 million came out of the capital budget that year and then a sum of money greater than that went back into the capital budget, but the two are not related.

**Senator HOGG**—I accept what you are saying. If there is a disconnect then you have got to have something that enables a connect to be made because otherwise it brings about—

**Senator WEST**—A lack of transparency.

**Senator HOGG**—Yes, a lack of transparency and a lack of credibility in the figures that you are putting to us and also to the government of the day. That is all I am saying.

**Dr Hawke**—I accept your point.

**Senator HOGG**—I am finished with the statement. Can I just ask you to expand on some of the comments you made this year, Dr Hawke?

**Senator Ian Macdonald**—He reads your speeches.

**Senator WEST**—Are you suggesting he make fewer speeches, Minister?

**Senator Ian Macdonald**—No, I was just saying that at least someone reads these speeches very carefully and closely—in addition to me, that is.

**Senator WEST**—So you are totally familiar with the speech and you will be able to answer all the questions?

**Senator Ian Macdonald**—Yes, they were very good speeches.

**Senator HOGG**—I am very impressed, Minister.

**Senator Ian Macdonald**—Dr Hawke needs to go shortly, so perhaps I could answer the questions for him.

**Senator HOGG**—No, I do not think so.

**Senator Ian Macdonald**—Let us hurry so that Dr Hawke can get on to more productive things.

**Senator HOGG**—In your latest speech—

**Senator WEST**—Transparency of government is not productive, is it?

**Senator HOGG**—at page 4, you state:

It's fundamental that Defence meets the highest standards of efficiency, accountability and transparency ...

That is something I have always advocated. How are you achieving that, given the exercise that, unfortunately, we have just been through—not that it brings into doubt any of the

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explanation you have given. Can you give us examples of how you are achieving that and how it is different from what was happening previously?

**Dr Hawke**—I am not sure I can find the comment which you are referring to.

**Senator HOGG**—I have run this off from the web site. Apparently, it is referring to the Prime Minister's tabling statement.

**Dr Hawke**—I think I know where we are now.

**Senator HOGG**—It is in respect of the white paper.

**Dr Hawke**—In his tabling statement?

**Senator HOGG**—Yes.

**Dr Hawke**—I have got you.

**Senator HOGG**—You say:

It's fundamental that Defence meets the highest standards of efficiency, accountability and transparency ...

I could not agree more.

**Dr Hawke**—That was put there particularly because I was made aware by this committee that you were not happy about the way in which you thought Defence had performed in front of your committee in the past. My recollection is that that was a point that some of you made to me when I appeared here in May last year. I undertook then to give a commitment that we would attempt to do better on that front here in the committee. I hope that what you have seen so far today will give you some assurance in that regard, in the sense that as soon as we can get an answer to a question we are putting it in front of you, and we may not always have done that in the past.

Turning to efficiency, that comes about as a result of some of the questions you were asking this morning—that we must continue to search for efficiencies in Defence and, most notably, from what we would call the blunt end, or the support end, to reinvest in the sharp end, the combat force. We have an ongoing commercial support program which assists to that end.

On the accountability front, we have changed our organisation structure to equate with the chain of command and the accountability structure, as set out in the budget, from 1 July last year. We hope that people will be more accountable and responsible in that regard. In terms of transparency, we have attempted to set out for you in this paper and via other avenues, including the speeches that I give, a level of transparency to Defence that has not been there in the past. Both Admiral Barrie and I give speeches on the public record to explain what we are up to and where we are going, consistent with the directions that we have from the minister and the government. That is it in a nutshell.

**Senator HOGG**—Just related to that, when are we going to see a settling down of the number of outputs? As you know, we have gone from five to six this year. I can only recall once in the last five budgets—and this was pre-yourself—where there was consistency from one budget to the next, which makes comparison a little difficult.

**Dr Hawke**—While that is a matter for the government in each budget context, we are content that the six outputs are the ones that should remain for the future.

**Mr Harper**—If I might add, Chair, there is a table at page 17 where we have back-calculated the projected price for this year. When intelligence did not exist as an output, we have tried to come up with a comparative figure to assist the committee.

**Senator HOGG**—I accept that. Further in your recent speech, on the same page, you say:

... we will need stricter financial discipline, and the search for better efficiency and effectiveness will still be part of our everyday lives.

I say this for two reasons. First, there are some real pressures within Defence that require additional money.

What are the real pressures in Defence that are requiring additional money? Are they catered for in the current budget, or are they emerging?

**Dr Hawke**—In the past, a list of bids would come forward from each of the groups for funding. Oddly enough, if you ask people whether they would like more money and, if so, what they would want to spend it on, they usually find reasons to put those forward.

**Senator HOGG**—I know!

**Dr Hawke**—We are in the middle of changing the way in which we do that. Instead of the groups bidding for money, the process is more along the lines of saying, 'Here's your share of the money to do what is set out in the white paper. Get on with it.' But there is no question that there are always pressures in the defence vote. For instance, if there are changes in fuel prices or changes in the number of hours that we allocate to the various capabilities, et cetera, then that changes the monetary requirements.

**Senator HOGG**—I accept that. I read into your speech—and I do not know if I read more into it than was meant to be there—that, apart from those pressures that one might consider to be normal, there are other pressures that are looming or—

**Dr Hawke**—It was meant to convey the normal sort of processes and pressures.

**Senator HOGG**—In the next sentence, you talked about those who see it as an opportunity to dust off and re-present their favourite funding proposals. Obviously you have changed something about the culture of the organisation.

**Dr Hawke**—Yes, we have. That also goes to the two paragraphs after that that talk about the 'annual review mentioned at paragraph 8.2 of the White Paper as the way to insinuate new projects or radically change priorities'. Those people need to think again because those issues were dealt with by the committee of the chiefs of staff in coming to the advice that they provided to the government on the capabilities that we require and the funding that goes with that.

**Senator HOGG**—On the issue of the capability plan that you refer to a little further down, I understand that the plan will be an internal, classified document according to the PBS.

**Dr Hawke**—That is correct.

**Senator HOGG**—Is it absolutely necessary that it is an internal and classified document?

**Dr Hawke**—The internal classified part really goes to how much money we have set aside to pay for those capabilities. Obviously, if we went out into the market to acquire a capability and said to industry how much money we were intending to spend on it, my guess is that that is pretty much what industry would come back with—'We can deliver to you for this amount of dollars.' It is to protect the way in which we do that sort of aspect of commercial business.

**Senator HOGG**—Okay. Accepting that there may be some commercial imperatives that require you to be sensitive about the material, is it possible that there is an external and unclassified document that can be made available to committees such as this so that they can make a judgment—

**Dr Hawke**—I think chapter 8 of the white paper basically sets out where we are endeavouring to go. I will ask Lieutenant General Mueller to comment.

**Lt Gen. Mueller**—You will recall that at additional estimates, Senator Hogg, you asked whether you could be provided with an unclassified version of a defence capability plan. That was provided. In addition, the undersecretary and I will be providing, for the benefit of industry, an unclassified version of the unapproved major capital investment program so that they are better informed with respect to how we propose to enter the market, the timing, and the way in which we schedule it.

**Senator HOGG**—On page 6, under the heading ‘Results’, you say:

Concentrating on results also requires due attention to proper process. However, careful scrutiny of procedures, practices, systems and other forms of red tape present themselves as opportunities for further gains in efficiency and effectiveness.

What have you identified there, or what do you believe you are in the process of identifying in the budget context, that will lead to efficiency gains and effectiveness?

**Dr Hawke**—It is actually not in the budget context; it is something that we are doing internally. I will give you two examples of that: one is the extant defence instructions, which go to hundreds of pages, many of which have not been revisited for many years, and you wonder about how useful they are to anybody. We are going to review and reduce and rewrite those, in terms of chief executive instructions, in accordance with the new Financial Management and Accountability Act. The second issue that I would like to draw to your attention is that we have been running a little internal campaign called ‘Rip Up Red Tape’, where people can come to us and raise with us issues relating to red tape that we might have a look at. I am not sure how successful we have been on that program.

**Senator HOGG**—I would think that, in Defence, if you are not very successful, then there is something wrong.

**Dr Hawke**—I hope we are going to be successful. But this goes to something that you raised earlier. We need to have an environment where people are comfortable in raising these issues up through the chain of command, and having them dealt with. CDF and I are concerned to see that we have more examples of bad systems and processes drawn to our attention, where we can do something about them.

**Senator HOGG**—So how red-tape-burdened do you think your department is, seeing as you are running a campaign on it and it does gain some prominence within the PBS?

**Dr Hawke**—I think it comes back to something you said earlier. It is about the search for simplicity. It is about changing the nature of the—that awful word—‘culture’ of the workplace to one where people operate in a more trustworthy but more accountable and responsible way. I do not see a lot of point in writing hundreds of pages of instructions that people do not read or act in accordance with. I think we need a simpler framework, where people can read this and take account of what they need to do.

**Senator HOGG**—Do you specifically have a ‘Rip Up Red Tape’ committee or something like that? I am interested to find out. It is something that you have just referred to yourself. It seems to me that you would be fighting a losing battle, though I wish you the best of luck.

**Mr Harper**—We have an organisational effectiveness branch in my group, which is running the ‘Rip Up Red Tape’ campaign, amongst other things. The head of that branch, Commodore Lemon, is here to explain.

**Senator HOGG**—Marvellous! The man in charge of ripping up red tape!

**Cdre Lemon**—We originally ran a forum where people could use the Internet to get in touch and register the items that they would like to have us address. We have an email address and a postal address that we run. I have two people who monitor that full-time and we endeavour to get back to the people who register their interest or register a complaint or identify something within 28 days.

So far the bulk of the complaints that we have had have been about duplication and conflicting instructions. We have been able to remove things such as duplication of forms—people having to submit different bits of information twice. A lot of the complaints are very generic in nature—seeking clarification of types of instructions and the vast number of instructions. We have formed a group across the department, including from the Defence Legal Office, the Defence Publishing Service—

**Senator HOGG**—Is this something that is at the higher levels within Defence?

**Dr Hawke**—It is something that CDF and I initiated.

**Senator HOGG**—I understand. That is why I asked.

**Dr Hawke**—It goes throughout the whole of the organisation. Anybody in the organisation can raise any issue through this forum.

**Senator HOGG**—How many representations would you say you have had at this stage?

**Cdre Lemon**—I cannot be precise but I think it is in the order of about 100. About 25 of those were things we could address very quickly. About 50 were things that were just unfortunate, because we have to comply with the law of the land. The rest were ones relating to the complicated administrative structure, and we are in the process of trying to reformulate the way our instructions are issued. The secretary, for some reason, was uncomfortable with the fact that he had to sign the instruction on the sighting of UFOs.

**Senator HOGG**—Why was he uncomfortable?

**Cdre Lemon**—Our instructions are currently framed so that they are circulated through the department and get the concurrence of just about everybody, and the secretary and CDF signed off the Defence Instructions (General), which means that it is very tedious to actually amend them. It is very difficult to get agreement, and instructions take a long time so people adopt other processes of getting out information, such as memorandums and informal advice. So we end up with a lot of duplication and unnecessary paperwork.

**Senator HOGG**—This is not a project, though, that is likely to get the backs up of some people who are now reform fatigued and reform weary within Defence. I noticed that in your statement you say ‘cynicism about and fatigue with change in leadership’. I am wondering where this fits. Do people see it as another negative or as another issue that they will view cynically in the longer term?

**Dr Hawke**—On the contrary, I think that the people who have responded to the invitation have seen it as a positive way of raising an issue and having something done about it. I might say that CDF and I are amenable to receiving emails from anybody in the organisation about any particular issue and that that is not abused. But from time to time people take advantage of it to raise issues personally with him and me and we endeavour to do something about it and get back to them in an appropriate time frame.

**Senator HOGG**—The last thing I want to raise out of your recent speech is the fourth point you raised about bedding down the Defence Materiel Organisation and the associated reform of our approach to acquisition and logistics. Some of the feedback I have is that there are some very unhappy people with that reorganisation as such. What are you doing to

alleviate the angst and will it in any way cause you to review the reform that you are undertaking in that area?

**Dr Hawke**—This is a major reform. As you will know, Mr Mick Roche has been appointed undersecretary of that part of the organisation, and we have Major General Peter Dunn, who is involved full time in the changes that are happening in this part of the organisation to assist individuals and to bring about the changes that we are after. Is there anything in particular that you would like addressed?

**Senator HOGG**—No, I am just interested in an update from you as the secretary.

**Dr Hawke**—Major General Dunn has a specific remit to look after the change program and the impact on individuals who are affected in any shape or form by that change program. Perhaps I could invite him to say one or two words about that.

**Major Gen. Dunn**—We have created a mobility management unit, for a start, which is managing all of the moves of people. That includes people who wish to be moved elsewhere within the DMO and the defence organisation. I have said previously to this committee that our priority is first to relocate people within the DMO and then move them elsewhere around the department. We are not on a job reduction exercise as such. We are doing everything we can to retain those skills. That mobility management unit is working extremely successfully. We have people from other parts of the defence organisation registering with it to assist them in getting jobs in parts of Defence that are not involved with the DMO. We have also instituted a program of training sessions, where people experiencing stress are able to undergo training and counselling that will help them handle that stress. We are currently also researching within the whole of the DMO the impact of the change across all of our people.

**Senator HOGG**—Could I just stop you there? How many people are undergoing some sort of stress counselling?

**Major Gen. Dunn**—At this stage, we are encouraging all supervisors and members of the DMO to take the opportunity. We have had well over 100 people go through this process, not because they themselves are necessarily encountering stress but because people in their work areas may well be. We need to teach people how to identify that. We also want to encourage people that are not prepared to self-identify to feel free to come forward and use the facilities that we have provided. At this stage, 40 per cent of the people who have been given notice that their jobs are going to move have indicated that they will move with those jobs. If that transpires in practice, it will be a record for a public sector move of this size. Whilst there are still a number of people who are very concerned—and we too are very concerned to make sure that we manage them very carefully—we have indications that we are going to move far more people than has previously been done.

**Senator HOGG**—So 40 per cent have agreed thus far?

**Major Gen. Dunn**—That is right.

**Senator HOGG**—What about the other 60 per cent? Are they unlikely to agree?

**Major Gen. Dunn**—At this stage, we have already started to place people in other parts of the organisation. It is quite likely that some of those will, as the date draws nearer—I am talking now about the end of the year—also decide to move. If they do not wish to move, then we will place them, and we are placing them now. We have some 60 people on our books for placement. We are placing them quite rapidly. The people from the DMO are having no difficulty at this stage in being placed in other jobs elsewhere in the department.

**Senator HOGG**—So those who choose not to move are going elsewhere within the department?

**Dr Hawke**—Within Defence.

**Major Gen. Dunn**—Firstly within the DMO and then elsewhere within the department.

**Senator HOGG**—Is Commodore Lemon still around? On those responses you had to red tape, you said you had 20 or 25 positive—

**Cdre Lemon**—We had about 100.

**Senator HOGG**—You had 100 responses, but 25 that you could act upon.

**Cdre Lemon**—We had 20 that we could fix very quickly.

**Senator HOGG**—Can you characterise those for me?

**Cdre Lemon**—Some of them were about people having to fill in two lots of medical forms that ended up in the same place and required the same information, but they were different—

**Senator HOGG**—Are you able to give us a chart of the types of issues?

**Dr Hawke**—I have no problem with that.

**Senator HOGG**—If you can give us that table when we come to the issue more precisely, further on down in the budget papers tomorrow, that would be very helpful indeed.

**Cdre Lemon**—Yes.

**Senator WEST**—Mr Hawke, in your previous speeches you have said you were going to get rid of underperforming executives in the defence organisation: how many have you got rid of?

**Dr Hawke**—That is a difficult question.

**Senator WEST**—How many have been identified?

**Dr Hawke**—I would prefer to answer that in terms of how many of the SES have left since I came there—

**Senator WEST**—Yes.

**Dr Hawke**—because a number of those will have gone of their own volition, not because of any heart-to-heart with me. I do not have that information with me, but it is a substantial number. My guess is that it is of the order of 25.

**Senator WEST**—Out of how many?

**Dr Hawke**—Out of about 110 or so. In saying that, can I set aside the Defence, Science and Technology Organisation because we have essentially had a complete generational change in DSTO, where, of the top 14 or 15 or so, 13 of those people are new.

**Senator WEST**—And they have been new several times since you were there.

**Dr Hawke**—No, most of the people who were in those jobs were there when I left Defence in 1993, and it is only now that those people are coming up to retirement age and the like. You will recall that the previous Chief Defence Scientist, Dr Brabin-Smith, moved sideways into the deputy secretary strategy job and then we had an internal promotion, with Dr Chessell becoming Chief Defence Scientist, so there was a knock-on effect from that. But quite a number of the others who had been around for a long time have moved on, and the people who were in place below them have mostly moved up.

**Senator WEST**—Has it been effective? Are there still some to go?

**Dr Hawke**—Again, let me answer it this way. I have in place with a number of our SES an agreed departure date for those people, and it does not always mean that they are

underperformers; it just means that their time is up, as does happen to anybody in the organisation. They are mutually agreed, so I am not forcing them out in any shape or form. It is something that I would like to achieve, and it is something that they are amenable to, and in a lot of cases it is something that they want.

**Senator WEST**—So you have a forward plan for redundancies, retirements and retrenchments?

**Dr Hawke**—We do, and we have not finished this, but we are setting up a succession planning regime on the civilian side, along the lines of the one that we already have in place on the military side of the house for star appointments.

**Senator WEST**—Thank you. So there has been 25 new people come in?

**Dr Hawke**—I will confirm that with you, but it would be around that figure, from my recollection.

**Senator WEST**—Is there a list of how many of the uniformed and civilian senior executives have left using voluntary redundancies or MIERs, the time remaining on their existing contract, the value of their payout, and the reasons for the approval?

**Dr Hawke**—I am not sure what you mean by contract.

**Senator HUTCHINS**—Can I just ask what an MIER is?

**Dr Hawke**—It is management initiated early retirement. It applies to the Australian Defence Force.

**Senator WEST**—The civilian side of the Defence Force.

**Dr Hawke**—But I would like to understand the issue of the contract.

**Senator WEST**—Some of the civilian personnel will be on contract, aren't they?

**Dr Hawke**—Very few. We may not have any at the moment on contract. We did have one, but he has elected not to go on. He was offered to go on with the contract and he elected not to take that up.

**Senator WEST**—I want to know whether there is a list, without any identification, of uniform and civilian senior executives who have left using VRs or MIER; if they were on contract the length of time that they had left on the contract—and this is the permanent SES as well; and the value of the VR payout and the reasons for its approval. Following on from that, are the 25 SES appointments that you have made all permanents and not on contract?

**Dr Hawke**—Yes, they are all permanent.

**Senator WEST**—How many of those people who have left have been given consultancies or short-term employment contracts since July 1999, and what is the value of those contracts? You have no idea?

**Dr Hawke**—No, I do not.

**Senator WEST**—The other thing with voluntary redundancy: when people are getting close to retirement is there a time frame when they cannot be offered a voluntary redundancy?

**Dr Hawke**—Not that I am aware of. I cannot speak for the ADF side, but on the civilian side not that I am aware of.

**Senator WEST**—What does a voluntary redundancy normally entail in terms of a payout?

**Dr Hawke**—It depends on whether the position they occupy is abolished or not abolished. There are different regimes that essentially revolve around the issue of voluntary redundancy.



**Senator WEST**—With all the restructuring that has gone on, you might like to add to that request the number of those who were given a VR or an MIER because of the abolition—

**Dr Hawke**—The abolition of their position?

**Senator WEST**—Yes, or the changes in focus of their position. What I am trying to get at is: how many of those who receive VRs were close to retirement age?

**Dr Hawke**—To the best of my knowledge, very few of them.

**Senator WEST**—Very few on the civilian side. What about on the military side?

**Dr Hawke**—I do not know. You are talking about age 65, I assume, in the APS, which has disappeared. As far as I am aware, the mandatory retirement age in the Public Service has now gone. I do not think that it applies any longer.

**Senator WEST**—It applies in the military, though, doesn't it?

**Dr Hawke**—It may, but I do not think it does on the civilian side.

**Senator WEST**—It applies to certain ranks and certain ages.

**Dr Hawke**—Yes, I think that is correct—and I will ask Major General Willis—but on the civilian side, to the best of my recollection, the age has been abolished.

**Senator WEST**—That is okay, Dr Hawke.

**Major Gen. Willis**—As far as the MIER goes, we do not have the details here of how close they were, but the regulations stipulate that if you have less than 12 months before compulsory retiring age an MIER is not appropriate and cannot be offered.

**Senator WEST**—What about a VR?

**Major Gen. Willis**—I am not aware of the VR side in the civilian side.

**Senator WEST**—What are the retirement ages associated with rank?

**Major Gen. Willis**—It is 55 now full stop.

**Senator WEST**—Is that for all ranks?

**Major Gen. Willis**—No, not for all ranks. For a major general it is 57, and for a lieutenant general—

**Lt Gen. Mueller**—It is a statutory appointment. I am over the compulsory retirement age.

**Senator WEST**—You are the exception to the rule?

**Lt Gen. Mueller**—I am one of a couple.

**Senator WEST**—So it is 57 for two stars.

**Dr Hawke**—And three stars and above are statutory appointments.

**Senator WEST**—That is the problem. It is 55 for?

**Major Gen. Willis**—The rest. There used to be statutory retirement ages for particular rank levels, but that has since gone. We are now changing at the other end and throughout the scale age limits to age guidelines as well.

**Senator WEST**—When did that age change?

**Major Gen. Willis**—I am not aware; I will find out.

**Senator WEST**—All the questions that you heard Dr Hawke take on notice I want for the uniform side as well as for the civilian side.

**Major Gen. Willis**—Certainly, Senator.

**Senator HOGG**—This question is best addressed by you, Dr Hawke. It is in respect of a number of questions that were taken on notice at the last hearing of this committee. We received answers that indicated that the question had resulted in Defence finding that serious flaws in data management or reporting procedures existed. I can quote the examples: question 39B, question 47 and of course the one on the senior executives that I asked—I think that was question 5, which I understand in the end got some assistance from PM&C. Are you concerned that this highlights a broader problem—that if this committee can highlight serious failings on several occasions, there are probably many more broader problems that need to be addressed?

**Dr Hawke**—I was not aware at all of the issue that you have raised.

**Senator HOGG**—You are not?

**Dr Hawke**—I shall make inquiries.

**Senator HOGG**—I have had a discussion with Mr Harper on the issue that I raised. I think in the instance of question 5, for example, it raised an issue in terms of the audit report that was signed off by the ANAO, which I know is not your responsibility. It led to some internal changes within your own processes. I am wondering—

**Dr Hawke**—I see the context that you are raising in respect of question 5—

**Senator HOGG**—Whilst I cannot recollect questions 39B and 47, I do know that they were other questions. I am drawing it to your attention as the secretary to get your view as to your concern that that sort of situation can exist.

**Dr Hawke**—It is obviously of concern to me. From time to time, I do ask questions as a result of regular weekly reporting that I get about questions on notice, parliamentary questions and the like—why we have not answered them, where they are at, who is responsible for answering them and in what time frame.

On question 5, my recollection is that this was an issue relating to something that you asked about earlier—a greater level of transparency and the like. In our annual report, we wanted to show the level of remuneration of our senior executives. What seemed to me to be a pretty simple thing to do turned out in practice to be not so simple.

**Senator HOGG**—I understand that.

**Dr Hawke**—That is what led to the issues that you are raising in relation to question 5.

**Senator HOGG**—More importantly, it is the internal structural problem that it raised, as much as anything else.

**Dr Hawke**—We are fixing that. I hope we have done better in terms of answering questions on notice than we have in the past. My understanding is that we have dealt with the structural issues raised by this and we are now okay on that front.

**Senator WEST**—The RAAF, in terms of their giving of exemptions—

**Dr Hawke**—No, this is question 5 I am talking about. If the other one is about the defence aid to the civil community, to the best of my knowledge we have not completed the work that we have been doing on that. We have done a whole series of things, in terms of reminding people of their accountability and the proper processes that have to be followed. I had understood that I was to report back to the minister by the end of this month on the action taken and on what further action might need to be taken in the light of our investigation of these matters.

**Senator WEST**—And the *Survivor* program, the RAAF—

**Dr Hawke**—It is the same issue, yes.

**Senator WEST**—On the whole of the—

**Dr Hawke**—On those issues as well. I have not yet reported back. I reported to the minister in an interim way about what had been done and I think I promised to go back to him at the end of this month with the results of our investigation.

**Senator HOGG**—Are you in charge of the travel budget for the defence executive group?

**Dr Hawke**—I am not sure that we have a travel budget for the executive group. By that, do you mean the defence committee, which is the service chiefs, the CDF, me and the deputy secretaries?

**Senator HOGG**—Yes.

**Dr Hawke**—There is no travel budget specifically put aside for that group.

**Senator HOGG**—For either domestic or international travel?

**Dr Hawke**—No.

**Senator HOGG**—If I were to look into the PBS, there is nowhere there that I would find an allocation for the travel of the most senior people in the Defence Force

**Dr Hawke**—No, that would be picked up within their individual programs. The under-secretary's travel would be funded out of his part of the budget in the same way as everybody else's. I think the budget for CDF and my budget are covered in the strategy budget. Is that correct?

**Mr Harper**—I am not sure, but there would not be an identified travel vote, to the best of my knowledge, even for the Secretary.

**Senator HOGG**—Even if we go down to the individual programs, it is not possible for us to identify the travel budgets, either domestic or internationally, for those senior personnel?

**Dr Hawke**—That is correct.

**Senator HOGG**—That makes the next question a bit difficult. When executives, such as yourself and others, travel overseas, what class do you travel?

**Dr Hawke**—CDF and I travel first class but, on each and every occasion we travel overseas, we put that to the minister for his prior approval.

**Senator HOGG**—And the others?

**Dr Hawke**—I think it varies throughout the department. It would be a mixture of business class and first class.

**Senator HOGG**—Is it possible to get a break up of that?

**Dr Hawke**—Of the people and the differences in their travelling class?

**Senator HOGG**—Yes. Is that possible?

**Dr Hawke**—Yes, that is no problem.

**Senator HOGG**—Are we able to be told if there are any travel plans for the minister, the junior minister or the parliamentary secretary for the rest of the year?

**Senator Ian Macdonald**—No, we would not be able to do that. They would not have been finalised now. It is also a matter for the Prime Minister.

**Senator WEST**—Are there some commemorative activities taking place, given that it is the 60<sup>th</sup> year for a number of things later on in the year?

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**Senator Ian Macdonald**—I will take it on notice for the minister's office whether he currently has any plans for himself or his subordinates to travel overseas.

**Senator WEST**—Thank you. Some of them are not meant in the negative form either.

**Senator Ian Macdonald**—No, of course not. I would not have thought any of them would be. You would be pleased to have our parliamentarians overseas in the next six months, I would have thought!

**Senator HOGG**—Do you think there might be an election? Just on my question, if you can extend that to any of those SES band people so that we have them all covered.

**Dr Hawke**—Yes.

**Senator HOGG**—Did Defence go to any special effort to publicise the budget outlays this year? Were there any glossy magazines or brochures?

**Senator WEST**—Or CD-ROMs?

**Dr Hawke**—There was a series of press releases by the minister, which you may have seen. I think we put something up on the web site to inform our own staff.

**Senator WEST**—I can tell you what you put up on your web site, and I will check that now.

**Dr Hawke**—We put something up there to inform our own people. My recollection is we produced some material in the budget lockup for the benefit of the people who were there. I am not sure whether anybody from public affairs organised it. When Jenny McKenry comes before you she will know the answer to that. Did we produce any glossies? The glossy is the cover, but they were all produced by the minister, from my recollection.

**Senator HOGG**—The Defence department itself?

**Dr Hawke**—We would have had input into some of that but, to the best of my knowledge, we did not. I will ask Jenny McKenry to correct that if I am wrong.

**Senator HOGG**—Yes. You might ask her to address that. We want to know if it was produced out of Defence funds?

**Dr Hawke**—I will ask also for that to be addressed.

**Senator HOGG**—We may well revisit that. Can you give me the travel costings for this year and last year?

**Mr Harper**—Do you mean how much has been spent?

**Senator HOGG**—Yes, that is what I want.

**Senator WEST**—You did some supporting imagery for the budget, for the journalists.

**Dr Hawke**—I am not sure what was on the CD-ROM.

**Senator WEST**—There is a pretty picture of a caribou. That is what I have here.

**Senator Ian Macdonald**—Any pretty pictures of the minister?

**Senator HOGG**—Could you give us the cost of that glossy stuff as well, if it is out of the Defence budget?

**Dr Hawke**—Yes.

**Senator WEST**—And the hornet.

**Senator HOGG**—I have no more questions. Thank you, Dr Hawke. We appreciate the time you have given us today.

**CHAIR**—Thank you, Dr Hawke. We will see you next year, if not before. We will move now to Defence outputs.

**Senator HOGG**—I understood that we were still considering the overview.

**CHAIR**—I am in your hands, Senator Hogg. You have the floor, if you think we are still considering the overview.

**Senator HOGG**—No, I just want to get it straight. Before we get to output 1, as I understand it, we are going to deal with pages 3 through to 22. I am not sure whether some of my questions in this area of overview might be deferred to other people later on, but I will ask them anyway. My first question relates to page 5 of the PBS under ‘Key risks and planned mitigation.’ There is reference to a major discontinuity in our strategic environment. It states:

As well, increased instability in the nearer region could require simultaneous deployments of the ADF, stretching our resources.

What is the increased instability that is being referred to in that context? Is that better left?

**Lt Gen. Mueller**—That would be for the Deputy Secretary Strategy, Dr Brabin-Smith.

**Senator HOGG**—It just seems to me that that is one of the issues underpinning—

**Senator WEST**—The PM&C budget documents that were leaked earlier in the year indicated that Defence was attempting to get a greater proportion of the revenue from the sales of Defence properties. From the budget documents before us, I take it that you did not win that argument. Could you outline to the committee exactly what you get from the sale of Defence assets, and what the formula is, or is it still one per cent of your budget?

**Mr Harper**—Page 20 of this year’s PBS refers to a program of asset sales totalling \$504 million in 2001-02, of which \$241 million in 2001-02 will be allocated to Defence.

**Senator WEST**—What is the formula that is used to work this out? Is it that, once you hit more than one per cent of your total budget, you have to send it back to consolidated revenue—to Finance?

**Mr Harper**—There had been a formula to that effect in the past. As you can see, \$241 million is somewhat larger than one per cent of Defence’s overall budget.

**Senator WEST**—What is the formula now?

**Mr Harper**—The \$241 million could perhaps best be described as not being formula driven. A judgment was made by the government that Defence would retain that much of the sales, which was undertaken.

**Senator WEST**—What about in the outyears?

**Mr Harper**—The outyears, which have a certain periodicity to them, are calculated on the basis of one per cent of appropriations, minus the expected capital use charge.

**Senator WEST**—So for the outyears the one per cent minus still applies, but for this financial year the one per cent minus does not apply?

**Mr Harper**—Correct.

**Senator WEST**—For one year you did have a win. I know the minister does not want to you to comment on that.

**Mr Harper**—I am not able to say whether we had a win, loss or draw or even confirm that there was a game.

**Senator WEST**—If it was more the one per cent minus, you would have to say you had a win? You would take the money?

**Senator Ian Macdonald**—That is not appropriate to ask officers, Senator. They are decisions of government.

**Senator HOGG**—Before we proceed too far, can you take me through that? There is \$504.2 million this year, of which property sales you will get \$241 million back. That means that the \$241 million will be retained by Defence. Is that correct?

**Mr Harper**—Yes.

**Senator HOGG**—And the \$263.2 million that is left over goes back to consolidated revenue—Finance?

**Mr Harper**—Yes.

**Senator HOGG**—If we follow that through, the asset sales over the outyears are \$345 million, \$244.9 million and \$288.3 million, with property being \$131.3 million, \$135 million and \$140 million. So, while the amount being retained in those outyears is substantially less in terms of the asset sales, the property content is a lot less. Is that a way to interpret that?

**Mr Harper**—I do not think it is an accurate way. The figures there are the total of property, plant and equipment.

**Senator HOGG**—It says there on page 20:

All property sales will be undertaken in accordance with Commonwealth property principles. From these sales \$241.0m in 2001-02, \$131.3m in 2002-03 ... will be allocated to Defence ...

So those sales are not just property; it is property, plant and equipment.

**Mr Harper**—The line of \$504 million, \$345 million, \$245 million and \$288 million—

**Senator HOGG**—Yes, that is property, plant and equipment.

**Senator WEST**—Do the \$241 million, \$131 million, \$135 million and \$140 million include property, plant and equipment or just property?

**Mr Harper**—They are sums of money which Defence would retain. I will stand corrected, but I think that the property sales would exceed those figures. It would be at least those figures.

**Senator WEST**—Can you give us a definite answer? You can take it on notice and we will come back to this later.

**Senator HOGG**—I would prefer you not to take it on notice. If you can show me somewhere in the PBS where you indicate what you believe you will raise from property sales this year that would be helpful.

**Mr Harper**—Looking at the cash flow statement at page 70, it does not break out property from plant and equipment but it indicates the totals that are expected from those proceeds.

**Senator Ian Macdonald**—Do you want to know what part of those first figures represent real estate property? Is that what you are trying to find out?

**Senator HOGG**—That is part of it, yes.

**Mr Bain**—That bottom figure of 241 in 2001-2002 includes 178 for property sales with the remaining figure related to equipment.

**Senator HOGG**—That is what you retain out of property sales?

**Mr Bain**—That is correct.

**Senator HOGG**—That is not the value of property sales themselves?

**Mr Bain**—That is right. That is what Defence will retain.

**Senator WEST**—What is the value of property sales out of the 504?

**Mr Bain**—Out of 504 that breaks down to 263 which will go to consolidated revenue, 178 and 63. That is the breakdown of 504.

**Senator HOGG**—But the value of the properties sold will exceed the \$178 million? Am I correct?

**Mr Bain**—Yes, of Defence properties sold in 2001-2002. That also includes some sale and lease back proposals.

**Senator HOGG**—Do you have a figure for the 2001-2002 property sales that you are expecting?

**Mr Bain**—Sorry, Senator, what are you after there?

**Senator HOGG**—The properties that you will sell in this budget year 2001-2001—

**Senator WEST**—\$504 million.

**Senator HOGG**—No, that is not it.

**Mr Harper**—It is \$504 million less \$63 million. It is \$263 million, which goes to consolidated revenue, plus \$178 million, which is retained by Defence.

**Senator WEST**—Of that \$504 million to be received by Defence and everybody else, what is that composed of? How much is property sales, equipment and plant?

**Mr Bain**—The \$504 million comprises \$263 million to go to consolidated revenue, which is all property, \$178 million which is also property and returns to Defence, and \$63 million which is plant and equipment.

**Senator HOGG**—Right, and the \$63 million and the \$178 million are retained by Defence. They go into the Defence budget.

**Mr Bain**—Correct.

**Senator HOGG**—Can I assume that the value of the property that is sold by Defence next year in the 2001-2002 year is worth \$178 million or is the part of the value of the property that is being sold being retained by Defence? In other words, could you sell three-quarters of a billion dollars worth of property but only get to retain \$178 million for the Defence budget?

**Mr Bain**—No, next year the total property sales would be around \$441 million of which we retain \$178 million.

**Senator HOGG**—So that is \$441 million and you retain \$178 million.

**Mr Bain**—Correct.

**Senator WEST**—That is the figure I was after.

**Senator HUTCHINS**—Where are some of these properties that are on sale or have been sold?

**Mr Bain**—The property sales that are retained by Defence are ongoing sales throughout the country—in Sydney, Melbourne and other locations—that have been progressed over the last couple of years.

**Senator HUTCHINS**—Is Bundock Street, Coogee, one of them?

**Mr Bain**—Correct. Ermington, Werrington, Penrith—they comprise that figure.

**Senator HUTCHINS**—What sort of equipment would be sold for \$63 million or whatever it is—rifles, trucks, bulldozers, pens or what?

**Mr Moore**—Basically, it is old, obsolete or surplus stock that we dispose of at public auction.

**Senator HUTCHINS**—But not military equipment?

**Mr Moore**—It could be.

**Senator HUTCHINS**—So you could go along and buy a cannon or something like that, could you, if you had the money?

**Mr Moore**—There are restrictions on the sale of warlike stores to the general public, particularly where we have obtained the original equipment from the United States. If we are trying to sell them to a third party we have to go through the US government approval process to enable us to do that.

**Senator HOGG**—To take you back to the \$441 million figure that you have just given us, can I assume that the difference between \$441 million and \$178 million that Defence is going to retain is returned to consolidated revenue or the department of finance?

**Mr Bain**—Correct.

**Senator HOGG**—It is a little bit confusing. I have tried to make a table of it for myself so I can get some feel for what is happening but, at the top of the page, for the figures of \$504 million, \$345 million, \$244 million, et cetera, it says 'asset sales included plant and equipment'. Of that \$504 million, are you saying to me that \$441 million is property sales?

**Mr Bain**—Yes.

**Senator HOGG**—Therefore, \$441 million is property sales, of which \$178 million will be retained by Defence and, of the rest of the sales, which is plant and equipment, \$63 million will be retained by Defence and \$263 million will be returned to consolidated revenue or the department of finance.

**Mr Bain**—Yes.

**Senator HOGG**—Do you figure that into the out years for 2002-03, 2003-04 and 2004-05 on the sale of defence properties?

**Mr Bain**—In that top row of figures which you mentioned—\$345 million, \$244 million and \$288 million—there are only a couple of properties. That is a very small component.

**Senator HOGG**—So, for example, in 2002-03, of the \$345 million, you are saying—

**Mr Bain**—Sorry, could I just go back on that? In that top figure, there is a very small component of properties that goes to the general budget. The bulk of the property figure within those amounts is returned to the defence budget—but Mr Harper might be able to give you the break-up, because there is equipment in there as well, which I am not privy to.

**Senator HOGG**—Maybe Mr Harper might be able to shed some light by telling me what the value of property sales will be in the 2002-03 year, given that it is \$441 million next year. Is there a figure for the 2002-03 year for property? How much of that will be retained by Defence?

**Mr Harper**—I do not have with me a figure for property but, if one goes to table 1.5 on page 19, the immediately preceding page, the fourth measure disclosed there effectively indicates the return to the budget in the outyears of \$213.7 million, \$109.9 million and \$147.8 million.

**Senator HOGG**—I am just finding it difficult to relate that. I worked those figures out as well, but what I am trying to do is get a feel for how much the government is expecting from



the properties sold in the years 2002-03, 2003-04 and 2004-05 and how much of that will be returned to Defence in that period time.

**Mr Moore**—From 2002-03 onwards, the figure for plant and equipment sales is \$78 million per annum; it is a standard figure in each of the forward estimates financial years.

**Senator HOGG**—Is that \$78 million that will be returned to Defence?

**Mr Moore**—Yes, from plant and equipment sales.

**Senator HOGG**—So where I have a figure this year for \$63 million—

**Mr Moore**—It goes up to \$78 million.

**Senator HOGG**—It goes up to \$78 million in the outyears.

**Mr Moore**—Correct.

**Senator HOGG**—And that means, I presume—

**Senator WEST**—Will that \$53 million next financial year be made up of what you get from property sales?

**Mr Moore**—If you look at the figure of \$345 million, that has got \$78 million worth of plant and equipment in it, and the rest of it is property.

**Senator HOGG**—Now you really have confused me.

**Mr Moore**—Look down at the \$131 million that Defence can retain, and let me take you back to the one per cent rule. The one per cent rule from 2002-03 applies not just to property, it also applies to plant and equipment. So, of total asset sales from 2002-03 onwards, Defence can only retain the first one per cent or about \$130 million, whether it is property or plant and equipment. Anything beyond that \$130 million is returned back to the general budget.

**Senator HOGG**—I accept that. I am just trying to work out—

**Mr Moore**—If you take the \$131 million off the \$345 million—

**Senator HOGG**—That says there is \$213 million that is to be—

**Mr Moore**—Returned to the budget, as shown in total 1.5 on the previous page.

**Senator HOGG**—Right, that will be returned to the budget. What has thrown me off is the way this has been worded, because it says from these sales, and it lists the sales. Those sales are really sales of—

**Mr Moore**—It is all assets.

**Senator HOGG**—It is all assets, and it reads as if it is property.

**Mr Moore**—I can understand that.

**Senator HOGG**—I am not trying to be pedantic, but that is the way it reads.

**Mr Moore**—I understand that.

**Senator WEST**—The one per cent minus, does that apply to property or to all sales?

**Mr Moore**—All asset sales.

**Senator HOGG**—So \$53.3 million is being returned from property sales to the Defence budget in 2002-03.

**Mr Moore**—That is the difference between \$131 million and the \$78 million.

**Senator HOGG**—That is correct, and if I got the difference between the \$78 million and the \$345 million, that tells me what the property sales are worth?

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**Mr Moore**—That is right, Senator.

**Senator HOGG**—Have you got a simplified chart of that anywhere?

**Senator WEST**—There has got to be an easier way of doing it than this.

**Senator HOGG**—Yes.

**Mr Moore**—We could create a table for you, Senator.

**Senator HOGG**—Yes. Because it is interesting then to get an idea of the value. Is there a slow up in property sales in the outyears—02, 03, 04 and 05?

**Mr Bain**—No, Senator. They are being disposed of as they become surplus and are prepared for the market.

**Senator HOGG**—I accept that, but I am trying to get a projected figure through the budget process. Without having the time now to sit here and do the calculations, I thought you might have been able to help me.

**Senator WEST**—You must have had some of this done to be able to do the budget figuring work or am I making an incorrect assumption?

**Mr Harper**—We do include in the cash flow statement, for example, to which I referred earlier, at page 70, figures but they are aggregated for property, plant and equipment, which indicates projected proceeds for each of the outyears. Towards the middle of that table, there is a line that shows proceeds for sales of property, plant and equipment and for the three outyears shows figures of \$307 million, \$231 million and \$252 million.

**Senator HOGG**—The point I was getting to—I did the sums in those couple of minutes—is that there is an expectation that in this year there will be \$441 worth of property sales by Defence, of which you will retain \$178 million. My calculations say that in the next year there will be \$267 million with a retained value of \$53.3 million, the year after \$166.9 million, with a retained value of \$57 million. In 2004-05, there is an expectation of \$210.3 million with a retained value of \$62.5 million. This is just the property part of that sale. Sooner or later there must be a run out in the number of properties that Defence will have at its disposal to sell. What I am looking for is the impact on the weakening of those sales in terms of the number of properties and the value of the properties and also the contribution that it makes back to Defence. Apart from this year, where it is \$178 million, it seems to be in the order of \$53 million to about \$62 million or \$63 million.

**Mr Bain**—Let me clarify: the \$178 million for next year—2001-2002—includes \$55 million in relation to properties which will become surplus to Defence requirements and we have transferred, as part of the Federation Fund initiative, five properties in Sydney, the Torrens Parade ground in Adelaide and the Portsea property in Victoria. That is \$55 million of the \$178.

**Senator HOGG**—So you are saying, if we want to get a truer picture of what is happening in trying to compare next year with the outyears, it is better to characterise that figure as being \$133 million.

**Mr Bain**—No, \$123 million.

**Senator HOGG**—Sorry, my mistake. So that other \$55 million is extraordinary in the sense that it is those others.

**Mr Bain**—It is a one-off.

**Senator HOGG**—I think I have got that. Do you produce a table like that and, if you do not, could I recommend you do?

**Senator WEST**—It will save time here.

**Senator HOGG**—Yes, and it gives people an understanding and an expectation because property sales are an important aspect in terms of return to Defence budget, firstly, and, secondly, to the overall budget, because from the overall budget there is a substantial contribution in terms of the sale of Defence properties.

**Senator WEST**—On page 20, under the heading ‘Defence asset sales’, there is measure titled ‘Supplementation for commercial rents’. How much money does that involve in the coming financial year?

**Mr Harper**—If you look at page 19, table 1.5 again, you will see the figure of \$16 million.

**Senator WEST**—That is for the next five years. How much is it for this year?

**Mr Harper**—It is \$16 million for 2001-02.

**Senator WEST**—Yes, but what is it for 2000-01?

**Mr Moore**—These properties are being sold and leased back, and we do not expect that to occur until 2001-02. There is no commercial rent associated with these properties this year.

**Senator WEST**—You think that supplementation will cover the cost.

**Senator HUTCHINS**—Why would you sell something and then lease it back?

**Mr Bain**—It accords with the Commonwealth’s property principles. The government has decided that unless there are exceptional circumstances it will not own property. The properties that we are concerned with include an office block—Campbell Park offices—here in Canberra. From a whole of government perspective, that is the decision that the government has made.

**Senator HUTCHINS**—Does that consist of that \$16 million that Senator West asked about?

**Mr Bain**—The sale and lease back of the Campbell Park offices are included within that \$16 million.

**Senator HUTCHINS**—Would we be able to get a break-up of the properties that we have sold and will then lease back—how much it will cost to lease back properties that we used to own?

**Mr Bain**—I can tell you the properties that it includes without the individual break-up, because we need to work out the sale process, the term and what have you. The three properties involved in the sale and lease back, as I have said, are Campbell Park offices and the Australian Defence College at Weston Creek, and the sale and lease back for a short period of what we term the REVY Building—the Royal Edward Victualling Yard Building—in Pyrmont in Sydney. There are two buildings there. We will sell both of them, but lease back one for a short period.

**Senator HUTCHINS**—Those three properties would essentially be that \$16 million?

**Mr Bain**—That is correct.

**Senator WEST**—What is the time frame in which a business case was assessed to established whether Defence should or should not sell and lease back a property? Was it a five- or 10-year time frame, and why was that picked?

**Mr Bain**—It depends on the term that we require them for, of course. Weston Creek and Campbell Park will be longer-term leases. We have a requirement to remain there.

**Senator WEST**—Is there a time frame in which a business case is assessed? Is a time frame used?

**Mr Bain**—No. In this particular instance, the decision was made against the property principles, and the decision was taken to proceed to sale and lease back.

**Senator WEST**—No time frame is used when working out these assessments?

**Mr Bain**—Not in this particular case, no.

**Senator WEST**—Is there planned to be when you are establishing future business cases? What will be the norm?

**Mr Bain**—In terms of time, it differs. In Sydney and Melbourne we took a 10-year lease with two five-year options. In relation to the current proposals, it would probably be a bit longer-term than that.

**Senator HUTCHINS**—How much were those three properties sold for?

**Mr Bain**—Sydney was sold for \$77 million. The Melbourne property has been sold and will settle shortly. I cannot tell you the figure but that will come out soon. It is to settle before the end of the financial year. We also sold the hydrographic office in Wollongong for \$7.3 million.

**Senator HOGG**—How long before the Melbourne property settles?

**Mr Bain**—I think it is the middle of June. The sale is being managed by the Department of Finance and Administration.

**Senator HOGG**—Are all of the asset sales returnable to Defence?

**Mr Bain**—No, the revenue from those sales returns to the budget generally.

**Senator HOGG**—In terms of the questions that we have been asking about the sale of properties, for the year 2001-02, do you have a list of the properties that are for sale, and a list of properties that you anticipate will be used to raise the \$441 million? I am not asking for the price of each property. I am asking whether you have a list of properties.

**Mr Bain**—Yes, I can provide that list.

**Senator HOGG**—When you talk about the asset sales, it includes plant and equipment, do you have a table of the major plant and equipment that you hope to sell to raise what seems to be a substantial amount of money?

**Mr Moore**—Ross Bain and Defence Estate do not look after the plant and equipment sales.

**Senator HOGG**—I understand that.

**Mr Moore**—We will have to take that on notice and provide that.

**Senator HOGG**—Is that something you can give to me later today?

**Mr Moore**—I will have to check. I will try and do it within the time frame.

**Senator HOGG**—If you can give it to me later today and, Mr Bain, if you can do the same, or now, I would appreciate that.

**Senator WEST**—In terms of the time frames, was there a cost benefit time frame done to prove that it was a good idea to sell and lease back rather than just keep the building?

**Mr Bain**—Under the Commonwealth property principles, the assessment is made on the basis of the hurdle rate which is 14 or 15 per cent.

**Senator WEST**—What rate?

**Mr Bain**—The hurdle rate, also referred to as the social opportunity cost. If that rate of 14 or 15 per cent applies for the periods that we are talking about then, from a whole of government perspective, the decision is to sell the property.

**Senator WEST**—Thank you.

**Senator HOGG**—Can you direct me to where the asset sales, the plant and equipment sales we have just referred to, have a corresponding entry in the financial statements?

**Mr Harper**—Page 70 shows a budgeted statement of cash flows.

**Senator HOGG**—That is the \$1.022 billion?

**Mr Harper**—Correct.

**Senator HOGG**—Are the figures you have given the committee this afternoon cash figures?

**Mr Harper**—Yes.

**Senator HOGG**—Cash figures in the accrued budget, I presume? They have to be cash; don't they?

**Mr Harper**—The accrual budget presentation includes a statement of cash flows. The figures in that are cash figures.

**Senator HOGG**—The \$1.022 billion therefore is made up of what?

**Mr Harper**—The \$504 million we have been discussing for the last little while and \$518 million which arises from decisions relating to earlier years.

**Senator HOGG**—So there is \$518 million coming in from this financial year and the previous financial year; is that what you are saying?

**Mr Harper**—That is correct. If you were to look at the PAES figure for the far left column, which is currently showing \$267,900,000, the corresponding figure there in the PAES was of the order of \$800 million. That explains in round numbers the \$518 million that is being brought forward and added to the new \$504 million.

**Senator HOGG**—So that \$518 million covers exactly the same in nature as the \$504 million—in other words, property, plant and equipment. Do you have a break-up of the \$518 million in terms of property, plant and equipment?

**Mr Bain**—I can break up the property component. I understand that Mr Harper might confirm it. Of the \$518 million, \$150 million is related to IT sale and lease-back.

**Mr Harper**—Yes.

**Senator HOGG**—IT sale and lease-back?

**Mr Bain**—Yes. So the balancing figure is related to properties.

**Senator HOGG**—So it is \$368 million.

**Mr Bain**—Yes, I get that too.

**Senator HOGG**—It is \$368 million for property.

**Mr Bain**—That is principally Russell Offices, which has been deferred out of the current financial year, and a number of properties related to the Defence Integrated Distribution System (DIDS) project which is still under consideration by government.

**Senator HOGG**—Has Russell sold?

**Mr Bain**—No. Russell has been deferred.

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**Senator HOGG**—Deferred?

**Mr Bain**—Until 2001-02.

**Senator HOGG**—It has been deferred to 2001-02?

**Mr Bain**—Yes.

**Senator HOGG**—Is there any tender process going on for the sale of that property currently?

**Mr Bain**—No. In Defence we have to do a little more work on some long-term accommodation issues for specific elements and report back to government.

**Senator HOGG**—You said that the other aspect involves a number of DIDS properties.

**Mr Bain**—Yes. These are DIDS properties and they are under the sale and lease-back arrangements.

**Senator HOGG**—If for some reason that did not go ahead, there would be a \$368 million hole in the budget, wouldn't there? That is correct, isn't it? If you did not sell Russell for some reason and you did not proceed with DIDS—

**Senator Ian Macdonald**—You are getting into the hypotheticals there which really the estimates committee is not competent to discuss. That is the plan. If it does not happen, the government will make some other arrangements.

**Senator HOGG**—Minister, that is a fair enough comment. I am just asking: if they did not proceed for some reason, that is \$368 million worth of asset sales to the budget.

**Senator Ian Macdonald**—What I am saying is that you answer your own question there. It is not appropriate to ask the officers hypothetically what might happen if something else does not happen.

**Senator HOGG**—I will ask you. If that does not proceed, it leaves a \$368 million hole in that part of the budget.

**Senator Ian Macdonald**—My answer to you would be that I would not speculate on hypotheticals. That is the plan. If for reasons beyond our control it does not occur, the government will make other arrangements at the time. At this stage it is just talking about hypotheticals.

#### **Proceedings suspended from 3.34 p.m. to 3.53 p.m.**

**Senator HOGG**—I would like to refer to the section in the PBS headed, 'Implementing the white paper.' While we have discussed the white paper a bit with the CDF and the secretary today, I am interested in the fourth dot point on page 11 which refers to delivering efficiency savings of at least \$50 million in 2001-02. What efficiency savings have you identified and how will they be achieved in 2001-02?

**Mr Harper**—Page 97 of the PBS contains some elaboration of the efficiencies that are envisaged. We are expected to deliver at least \$50 million worth of efficiency savings in 2001-02 and you will see a list on page 97 which amounts to almost \$50 million.

**Senator HOGG**—I did not realise that was the same thing. I saw it under the heading, 'Rip up the red tape' campaign, and I thought this might have had something to do with that campaign.

**Cdre Lemon**—'Rip up the red tape' is one element—

**Senator HOGG**—Is it part of that \$50 million?

**Senator HOGG**—It is part of that \$50 million?

**Cdre Lemon**—‘Rip up red tape’ does not actually have a savings target. We are trying to create a culture where improvement is not necessarily associated with savings. It includes all forms of improvement. But we do have a specific charter this year to deliver \$50 million worth of additional savings.

**Senator HOGG**—All right. Do you want me to pursue those now or leave it until we get to the improvement initiatives later on? It makes no difference to me.

**Mr Harper**—It is the committee’s preference, but we would be happy to take it now.

**Senator HOGG**—You are saying that those are the savings. How do you get more cost-effective employment of professional service providers, to save \$12.7 million? Is that just a wish on the part of the department, and putting a figure next to it, or is there some action plan that you can actually show us that you will put into operation to achieve that \$12.7 million?

**Cdre Lemon**—The specific action involved in that was the guidance in the budget when the budget was prepared. It is not an ideal way of achieving efficiencies because it is basically cutting an input, but until such time as we can actually have a better arrangement we can only cut the amount of money that we give people to actually use professional service providers.

**Senator HOGG**—These professional service providers are whom? What do they provide a service for?

**Cdre Lemon**—Generally they are to cover short-term skill shortages or to provide specialist professional advice for which we do not have internal expertise.

**Senator HOGG**—And are these in non-military areas or military areas or—?

**Cdre Lemon**—Principally they are non-military. They are used considerably in the DMO, the Defence Materiel Organisation. We are using them in private financing and other areas. They are used throughout the department.

**Senator HUTCHINS**—So what sort of people are they again, Commodore? Are they engineers, accountants, lawyers, gardeners or landscapers?

**Cdre Lemon**—They could be any of those—wherever we have short-term skill shortages. It would not be landscape gardeners, but certainly if we are engaged in private finance and we need financial advice skill that we do not have internally, or we are short of engineers, we may well use PSPs to overcome that shortage in the short term.

**Senator HOGG**—If you have got the shortage, I cannot understand why cutting those people out is actually going to be a saving to you. I am not against you trying to save \$50 million. What I want are the savings to be real, tangible savings that are of benefit to the department—that is where I am coming from. And if you say more cost-effective employment of professional services, that implies you are either going to employ fewer of the people, use their services less or pay them less. Whichever way you go, if you are going to pay them less you are inviting an inferior service to what they already provide; if you are going to employ fewer of them it means that somehow you are going to cut your own services. That is where my concern comes from, Commodore. So how do you address that for the committee?

**Cdre Lemon**—I agree that it is not an ideal way of doing it. We are just basically trying to make people focus on the need by cutting the amount of money so that they do not use the—

**Senator HOGG**—But \$12.7 million is a lot of money. It is a lot of savings. How many people would that relate to?

**Cdre Lemon**—I am not in a position to—

**Senator HOGG**—Could you find out for me so that if we come back to this we can re-ask the question later on?

**Mr Harper**—I would say, Senator, that it is a program that we would be looking to review and revise through the year. The way in which we eventually achieve our \$50 million may well end up being somewhat different from what was envisaged at the time of preparing the statement.

**Senator HOGG**—I always accept that, Mr Harper. But it does concern me when I see something like that. Listening to Commodore Lemon's explanation, I understand the constraints and the problems that you are confronted with. Accepting all of those, \$12.7 million is an awful lot of money in people who are obviously providers of key information to fill holes in the operation of the department. I will leave it as broadly as that, but it would be appreciated if you could give me some idea of the make-up of where the cuts are going to be made there.

**Senator HUTCHINS**—Say it is an anticipated \$100 million in the year 2002-03 and then the year after that it is \$200 million: would it be correct to assume that next year you expect the savings to be about \$25 million and then the year after that, \$50 million? Is that your point, or is it not fair to go down that path?

**Cdre Lemon**—No. The initiative on professional service providers is actually the last tranche of something that was started in—

**Senator HUTCHINS**—So there will be no further savings next year?

**Cdre Lemon**—It is not one of the initiatives that we have a look in. We have a raft of initiatives, some of which may produce money and some of which will not. We identify which ones can produce money—

**Senator HUTCHINS**—Do those four points all get mixed up next year and they will not be the same—say, \$100 million and then \$200 million?

**Cdre Lemon**—Yes.

**ACTING CHAIR**—Commodore, I am a bit concerned about those four areas that you have highlighted. You have chosen \$10 million for savings in travel; you have chosen \$10 million as a round figure for reduction and improved management of the defence commercial fleet. I would not imagine that in the outlying years you are going to be able to keep making reductions or savings in those areas, so you must have some new ones in mind.

**Cdre Lemon**—The travel one actually will be ongoing, because it is part of our contract with Qantas. They are expanding the range of services they provide for us. Qantas are expecting to make some other benefits from the working relationship. We have achieved ongoing savings in that. In relation to the commercial vehicle fleet, at the time we planned on making \$10 million. Subsequently that has been subject to *repechage* because of the way that our fleet is managed and it does not appear that there are those savings in the fleet. We are looking to—

**Senator HOGG**—So you are not going to get the \$10 million?

**Cdre Lemon**—We currently expect to get about \$6 million and we are looking for additional savings in the way fringe benefits tax is paid. We are also looking at trying to improve our OH&S record to cut down our compensation liability.

**ACTING CHAIR**—I am trying to work out how you arrived at that figure of exactly \$10 million. Did you say, 'We think we want to save \$50 million, so let us say that we have exactly \$10 million here, \$10 million there and \$13.6 million in fringe benefits. We will split



up the \$50 million so that we can get it.' It is a round figure that you must have set as a target. There must have been some reason why you believed that you could get \$10 million savings in travel and \$10 million savings in the commercial fleet. It does not mean that you are all going to walk this year, I am sure of that.

**Cdre Lemon**—I believe the \$10 million in the commercial fleet actually originated at a Wollongong conference, when people suggested how we could make savings. People looked at the number of commercial vehicles we had and made assessments that, if we reduced by a certain number, we could make savings, and \$10 million was the rounding of that figure. What was not appreciated at the Wollongong conference, and why the number has been recycled, is that in the way that our vehicle fleets are managed and sold, we have a pooling arrangement where we buy vehicles and sell vehicles and it is self-financed. The opportunity to make the full savings estimated was not there. That has subsequently been the subject of discussion. We expect that the savings this year will only be in the order of \$6 million. We do not think there is any scope to do that and that is why we have been looking for other savings to make up the \$50 million.

**ACTING CHAIR**—That includes having fewer vehicles, doesn't it?

**Cdre Lemon**—Yes, it does.

**ACTING CHAIR**—So why have you got those vehicles now? If you can see a scope for reduction, what are those vehicles being used for now?

**Cdre Lemon**—That is part of the argument for seeking efficiencies.

**ACTING CHAIR**—I understand that it is part of the argument, but I would just like to know what you are doing with those vehicles. If you can see that you can reduce the numbers now, why have you got them currently?

**Dr Williams**—Perhaps I could give a little bit of the background. Originally, there was a brainstorming exercise at one of the Wollongong conferences, at which there was an attempt to identify savings measures. One of the measures identified was to reduce the number of commercial vehicles. As a result of that, a figure was put that was basically a percentage figure to be used as a target. I think it was originally \$15 million, and in the document here it is adjusted to \$10 million. The difficulty was that, in looking at it more closely, a number of factors came into play. The first was that the original percentage was based on the gross amount—the expenditure on vehicles. But it is very much a net, in effect, because the vehicles are sold after a couple of years. In fact, the amount that was actually net was only a fraction of the total amount, so it was extremely difficult to achieve the \$10 million, or the \$15 million, so there was an agreement to drop it back.

The second effect was that, of the vehicles, a number are standard commercial vehicles such as wagons, et cetera, that are used for general business. We can look at ways of improving our business processes in order to reduce—by limiting the number, pooling them, et cetera. But a large part of our commercial vehicle program is also buses, light vehicles and four-wheel drives that are used for the reserves. They are more of a capability requirement, so the ability to reduce there was less. When we looked at the net effect and the number of vehicles that were business related, the number was much smaller, and hence the \$6 million was adjusted.

There has been a further complication, which is the impact of the resale price of vehicles. As a result of that, we also have to adjust the revenue we get. At the moment, we are likely to get the \$6 million, but it would be difficult to push to a higher figure. The result is that we have actually reduced the number of vehicles and we have gone a fair way towards achieving the target in numbers, but the dollars do not translate, because of the economics of it.

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**ACTING CHAIR**—Thank you. Getting back to the travel—through the arrangements with Qantas, what are you going to do for the \$10 million saving? Are you going to fly less or have cheaper fares? Tell me exactly how you intend to save \$10 million in travel.

**Cdre Lemon**—The savings are being negotiated with Qantas—

**ACTING CHAIR**—That is what you said before.

**Cdre Lemon**—I do not have the details. I coordinate the savings, but I did not do the negotiations, and the information I have is that because they are taking on a greater number of functions—

**ACTING CHAIR**—What do you mean by ‘a greater number of functions’?

**Cdre Lemon**—They are now taking on more than airline bookings; they do our accommodation bookings and get accommodation discounts for us and do that sort of thing, so they are providing a full travel service.

**ACTING CHAIR**—There would need to be an awful lot of discounts to save \$10 million.

**Senator Ian Macdonald**—You would know, Senator, coming from South Australia—as I do, coming from Queensland—that there are very few flights with more than one class these days, which will cut down all our travel costs.

**ACTING CHAIR**—True. I understand that.

**Senator HOGG**—I accept all that, but I am concerned—\$50 million is not an insignificant amount. Whilst, in terms of the overall defence budget, one might say that it does not rate very highly, it is nonetheless not an insignificant amount. Regarding the savings in travel, I would like to see something that gives a better explanation as to why those savings are being made. The other issue is the fringe benefits tax liability reduction. That is earmarked for \$13.6 million. How is that going to be achieved?

**Cdre Lemon**—In part of that there comes a clarification of the end of service removals. We used to pay fringe benefits tax on end of service removals. It would appear that we are not really liable for that, so that is discovery of an error.

**Senator HOGG**—Is that money that you are going to recover from the ATO? Are they going to give it back?

**Cdre Lemon**—We have not claimed it.

**Senator HOGG**—Why haven’t you claimed it, Mr Harper?

**Mr Harper**—If we believe that we have overpaid our tax we either have claimed it back or we will.

**Senator HOGG**—How much have you overpaid, do you believe?

**Cdre Lemon**—Between the end of service removals policy and the repeal of the 50 per cent concession on remote housing—which is a change in the amount of fringe benefits tax we have to pay on remote housing—it adds up to \$13.7 million.

**Senator HOGG**—That is not a saving, really, in the sense other than it is a claimback from the ATO. Is that correct?

**Cdre Lemon**—It is in part a claimback. It is something we will not be paying that we had budgeted to spend.

**Senator HOGG**—Of the \$13.6 million, how much would be your anticipation of claimback from the ATO?

**Cdre Lemon**—We have in total, including past years, \$18 million.

**Senator HOGG**—That obviously exceeds the \$13.6 million. What is the likelihood of getting that out of the Australian Taxation Office—little or none, or are you a little more persuasive with the ATO than I could ever be?

**Cdre Lemon**—Our fringe benefits tax is subject to ongoing discussion with the ATO and we do have a section that works on it. My information is that they have agreed that we have overpaid.

**Senator HOGG**—They have agreed that you have overpaid. I commend you highly, Commodore, for your work with the Australian Taxation Office.

**ACTING CHAIR**—Perhaps you have not tried!

**Senator HOGG**—Are you reasonably confident that you will recover the substantial part of that \$18 million?

**Cdre Lemon**—Yes.

**Senator HUTCHINS**—Is that the \$13.6 million there? Does that include that \$18 million?

**Senator HOGG**—Eighteen is greater than 13.6.

**Cdre Lemon**—The 13.6 was based on our original clarification of the end of service and the repeal, but the total overpayment—which is in part overpayment and changes in the way we have done business—means that we have an additional \$18 million that we are looking for from prior year adjustments.

**Senator HOGG**—In addition to the \$13.6 million?

**Cdre Lemon**—Yes.

**Senator HOGG**—So you will end up with \$18 million, plus \$13.6 million.

**Cdre Lemon**—In an accrual sense. Some of it accrues for years prior.

**Senator HOGG**—I accept that some of that \$18 million would apply to the previous financial years. How much of that \$18 million applies to the previous financial years?

**Cdre Lemon**—I am unable to say.

**Mr Harper**—We would have to take that on notice. We do not have that answer with us.

**Senator HOGG**—Can you tell me how much of the \$18 million applies to previous years? The \$13.6 million is a realisable figure. Having realised it, you will not be able to realise that saving again.

**Cdre Lemon**—Except for the fringe benefits tax where we have budgeted for future year payments.

**Senator HOGG**—How much have you budgeted in the on-years for that tax which you can now reasonably claim as a saving?

**Cdre Lemon**—I am not sure.

**Senator HOGG**—The reason I am asking is that, if you look up the page there, you are saying there is an expectation of \$50 million in this year and \$100 million in 2002-03, going to \$200 million in the 2003-04 year. I am just wondering whether that increase in the \$100 million and the \$200 million comes about as a result of what you have been able to gain out of the fringe benefits savings.

**Cdre Lemon**—In the outyears, based on the plan, I have been trying to get \$50 million. I need a target in excess of \$50 million identified to achieve that, because not all of them will come off, but I still have to identify initiatives or develop initiatives for the outyears to get the

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\$100 million and \$200 million. The fringe benefits tax will flow through, obviously. Some adjustments, such as the PSPs, were a one-year adjustment, and next year we will have to find something to cover that. We are looking at a reduction in electricity usage. We have achieved success by contracting our electricity supply and looking at reducing our electricity usage overall to try and achieve savings. It is an ongoing pursuit of efficiency. We have lots of targets and we have to keep trying to find things that we can measure.

**Senator HOGG**—Without pursuing this at length, it is important because it is an item which is clearly identified in the budget—it has a page within the PBS devoted to it, so it is not unimportant. Is the figure of \$12.7 million in the case of the more cost-effective employment of professional service providers achievable, or will it end up being slightly or substantially less? I am unable to make that judgment.

**Cdre Lemon**—It is not the type of saving that I am keen on producing in these sorts of initiatives, because it is an input control, and our savings would be better off if we could measure them against something—

**Senator HOGG**—Realise them elsewhere?

**Cdre Lemon**—Realise them elsewhere, because, at the end of the day, when it comes to the guidance for people for PSPs, if they need those skills they will have to get the funds from somewhere else, so we will achieve the cash savings but we will not necessarily achieve them by that method. It is an old style of saving, and one which, in the future, when we have a better method of costing our outputs, we will not pursue.

**Senator HOGG**—The \$13.6 million—that is, the savings that you have identified—applies to the coming financial year, and there is an amount of \$18 million which relates to either the last financial year or other previous financial years.

**Cdre Lemon**—Yes.

**Senator HOGG**—Is that \$18 million shown anywhere in the budget? If not, why not?

**Cdre Lemon**—I am not sure. The \$18 million is something that has come about as we have been pursuing and investigating fringe benefits tax, and I am not sure that it is actually reflected as yet.

**Senator HOGG**—Mr Harper is thinking very strongly about that. Can I exhort you to think more about it? You might come back to me later with an answer as to whether or not it is. You can substantiate the \$10 million in travel, you say, because, whilst you did not negotiate the contract, there is \$10 million there, according to your evidence. The \$10 million reduction in the motor vehicle fleet looks as if it will be \$6 million, or of that order.

**Cdre Lemon**—Yes.

**Senator HOGG**—And you say that you are going to have to look to other areas to make savings to get the \$50 million. That is for the 2001-02 financial year. For the 2002-03 financial year, you have not identified any savings at this stage, except that that is the target that you have been set. Is that a fair comment?

**Cdre Lemon**—Yes.

**Senator HOGG**—And the same in the other outyear, 2003-04?

**Cdre Lemon**—Yes, Senator.

**Senator HOGG**—I look forward to seeing the realisation or otherwise of those savings, and it would be helpful if you could give us some idea of the professional services that will be affected. Thanks very much.

**Mr Harper**—I can now provide answers to questions which were asked earlier today. There was a question about the arrangements for air travel by senior people in defence. When travelling on official business within Australia, executive officers and their military equivalents are entitled to business class travel. When I say military equivalents I mean star-ranked military officers. Star-ranked officers and senior executives required to travel overseas for official purposes are entitled to travel business class. Three star and SES band 3 officers are entitled to first class overseas travel.

**Senator HOGG**—You were going to get the amount spent last year, and Mr Corcoran was also going to get some other figures which go with that answer.

**Mr Harper**—Also, Senator West asked a question that arose out of her conversation with Dr Hawke. She asked how many SES officers left the organisation during his period in Defence, and the answer is 27.

**Senator WEST**—What is the base exchange rate used to establish the no-win no-loss figure?

**Mr Harper**—The figures in the PBS were calculated on an exchange rate of \$US0.5452 to the Australian dollar. That is not the basis of the no-win no-loss figure. The no-win no-loss arrangements provide that: were the figure to rise or fall, Defence would be compensated for those moves either way.

**Senator WEST**—How long since the US dollar has been at that rate?

**Mr Harper**—I do not know.

**Senator WEST**—How much compensation or supplementation have you required?

**Mr Harper**—At page 14 of the PBS there is reference, at the first dot point, to \$146 million in 2001-02.

**Senator WEST**—Is that the amount you have had to be supplemented by on the no-win no-loss?

**Mr Harper**—From the previously existing parameters, yes.

**Senator WEST**—Are those parameters changing at all because of the low Australian dollar?

**Mr Harper**—The last one of which we were advised—and we are in discussions with Finance from time to time—was \$US0.5452. On an estimate of our exposure to a range of currencies, notably the US dollar, but also some European currencies, that is the best estimate we have come up with.

**Senator WEST**—What about the euro exchange rate? Do you deal in that? Presumably you have now moved to the euro rather than the European currencies, or are you still dealing in francs and deutschmarks?

**Mr Moore**—We do not have the other exchange rates here, but we can provide them for you. Apart from the US dollar, we mainly deal with UK sterling and the euro. Again, that is covered on the no-win, no-loss arrangement with government.

**Senator WEST**—When are you going to change the UK pound and—was it the lira you said?

**Mr Moore**—The euro.

**Senator WEST**—The euro. When are you going to go across to the euro completely? They will all be moving across at the beginning of next year.

**Mr Moore**—I read somewhere in the paper recently that it will be in about 200 days—whenever that is.

**Senator WEST**—Will you still continue to work in British pounds or will you also pay them in euros?

**Mr Moore**—My understanding is that we will continue to pay them in UK pounds.

**Senator WEST**—The summary states that you are being given back \$27 million for estimated savings that did not occur as a result of the new tax system. Is that correct? How much was originally deducted from the Defence budget in expectation of those savings? Was it about \$60 million that you lost?

**Mr Harper**—I think the figures were \$165 million per annum and \$138 million which it transpired to be. An original estimate of \$165 million was made and subtracted from the Defence budget. In practice, the figure was \$138 million.

**Senator WEST**—Where did the \$27 million come from? Were there certain areas in respect of which you failed to make those savings?

**Mr Moore**—These were wholesale sales tax savings which applied across a range of Defence groups. Defence was exempt from paying WST directly, but it was embedded in a lot of the components that we purchased through our contracts through the Defence Materiel Organisation and through the Corporate Support and Infrastructure Group. The original estimate was calculated in consultation with Finance using a modelling technique. We had another look at it and we believed that the model overstated the savings that we could actually achieve. We have convinced Finance of that and they have lowered what they were otherwise going to take off us by the \$27 million.

**Senator WEST**—Was \$138 million your figure or was it a figure you reached or arrived at after consultation with DOFA?

**Mr Moore**—I think that the \$138 million was our original figure. I was not personally involved in it at the time. However, we have done a post-implementation review which has confirmed that we should expect savings of the order of \$138 million and we have been able to convince the department of finance that that is the correct figure.

**Senator HOGG**—So do you now have a model that you have worked on in relation to that saving?

**Mr Moore**—Yes. It was not a Defence model; it was a model developed by the department of finance using a private company. It looked at the new tax system and our expected savings.

**Senator HOGG**—So the model did not have application to Defence?

**Mr Moore**—It largely did.

**Senator HOGG**—Again, that is not an unsubstantial amount of money that has now been returned to Defence. It is nearly one-fifth of what you originally—

**Senator WEST**—It is 20 per cent.

**Senator HOGG**—It is not quite a fifth. It is not an unsubstantial amount of money, though.

**Mr Moore**—No, it is not.

**Senator WEST**—It is 16 per cent.

**Senator HOGG**—That has actually been returned in the budget.

**Mr Moore**—That is right.

**Senator HOGG**—In what way has it come back into the budget? It is not an equity injection or something like that, is it? Is it just an adjustment somewhere in figures elsewhere?

**Mr Harper**—It is an adjustment to the price which the government is paying us for our outputs. It would be included in the line, for example, in table 1.1 on the page opposite.

**Senator HOGG**—The \$17.515 million?

**Mr Harper**—Correct, revenue from government for outputs.

**Senator HOGG**—How many such amounts get included in that line? Again, I am looking at the issue of tracking these things.

**Mr Harper**—I am not sure that I can sensibly answer the question of how many such amounts. The revenue from government for outputs line is a figure which, if all things fell to plan, would allow us to turn in an operating surplus equivalent to the capital use charge which we expect to pay at the end of the year. Therefore, changes to cost drivers would be reflected in the revenue that we receive as the price for the outputs which we deliver to the government.

**Senator HOGG**—On that \$27 million that you have just had the adjustment for—it is in that figure of \$17.515 million—are any further adjustments likely? It has not been going quite 12 months; do you expect any further adjustments that will be fair?

**Mr Moore**—No.

**Senator HOGG**—So Finance, in their normal mean and miserable way, have ruled the line off against you people coming back and having another shot?

**Mr Moore**—As I stated before, we have done a post-implementation review of a number of our major contracts which has confirmed the \$127 million. We have distributed that saving across all of our Defence groups and so far have had no negative feedback from any of the groups. That would indicate that that figure was correct. Obviously, over time—you are right—as we get into this new tax system a bit longer, that figure might well prove to be incorrect. But I have no evidence at this stage to suggest that that could be true.

**Senator HOGG**—I understand that you have no evidence to show that it is incorrect, my concern is that a line in the sand has now been ruled and it may prevent you, if, quite legitimately, you find there are more savings there that you were entitled to, from going back and achieving those savings. That is all I am raising.

**Mr Moore**—I appreciate your point. There is nothing in our negotiations with the Department of Finance and Administration that has drawn that line in the sand. I am not saying that they would automatically agree to any further reduction. It is not a first and final offer.

**Senator HOGG**—Will you be doing a specific audit on that aspect once the 12-month period has elapsed?

**Mr Moore**—In about six months time would be an appropriate time, when we have got a full years worth of financial figures available. Yes, we would go back to have another look at it in the context of next year's budget.

**Senator HOGG**—And they are not likely to ask for any of that \$27 million back if you happen to find it went the other way, I would hope?

**Mr Moore**—Quite possibly.

**Senator HOGG**—They have confirmed my opinion of them. On page 14, it says that adjustments have been made to:

allow Defence to make a one-time additional contribution (through a repayment of equity) of \$263 million to the 2001-02 budget from selected asset sales, including proceeds from the sales of Schofield's Airfield, Lady Gowrie House and Endeavour House?

What does that refer to?

**Mr Moore**—That refers to the property sales we discussed before the afternoon tea break with Mr Bain. You might recall there was \$263 million in property sales to go back to the general budget.

**Senator HOGG**—Why are they going back to the general budget? I see Mr Bain hovering in the background again—I did not think we were getting into Defence Estate so early. Why is that not going back into Defence, Mr Bain?

**Mr Moore**—That is probably more a question for me than Mr Bain. That was the government decision in the budget process.

**Senator HOGG**—Who would have originally paid for that? Would that have been paid for out of a Defence budget at some previous time?

**Mr Moore**—These particular properties?

**Senator HOGG**—Yes.

**Mr Moore**—Yes, Senator. Some of them like Schofield's Airfield go back to at least World War II.

**Senator HOGG**—Right. I accept that. The thing I find difficult is that at some stage Defence would have paid for a number of these things out of the then Defence budget. I do not know the exact case for these three places but I presume that has been the case. I just cannot understand why Defence does not recover the substantial proportion. I know it is a decision of government but it would seem logical to me that Defence, having outlaid the money, would recover the substantial proportion of the outlay.

**Senator Ian Macdonald**—This is getting a bit beyond the estimates process, and it is debating point, but Defence does not earn money. It gets funded by the public taxpayer and the taxpayer provides money to buy these properties. It is a normal thought of public administration that it goes back to the taxpayers. Some of it in this instance has been left with Defence. An analogy might be the Albury-Wodonga land, which I am more familiar with. There is a call from the Albury-Wodonga people to get more of the share of the sale of the proceeds of Commonwealth land down there into the Albury-Wodonga area. But, again, we point out that the money was provided by the Australian taxpayer, generally, and therefore the sales proceeds should come back, and it is the same with Defence.

**Senator HOGG**—I accept the argument you are putting, Minister, I understand that. I am just saying that in the case of some of these Defence properties, it would seem logical that, having come out of the Defence budget—which one would have thought was specifically allocated for Defence purposes and that part of that Defence purpose was to purchase these properties—a substantial part of the sale go to Defence. I am not looking at the cost of inflation and so on, I am just wondering why.

**Senator Ian Macdonald**—But that is the wrong way of looking at it. Say the Defence budget in the year that this was bought was going to be \$100, the government of the day might have made it \$150 so they could spend that \$50 on buying these houses or whatever they are that you are talking about. So it was an extra allocation from the taxpayer to Defence to buy those particular assets at that time. I mean it is equally as valid a public administration principle that that should go back to the taxpayer rather than to the department—although, in



this instance, the department has had some benefit from it. But, again, you and I could stand and argue.

**Senator HOGG**—I do not think the department have got any benefit this time around from this \$263 million. I think this has gone solely back into the department of finance. Is that correct?

**Senator Ian Macdonald**—But it comes back into the Department of Finance, which is the government, which is the taxpayer. If Defence needs money to buy new planes or anything, the money comes from the taxpayer. It is really a moot point. It all comes from the source in the end—it all comes from the taxpayer. If a government makes a decision that Defence is to be funded to a degree of x, then it will fund it to a degree of x, and it really matters little in this instance whether the money is coming from the taxpayer direct or from a refund to the taxpayer from assets previously purchased that have been sold and are going back to the taxpayer. So, as I say, it is an interesting discussion perhaps, but I do not know that it is taking the estimates process much further. The officers have indicated what is coming back and what is not. They are government decisions and, whilst different ones of us may not understand those at different times, they are there. I do not know that the officers can take it much further than that.

**Senator HOGG**—All right, we will leave it there and move on.

**Senator WEST**—Can I ask about Endeavour House. Is it the Endeavour House I think it is—in Randwick?

**Mr Bain**—The Endeavour Hostel.

**Senator WEST**—So that is part of the original Defence lands that includes Bundock Street?

**Mr Bain**—It adjoins Bundock Street, that is correct.

**Senator WEST**—It is going to be sold off. Do you have any idea what the developer is going to want to do with it, or what are you going to sell it off as?

**Mr Bain**—The Endeavour Hostel and Lady Gowrie House are part of a review by Defence into the living-in accommodation for single personnel, looking at where we should provide accommodation and where that accommodation might be provided in the marketplace. The outcome of that review will decide exactly what we do with Endeavour House, whether we just sell it or retain it and do it up. That is what we have to decide on.

**Senator WEST**—But whatever happens to it—that is further material for our DEO inquiry, I suspect. Thank you, it just confirms what I wanted to clarify.

**Senator HOGG**—The next question again relates to page 14 of the PBS. It states that the Defence budget will increase by \$507 million—I think that is correct—in 2001-02. But on the next page, page 15, it actually says that total Government funding for Defence in 2001-02 is expected to increase by \$442.6 million. Am I getting that right, or is there something that I am missing there?

**Mr Harper**—I think the clue is in the first phrase of the item on page 15 that says 'Removing the net effect of these items'. 'These items' refers to the capital use charge and repayment of equity referred to in the preceding sentence.

**Senator HOGG**—How does one know what the net effect of these are? Is there some formula, some method, by which you can identify them, because that is a difference of nearly \$64 million in round figures, isn't it? So where do I find the net effect being \$64 million?

**Mr Harper**—The white paper initiatives—\$507 million—is one of a number of adjustments that are enumerated, commencing at the bottom of page 14, so it is one of a number of adjustments. Perhaps I would be able to, after the next break, indicate how the \$442 million figure has been calculated.

**Senator HOGG**—I think I am looking more at the top of the page, where the second paragraph states:

To enable the implementation of the Defence Capability Plan ... the Defence budget will increase by \$507 million ...

**Mr Harper**—Yes, Senator.

**Senator HOGG**—Then on page 15, it states that:

... total Government funding for Defence ... is expected to increase by \$442.6 million ...

Those are the two figures I am referring to. How do you get that? I hear what you saying, but when I look at the other figures at the bottom of the page, and while I can understand that, I just cannot see how it works out.

**Mr Harper**—During a break, I could probably come up with an explanation to show how we get each of those figures. It is just a matter of arithmetic, but there are some big numbers there and we need to go to our statements. We would need to look at the effect of the capital use charge and equity in each of the 2000-01 and 2001-02 years and remove that element. After doing that, one comes up with a \$442.6 million difference in government funding.

**Senator HOGG**—Thank you. We will see that after a break; that is fine. I think you were trying to draw my attention to the bottom of page 14 and a number of variations that add up to that increase by \$204 million. Is that correct?

**Mr Harper**—Yes.

**Senator HOGG**—The third dot point from the bottom of page 14 states:

indexation to meet price growth and foreign exchange fluctuations ...

Does that relate in any way to the dot point earlier that Senator West was discussing with you in respect to the \$146 million in foreign exchange?

**Mr Harper**—Yes. It relates to it in that it includes \$146 million for foreign exchange.

**Senator HOGG**—So is it safe, therefore, to say that there is \$38 million for price growth for the next financial year?

**Mr Harper**—Yes.

**Senator HOGG**—That does not seem to be a lot to me. I am just trying to figure out what the \$38 million actually relates to in terms of price growth.

**Senator WEST**—Inflation?

**Mr Harper**—Yes. It reflects price inflation.

**Mr Moore**—Defence has moved to one price deflator called the non-farm GDP price deflator. Pre-white paper, we used to use more than one price deflator, but the government decided to put us on to the one deflator from the 2001-02 budget. That \$38 million reflects the deflator moving 0.3 per cent, from 1.1 per cent to 1.4 per cent.

**Senator HOGG**—For the year 2001-02?

**Mr Moore**—Yes. We already had a price deflator in our base of 1.1 per cent. As I understand it, this reflects the difference between 1.1 per cent and 1.4 per cent. It is the

marginal increase in the deflator which is why it is only \$38 million. The total price increase of course would be bigger than that if some of it had not already been in our base.

**Senator HOGG**—It just does not seem to me to be a very large amount, given the size of your budget, but if you can assure me that the figure is correct, that is fine. I will accept it.

**Mr Moore**—Yes.

**Senator HOGG**—Can we go through the dot points one by one? There is the \$507 million, the implementation of the white paper. If I add up all the dot points, it comes to \$204 million. Is that correct?

**Mr Harper**—Yes.

**Senator HOGG**—Would you take me through the dot points? The first is the \$507 million.

**Mr Harper**—The \$507 million is essentially an out-turned figure reflecting the \$500 million that was the first year's instalment of white paper funding.

**Senator HOGG**—What about the \$320 million? That is not the \$380 million I was discussing with the secretary, is it?

**Mr Harper**—No. It includes one of the things that we were discussing before, however, which was a bring forward of \$190 million in capital payments. The remaining \$130 million reflects the deferral of capital receipts for the IT sale and lease-back.

**Senator HOGG**—Which we have seen outlined elsewhere?

**Mr Harper**—Yes.

**Senator HOGG**—I understand that now. We have dealt with the next dot point.

**Mr Harper**—Yes.

**Senator HOGG**—I think we have dealt with the next dot point, as well.

**Mr Harper**—That was the supplementation measure.

**Senator HOGG**—As I understand it, that covers buildings in Campbell, Weston Creek and Pymont, in Sydney. Is that correct?

**Mr Harper**—Yes. I think there may have been two buildings at Pymont.

**Senator HOGG**—What is the correction of \$10 million to the previous forward estimate?

**Mr Harper**—That is a net figure reflecting the \$27 million up that we discussed earlier relating to wholesale sales tax.

**Senator HOGG**—I have not picked that up: are you saying that that reflects the \$27 million?

**Mr Harper**—Yes, which is the second dot point on page 14, only half way down the page.

**Senator HOGG**—Yes, I understand that.

**Mr Harper**—There is \$27 million up on account of that and \$17 million has been placed into 2000-01 for Operation Belisi. So that figure is net of plus \$27 million and minus \$17 million.

**Senator HOGG**—So the \$17 million is being spent this year on Operation Belisi, brought forward into this budget year, and \$27 million is the adjusted saving from the wholesale sales tax.

**Mr Harper**—Yes.

**Senator HOGG**—I understand that.

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**Mr Harper**—We have discussed the next one in passing, as well. The figure of \$45 million is the sum of \$10 million, which we had then contemplated for reserves being the amount which would be carried over, and \$35 million, which would be the amount carried over in respect of management information systems largely unrelated to reserves.

**Senator HOGG**—What about the last figure there?

**Mr Harper**—The government has had a regime where departments' agencies are required to pay a capital use charge at the end of the year, based on their closing net assets figure—the size of their balance sheet. In the past it has been at 12 per cent. Reflecting movements in the economy, it is 11 per cent from the budget year forward. On our large asset base, and after there has been some change to the asset base through the year, that comes out at a reduction of \$239 million in the capital use charge we are required to pay.

**Senator HOGG**—Where is that capital use charge reflected, in terms of the documentation we have?

**Mr Harper**—You would notice it at page 68, and also at page 70. Towards the bottom of both the statement of financial performance and the statement of cash flows, you will see a capital use charge figure.

**Senator HOGG**—I note that the capital use charge has actually gone down. I presume that is the change from—

**Mr Harper**—By \$239 million.

**Senator HOGG**—From \$5.010 million to \$4.771 million; is that correct?

**Mr Harper**—That is right. That difference is the \$239 million that we are talking about.

**Senator HOGG**—And that is brought about by the lowering of the rate from 12 to 11 per cent.

**Mr Harper**—It is actually the net of two effects. There is an increase in the asset base to which it is applied, which is relatively small. In fact, if you were to go to page 69, you would see a figure for net assets being somewhat larger than the previous estimate. The main effect is the reduction in the rate.

**Senator HOGG**—I refer to table 3.2 on page 69. Is that meant to be 2001-02?

**Mr Harper**—Certainly.

**Senator HOGG**—I was curious as to whether it was 2001-02 or—

**Mr Harper**—No.

**Senator HOGG**—All right. Whilst the net assets have gone up from the previous estimate, which was in the PAES, as I understand it—

**Mr Harper**—Yes, Senator.

**Senator HOGG**—the capital use charge has actually gone down.

**Mr Harper**—The rate of it has gone down. The overall effect is quite a large reduction in the capital use charge for which we expect to be liable.

**Senator HOGG**—All right.

**Mr Harper**—May I take this opportunity to explain the reserves issue which we discussed earlier in the day. It went around the penultimate of that series of points which we are discussing. At the time this document was prepared, we thought that \$10 million of the \$20 million which had been provided by the government for 2001 would be rolled over for reserves. It is likely, from the evidence that Colonel Stedman gave this morning, that there

will be a further underspend in 2001 and, at the end of the year, we will approach Finance—government—seeking rollover of that additional amount.

**Senator HOGG**—That is the end of this financial year?

**Mr Harper**—Correct.

**Senator HOGG**—What is that amount likely to be?

**Mr Harper**—Of the order of \$7.3 million, over and above the \$10 million that is implicit in the second point on page 15.

**Senator HOGG**—That \$10 million was guaranteed, wasn't it?

**Mr Harper**—Yes.

**Senator HOGG**—So what you are seeking now is the rollover of the additional \$7.3 million?

**Mr Harper**—Yes. The \$10 million was guaranteed on the basis that we thought there would be an underspend of \$10 million. Now that we will have an actual underspend of something more than \$10 million, we would be suggesting that the principle continue to apply. Defence is finding \$20 million each year to apply to reserves. These funds that have been rolled forward will contribute to that.

**Senator HOGG**—Whilst we are on page 15, the second line down in the table says 'Add own-source revenues', and there is an amount of \$324 million. I note that the previous out-estimate was \$318 million; yet the projected result for this year is \$1.99 billion. Can you explain why that has happened?

**Mr Harper**—Yes. The difference there is of the order of \$1.6 billion. As we move further down our journey to implementing fully the accrual framework, we are finding—in accounting terms—significant numbers of assets, which we expect this year could be of the order of \$1 billion worth. There is an additional \$600 million, which we estimate to be the effect of decreasing the value at which we capitalise assets. In the past, we have treated assets as expenses if they have been smaller than \$25,000. We have changed that threshold to \$10,000 to try to capture a larger number of our relatively cheaper assets, and we expect the effect of that to be the capture of about \$600 million worth of assets for accounting purposes.

**Senator HOGG**—Sorry to take you back, but for the first \$1 billion, you have said that they are assets that you have found.

**Mr Harper**—We have found them in an accounting sense. They are assets which have not been recorded on our accounting record.

**Senator HOGG**—So where were they, if they were not on your accounting record? Were they just in the ether?

**Mr Harper**—The assets existed in the real world, both before and after they were captured for the accounting record. So the assets were there. Our accounting record—our balance sheet that is reflected in here—had not included those assets.

**Senator HOGG**—Why not? It is an enormous amount of assets to have found all of a sudden.

**Mr Harper**—I agree. I have not been in Defence for all of the time that those assets have existed, but I imagine that the fact that we did not operate under an accruals framework meant that we did not have as much regard to our non-cash assets as we are increasingly trying to have under the accruals framework. Under a cash regime, all agencies would have paid rather less attention to their balance sheet than might have been considered desirable.

**Senator HOGG**—Can you give me some idea what sorts of assets they would have been?

**Mr Harper**—They might have been things like IT cabling, which is probably relatively easily missed on a physical stocktake. I do not have a list readily to hand.

**Senator HOGG**—Can you give me a list, which need not be comprehensive, but which is indicative of where that \$1 billion in assets was found?

**Mr Harper**—Yes.

**Senator HOGG**—How has that affected your budget, if at all?

**Mr Harper**—It would have had an impact on our capital use charge, and you will also see that our projected result for the year will be somewhat larger. Perhaps you could look at the far left column on page 68, 'Net operating result'. I indicated earlier that organisations, including Defence, typically budget to meet, more or less, the capital use charge. The figure which we show there is significantly more than the capital use charge for that reason, because we did not budget for those other revenues. It is \$1.6 billion worth of revenue which is recorded in the accounts, so it does inflate the operating result accordingly.

**Senator HOGG**—Where is that reflected in your assets?

**Mr Harper**—It would be depending on what species of asset were found. For example, it would not be under cash and investments but some of it could be under inventories.

**Senator HOGG**—I would hope not.

**Mr Harper**—Some of it could be under infrastructure plant and equipment, depending on what type of asset it was.

**Senator HOGG**—I presume your projected result for assets at the end of 2000-2001 of \$46.353 billion—

**Mr Harper**—Yes.

**Senator HOGG**—That is up by the figure that you have pointed out to us—is that right?

**Mr Harper**—Yes.

**Senator HOGG**—Up by 1.6?

**Mr Harper**—Yes. Senator, you asked me a question earlier about the \$442.6 million at the bottom of page 15—

**Senator HOGG**—Yes.

**Mr Harper**—If you bear with me I would be happy to have a go at helping the committee understand where that has come from. We are looking at total government funding and an increase over the previous estimate. The previous estimate is a column of figures that starts with \$16,661 million—I am on page 15—

**Senator HOGG**—Yes, \$16,661 million.

**Mr Harper**—That is revenue from government for outputs. To that one needs to be added a figure of \$660,633 and if you do that—

**Senator HOGG**—All right. What is that figure?

**Mr Harper**—\$17,322,353 million.

**Senator HOGG**—Where did you get the figure of \$660,633?

**Mr Harper**—The equity injection which is the—

**Senator HOGG**—Oh yes, I see, I am with you. Okay.

**Mr Harper**—The analogous figures for 2001-02 that we are now estimating—\$17,515,619—

**Senator HOGG**—Yes.

**Mr Harper**—and \$10,564 which sum to \$17,526,183.

**Senator HOGG**—You will tell me the difference there is?

**Mr Harper**—The difference between those two figures is \$204 million, which is the figure shown towards the bottom of page 14.

**Senator HOGG**—Yes.

**Mr Harper**—So we have got those two numbers. To remove the impact of the capital use charge and repayment of equity one can look to the capital use charge figures on page 68 and I can tell you they are \$5,010,521—

**Senator HOGG**—Yes.

**Mr Harper**—and \$4,771,747.

**Senator HOGG**—Yes.

**Mr Harper**—They are the figures in fact that are 239—and in fact that would have been a simpler way for me to explain. You will remember the capital use charge was 239 different?

**Senator HOGG**—Yes.

**Mr Harper**—So if you added that 239 to the 204 difference that was already there you would have come up with 443.

**Senator HOGG**—Thanks for that. That is a very good explanation.

**Senator WEST**—Can I pursue an issue that we pursued some time ago and see what has happened? Those of you who have been around for a while will recall that the department arranged a consultancy for the former minister, Mr Moore, to receive a variety of economic and financial advice and services which the department was unable to provide. Could you refresh the committee's minds on the details of that consultancy and what its value was, please?

**Mr Harper**—We may need to refresh our own memories, Senator.

**Mr Moore**—Is this the contract with Deutsche Bank?

**Senator WEST**—Yes.

**Mr Moore**—We do not have the details with us.

**CHAIR**—They can take that on notice.

**Senator WEST**—No, I do not want it on notice. How is that consultancy going? Is it still in place?

**Mr Moore**—I have no idea.

**CHAIR**—They have indicated that they need to refresh their memories, Senator.

**Mr Moore**—Can we refresh our memories and come back to you?

**Senator WEST**—Can you get back to us later on in the next 24 hours or so, please?

**Mr Moore**—Yes.

**Mr Harper**—Yes.

**Senator WEST**—At the end of the third quarter of this financial year, did Defence have any estimates indicating that they would have an underspend in this financial year, perhaps in the DMO budget?

**Mr Moore**—When you say, ‘the DMO budget,’ are you referring to the capital budget or the DMO’s discretionary, or both?

**Senator WEST**—At the estimates, I understood that there was going to be an underspend. Was that correct? It may not be in DMO—it may be somewhere else—but was there going to be an underspend?

**Mr Moore**—I think what you are referring to is that at the additional estimates hearing we projected that the department would underachieve its operating expenses this year.

**Senator WEST**—So there was no estimate at the end of March that you would have a \$1.9 billion underspend?

**Mr Moore**—The estimate would have had a number of components, including some of the ground covered by Mr Harper in terms of assets first found. In an accounting sense, rather than an underspend, it would have been an operating surplus for things like assets first found and lowering the asset recognition threshold. In addition to that, to the end of March, a number of our expense categories were underachieving, particularly suppliers expense, and particularly in terms of inventory consumption.

**Senator WEST**—What was the value of that?

**Mr Moore**—I would have to find that out and get back to you, Senator; I do not have that figure with me.

**Senator WEST**—We are looking at inventory consumption and we are looking at—

**Mr Moore**—It was mainly in suppliers expense, of which inventory consumption is one of the line items.

**Senator WEST**—Did DOFA or Treasury raise questions with you regarding this estimated underspend?

**Mr Moore**—We produce monthly financial reports to the Department of Finance and Administration, and under the budget flexibilities that are in place for Defence for this year we have authority to transfer any expected underachievement in the operating expense area into our capital budget.

**Senator WEST**—How much do you expect the underspend to be if you are doing monthly statistics and figures? In March, how much did you expect the underspend to be?

**Ms Thorpe**—In terms of the DMO, we understand that it will be essentially related to East Timor, which is our inventory usage and suppliers expense relating to East Timor. But otherwise we would now expect to come on budget with the remainder of our spend.

**Senator WEST**—But the East Timor component—supplies to East Timor—is still underspend?

**Ms Thorpe**—That is underspend.

**Senator WEST**—By how much?

**Ms Thorpe**—It is about \$50 million for the suppliers, and I think in the minor capital part there is about \$50 million as well, which is not in the operating; it is in the capital part. Otherwise, we would expect to reasonably come in on budget.



**Senator WEST**—So there is \$100 million there. Did DOFA or Treasury raise questions with you regarding any estimated underspend?

**Mr Moore**—We discuss this monthly with the Department of Finance and Administration. Since the March figures, as Ann Thorpe has indicated, the position has improved in terms of recovering some of that expected underachievement in our expense figures. It is something that we continue to monitor and, as I said, we have a strategy in place that would transfer any of that underachievement in operating expenses into the capital budget. Referring to my evidence before to Senator Hogg, where he raised the reduction of \$380 million last year in the capital budget, this is probably an example of it going back the other way and partly restoring that prior year's reduction.

**Senator WEST**—I get the feeling that you are telling me that there was an underspend—or whatever other phrase you want to use—in March, that DOFA or Treasury spoke to you about. How much money was that?

**Mr Moore**—As I said before, I would have to go back and find that figure out. I did not bring it with me.

**Senator WEST**—What does defence estimate is going to be the underspend in any area at the end of this financial year?

**Mr Moore**—We do not expect an underspend in terms of cash. We expect at this stage to be able to fully meet our cash limit. In the expense area it is largely in non-cash items, such as some of the inventory consumption in the DMO that Ms Thorpe has mentioned before. When you say 'underspend', there is a perception it could be cash, but it is not; it really is in the non-cash area.

**Senator HOGG**—You are under no pressure to correct that underspend?

**Mr Moore**—I think, presentationally, if we make a large operating surplus, we would have to explain the reasons for that. Partly it is a policy change on the asset recognition threshold that Mr Harper mentioned, where we reduced it from \$25,000 down to \$10,000. That comes through the operating statement as additional revenue. Clearly, we do not have the expenses this year to match that additional revenue, so that will generate an operating surplus. Again, the assets first found came through as additional revenue in the operating statement. The area that we were referring to in March covered them but there was also an underachievement in supplies expense as well, not related to assets first found or change in accounting policy with assets. That is the area of inventory consumption that Ms Thorpe has covered. The bottom line is that, in terms of cash, we expect to fully spend and that could include a rearrangement of cash between operating and the capital budget, but the operating surplus will be driven by non-cash, particularly additional revenue, but also an underachievement in some expenses.

**Senator WEST**—So you have relieved DOFA's concerns?

**Mr Moore**—We believe so.

**Senator WEST**—If you have not, I suppose they take the money from you.

**Mr Moore**—We will also look at our end of year results and our actuals and compare that with our budget estimates which are based on projected results. We intend to revisit this area in the additional estimates exercise.

**Senator WEST**—You had an underspend that was going to appear in March. What have you done to correct it? Have you moved some money around somewhere?

**Mr Moore**—As I said before, we moved some money between operating and the capital budget, particularly cash.

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**Senator WEST**—How did DOFA and Treasury react to that?

**Mr Moore**—That is within our global budget flexibilities that are available to us this year. We apprised them of the fact that we were doing that and they raised no objections.

**Senator WEST**—That will appear somewhere, will it?

**Lt Gen. Mueller**—It will appear as part of our annual report, with our actual results.

**Senator HOGG**—I presume you will have to notate it in some way to indicate what has happened—

**Mr Moore**—Yes.

**Senator HOGG**—so that it does not lead to confusion down the track.

**Mr Moore**—Correct, Senator.

**Senator WEST**—So we are not going to spend another hour with Senator Hogg trying to track down \$1.9 billion, or a figure thereabouts.

**Mr Moore**—That is right.

**Senator WEST**—Can I ask about discretionary grants?

**Senator HOGG**—Before we get to discretionary grants, which are on page 21, can I ask a question relating to page 19 of the PBS? Outlined in table 1.5 are what I understand to be the defence white paper expenditures: \$507 million, \$1,039.4 million, et cetera, in the outyears. It goes out to \$2,042 million. I did a small exercise with this table and I used some figures that are down the bottom. I do not know if this is relevant, but the estimated expenditure on new projects in 2000-01 is \$509.1 million, \$829 million in 2002-03 and \$1,810.6 million in 2003-04. Am I to assume, therefore, that if I take the top figure and look at the 2002-03 figure—\$1,039.4 million—and take away from it the new project money of \$829 million, I get an idea of, and a feel for, the contribution of existing projects? Is that a fair way to treat it? I did not try that for 2001-02 because the figure for existing projects is actually a negative figure. There is no out-figure for new projects in 2004-05, whereas there is a forward estimate for the defence white paper in that year. I will go through the 2002-03 example for you: \$1,039.4 million is the figure from the table. New projects are listed to be \$829 million. I can only assume that \$210.4 million is therefore new money for existing projects. Is that a correct way of looking at it? In the next year, it goes to \$284.2 million for existing projects, while the new projects get \$1,180.6 million. I am trying to find out where the existing projects start to peter out.

**Mr Moore**—I will start—and I might be able to finish—answering your question. The top line—the defence white paper line that you refer to in table 1.5—is a total figure for all white paper funding and it includes non-capital investment program funding as well as capital investment program funding.

**Senator HOGG**—I thought that might be the case.

**Mr Moore**—Secondly, where you are referring to estimated expenditure on new projects, what Defence did in this budget round was to take the first tranche of projects under the defence white paper to the government for approval. Even though the funding was agreed in the white paper, each year we will be taking projects as they are ready to go forward for project approval and getting government to agree to that. Those figures—

**Senator HOGG**—So that is why there is no out-figure for 2004-05?

**Mr Moore**—I think there should be, Senator. I think that we should be able to provide that.

**Senator HOGG**—You can give me a figure for 2004-05. They are the new projects. Can I therefore assume—this picks up on the conversation I was having with Dr Hawke earlier

today—that new and existing projects are covered in the out figures under the heading, ‘Defence white paper’ in table 1.5?

**Mr Moore**—They do not cover existing projects, just the additional projects. We had a number of projects already within our new investment program that are additional to what is in table 1.5. That is why you will see, for example, that in the first year the expenditure of \$509 million is slightly higher than in the white paper total of \$507 million. Not only did we go to government with the first tranche of white paper projects; we also obtained approval, as I understand it, for projects that were already in our baseline.

**Senator HOGG**—All right. Given that Defence white paper line there, are you able to isolate out for me the capital expenditure costs attributable to white paper initiatives?

**Mr Moore**—Compared to the operating cost?

**Senator HOGG**—Let us take 2002-03—the \$1,039,400.

**Mr Moore**—How much of that is capital?

**Senator HOGG**—Yes.

**Mr Moore**—I have not got that figure with me, but I can get it.

**Senator HOGG**—Can you get that for me for there and for the outyears?

**Mr Moore**—Certainly.

**Senator HOGG**—And are you able to tell me whether there is a budget figure for existing projects that goes out into the outyears. There is obviously a time when that fizzles out to zero.

**Ms Thorpe**—I do not have the figures with me, but we do have figures for estimates for the projects that are currently in contract, and we do go on the outyears as well. We have those figures available, but I do not have them with me.

**Senator HOGG**—If you can give me that, it would interest me—and if you could break that out of that figure there as well. Going to page 20, while there were some discussion earlier today about the white paper initiative of the extra expenditure on cadets, we really did not pursue that to any end. I see that there is an additional amount on page 20, where the enhancement of the Australian Defence Force cadets is outlined, of some \$6 million per annum. What is the \$6 million being spent on? Can we get some appreciation of that?

**Col. Stedman**—The \$6 million is intended to allow us to move forward with some of the initiatives identified in the *Cadets: the future* review undertaken last year. Essentially, the main initiatives are to establish the new command structure and command arrangements for the Australian Defence Force Cadets, involving the establishment of a Directorate of Defence Force Cadets within defence headquarters in Canberra; the provision of information technology—

**Senator HOGG**—Could I stop you there? Are you able to give us a costing on each of these items?

**Col. Stedman**—Only the same figures that were provided at the additional estimates hearings approximately five months ago. The figures have not changed since then.

**Senator HOGG**—All right. So none of this extra \$6 million, therefore, is actually heading down into the individual cadet units as such. It is more looking at the infrastructure and command structure?

**Col. Stedman**—No, that is not correct, Senator. I was about to say there are three initiatives. The first initiative is on the command and management arrangements. The second

initiative is the provision of information technology support for cadet units to ease the administrative burden on the officers of cadets and on the units. That certainly is intended to head down to unit level. The third specific initiative mentioned in the report titled *Cadets: The Future* is a pilot indigenous project. Those elements involved in the project will certainly be at cadet unit level.

**Senator HOGG**—How will the \$30 million all-up—that is the additional \$6 million and the existing \$24 million—enable the individual cadet units to be able to run and to operate more efficiently and more effectively? Do the units themselves have to undertake any fundraising? I am just trying to get a feel for the structure of their financing.

**Col. Stedman**—Certainly the arrangements for the individual cadet units will not change in a global sense. The Australian Defence Force Cadets are supported by Defence, with the \$24 million now increased from 1 July to \$30 million. Support is also provided by sponsor organisations and community groups. That support was estimated by the *Cadets: The Future* review at approximately \$9 million per annum. That certainly is still, and will continue to be, vital to those particular units. In terms of how those units will operate, the funds that are provided will in some measure assist the efficiency of the units, particularly through the information technology support, but they will continue to operate and raise funds as they have in the past.

**Senator HUTCHINS**—Can you tell us practically what that IT support means in terms of efficiency? Does that mean that you will know where the trousers are or the extra shirts or the caps? It is all right for you, Colonel, to sort of say that, but I cannot grasp what you say practically.

**Col. Stedman**—That is fine, Senator. As an example, prior to a cadet unit undertaking an activity, there is a requirement for them to put a detailed activity proposal through their respective chains of command for approval of the activity. Those are slightly different depending on whether they are Navy, Army or Air Force cadets. With the recent tragic death, for instance, of Cadet Sperling, we have tightened up those procedures to ensure that Defence is meeting its duty of care to the cadets who are involved in those activities. So, not only is there an activity proposal but a risk assessment is also required for activities that involve an element of risk. At present those are paper documents that are sent through the post to the appropriate organisation who has to vet them. If the information is inadequate it has to then request further information be provided through the same means. The intention with provision of IT is that we will be able to lodge those sorts of activity proposals electronically. It will speed up the process tremendously and will hopefully minimise the amount of time that the cadet unit itself has to take to fill out the proposal and generate paperwork.

**Senator HUTCHINS**—I gather that in the past though those units have not waited for permission to conduct these adventures or whatever. Is that what has occurred or do they wait until they have learned it is approved?

**Col. Stedman**—Senator, I could not sit here and guarantee that it has never occurred, but certainly in the current instructions there is a long lead time prior to an activity that a cadet unit is required to put in its activity proposal. If we can make that system much more efficient, we may well be able to reduce that lead time. We certainly should be able to ensure that we can advise a cadet unit much more quickly as to whether their activity is approved or not approved. That will certainly assist them in planning for that activity and in advising their cadets whether indeed the activity is going to be held.

**Senator HUTCHINS**—Who would make a decision about whether an activity is to be conducted?

**Col. Stedman**—It depends on the nature of the activity.

**Senator HUTCHINS**—Rather than who gives the approval, who makes the decision for the activity?

**Col. Stedman**—I am missing the fine point that you are making.

**Senator HUTCHINS**—Correct me if I am wrong, but I gather at some point that someone makes a decision that they are going to do this, that and the other thing, and then they have to write off to whoever to get approval for that to occur. Who makes that decision for someone to write off to get approval?

**Col. Stedman**—If I understand the question correctly I will answer it in two parts. In terms of who decides what activities are going to be held, that is up to the cadet unit itself to come up with a proposal or a program of its activities. In terms of who then decides whether that has to be submitted for approval or exactly what the requirements are for approval of those sorts of activities, those are laid down, certainly for the Army cadets through the *Army policy manual for cadet activities*, and there are similar policies for Air Force and Navy cadets.

**Senator HOGG**—I just want to get a better feeling now for something I have not paid enough attention to previously—the funding. How many cadet units are there?

**Col. Stedman**—There are approximately 430 cadet units.

**Senator HOGG**—Do they each put in a bid for so much out of the budget?

**Col. Stedman**—No, not individually. Defence has undertaken that they will fund certain elements of the program. That is, Defence will provide uniforms and training packages and will run an annual camp for them. Certain other costs may or may not be available depending on the sponsor unit and their ability to provide that support. Cadet units put in bids for support for particular activities, through their sponsor arrangements but they do not put in a bid each year for x dollars to fund all of their activities.

**Senator HOGG**—I thought that was what you were trying to convey with the advantage of the IT. I thought there must have been some bidding sort of process.

**Col. Stedman**—Not so much on financial terms. I was alluding more to—

**Senator HOGG**—Special projects.

**Col. Stedman**—the paperwork associated with approvals for activities and assisting with the efficiency of that process.

**Senator HOGG**—So in one sense many of those units would be dependent on their ability to raise their own funds through local activities—a cake stall or something like that.

**Col. Stedman**—It depends on the nature of the activity. We will fund the annual camps and courses that are run by Defence for the cadets, but for other cadet activities, such as weekend bivouacs or some other form of activity in addition to the annual camp, then they would need to look at the resources required to run those activities. They may, on occasion, be able to get support from their sponsor units; they may, depending on the nature of the cadet unit, not have a significant resource cost. If it is a regional cadet unit located in a rural area, it may be perfectly feasible for the parents to take the cadets out for a weekend bivouac without any difficulty at all. But if it is a city based unit that has to travel some distance for a weekend activity it may be more problematic for them. And then they may, as you indicated, have to raise funds if they cannot get that support from their sponsor unit.

**Senator HOGG**—Are the cadet units co-located with any regular units or reserve units?

**Col. Stedman**—Some are and some are not. Essentially a cadet unit—

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**Senator HOGG**—What determines that? Is it whether you are in a city location versus a country location? Are you more likely to be located with a reserve unit or a regular unit?

**Col. Stedman**—The two main categories we have for cadet units are whether they are school based or community based. For those that are community based, if there is the possibility to co-locate them with a sponsor unit in a military facility, and that is more efficient and more resource effective for us to do so, then we would attempt to do that. But that is not always possible.

**Senator HOGG**—It is quite clear and distinct where those who are school based are based. Those in the community are sometimes co-located, and at other times they are on their own.

**Col. Stedman**—That is correct.

**Senator HOGG**—What difference to the cadet program will the establishment of the directorate and headquarters make? What significant difference will there be from the point of view of the cadet units? How will they see a change?

**Col. Stedman**—The establishment of the directorate and the appointment of a director-general was one of the core recommendations made by the *Cadets: the future* report of last year. The benefits of establishing the directorate related primarily to ensuring a closer link with the higher levels of Defence to maximise the support that Defence provides and to ensure that there is effective support provided from the Defence structure to the cadet units, and that will then flow down to the community and school based cadet units.

**Senator HOGG**—Will part of the role of the directorate, when it is established, be to look at different ways in which the cadets will operate and at different activities that they might undertake—going from, say, a strictly based military organisation to having a different complexion? Is that part of the role of the directorate?

**Col. Stedman**—The role of the director-general and of the directorate working for the director-general will be to ensure that we maximise the experience provided to youth through the Australian Defence Force Cadets. I would not wish to rule in or rule out any initiative in the future that we would consider would enhance that experience for the youth.

**Senator HOGG**—I presume the director-general will be a full-time person?

**Col. Stedman**—The director-general of cadets is Major General Low Choy, who is a reservist officer.

**Senator HOGG**—If he is a reservist officer, will he be full-time in the capacity of the director or will the position be part-time?

**Col. Stedman**—He will operate as a reservist officer in a part-time capacity, but he will always be the director-general of cadets whilst he is fulfilling that role. That is, he will be director-general seven days a week, but not necessarily operating on cadet business every day of the week because he is a reservist who has other obligations as well.

**Senator HOGG**—But I understand you said he was going to operate out of Russell. Is that correct?

**Col. Stedman**—The directorate will be located in Russell and his office will be in Russell. However, because Major General Low Choy in his other career is employed in Brisbane, he will also have an office in Brisbane.

**Senator HOGG**—So there will be not one but two offices?

**Col. Stedman**—Yes, as was the case when he was Assistant Chief of the Defence Force for Reserves, which was his previous posting.

**Senator HOGG**—I presume he will get all of the travel entitlements and so on that go with the office when he needs to come to Canberra.

**Col. Stedman**—He will have the standard travel entitlements for an officer of his rank.

**Senator WEST**—On page 21, discretionary grants are listed, one of which is the Army Military History Research Grants Scheme for \$50,000. Has that amount been at that level for some time? It has not increased?

**Major Gen. Willis**—It has been at \$50,000 since 1998-99.

**Senator WEST**—What are the eligibility criteria for that?

**Major Gen. Willis**—It has been established to provide research into the role Army has played into the development of the nation. It is administered by Army on advice from the Army Military History Projects Committee. Grants are awarded after approval by the deputy chief of Army is obtained, so he controls the allocation.

**Senator WEST**—And he approves the grants?

**Major Gen. Willis**—As I understand it, because they are discretionary grants, they are approved by government and he administers them on behalf of the government.

**Mr Moore**—The government strictly controls discretionary grants. In fact, back in 1997, the Prime Minister asked all ministers to review their discretionary grants program personally each year, and that does occur.

**Senator WEST**—Who has been receiving this particular grant? Presumably not too many organisations—we are only dealing with \$50,000 here.

**Major Gen. Willis**—There is a list, which is quite expansive, but we could go through it. It is on the public record; in fact, there is a web page for it under the DOFA web site. They range from very small amounts of, say, \$400 upward.

**Senator WEST**—You could tell us the name of the web site.

**Mr Moore**—It might be an intranet web site rather than an Internet web site; we are just checking that. The Department of Finance does maintain a central register of all grants. What we have here is for 2000-01, not for next year.

**Senator WEST**—I am after 2000-01.

**Mr Moore**—For example, under the Army grants scheme, 12 grants this year comprise the \$50,000. I think it would be worth checking with the Department of Finance before we release this register. We could just table this list.

**Senator WEST**—Has all that money been expended?

**Major Gen. Willis**—Last year \$50,015 was the total.

**Senator WEST**—When does it normally get allocated? When do applications open and close?

**Major Gen. Willis**—It would be ongoing, Senator. As far as the military history grants scheme is concerned, I am not sure of the answer to that question. There is a list here of the grant title, the recipient name, the suburb and the amount for the financial year, but it does not say what time the applications came in, et cetera.

**Senator WEST**—If you could find that information out for me, I would appreciate it.

**Senator HUTCHINS**—Just as a matter of interest, is that list broken up into electorates as well?

**Major Gen. Willis**—It could be one of two, because they are all in Canberra.

**Senator HUTCHINS**—That is the Army one, is it?

**Major Gen. Willis**—Yes. The other ones are all over the country.

**Senator WEST**—Yes. I have had lists before. I now want to move to the grant of \$75,000 to the Royal United Services Institute of Australia. What is that one all about?

**Mr Moore**—That relates to Defence helping to meet some of the running costs of the institute itself in recognition of the valuable contribution that the institute makes to the defence debate by running a series of seminars and so on. I understand the intention is for the institute to be self-funding by about 2003, when we would hope that this grant will be no longer required.

**Senator WEST**—How long has it been receiving a grant?

**Major Gen. Willis**—The records that I have show 1996-97 as being the first list, but I cannot say whether it had been going before that.

**Senator WEST**—How much has it been receiving since then?

**Major Gen. Willis**—It started off in 1996-97 receiving \$25,000. That figure went as high as \$87,000 in 1999-2000 and then went back to \$75,000 last year and this year.

**Senator WEST**—It is not an organisation that I have heard of. Where is it?

**Major Gen. Willis**—It is based out of Canberra, but there are state branches.

**Senator WEST**—What does it do?

**Major Gen. Willis**—It conducts seminars, it publishes a journal biannually and conducts and sponsors lectures on appropriate defence issues.

**Senator WEST**—Who runs this organisation?

**Major Gen. Willis**—A voluntary board runs it. There are voluntary staff that get assistance from us and they also collect annual subscriptions from members.

**Senator WEST**—Who is on the board?

**Major Gen. Willis**—I have not got a list of exactly who is on the board, but it is a combination of ex-serving personnel and I think there is a current serving member on the board, and I do not know who else.

**Senator WEST**—Can you please provide us with those details?

**Senator Ian Macdonald**—Would you ask who the board was before you gave them a grant? I would not have thought that you would.

**Senator WEST**—Before you gave the grant, wouldn't you want to know who they were?

**Senator Ian Macdonald**—Certainly not. You do not give grants to people because of who is on their board. You give grants on the quality of applications, taking into account whether it is for an appropriate purpose.

**Senator WEST**—Given that there is only \$1.375 million given in discretionary grants in this department and Defence Force, I want to pursue this matter. It is an organisation I have not heard of. I know of the other two schemes. I want to know who and what they are—and I do not mean that in any nasty or pejorative sense.

**Senator Ian Macdonald**—It is the quality of the grant that you should be questioning, not dependent upon—



**Senator WEST**—One way in which I will know about the quality of the grant is by knowing who is actually administering the grant when they get the money.

**Senator Ian Macdonald**—It goes back to my question to the officer. Do we ask who is on the board before we make a grant? Do we have that information? I would not think we would but, if we have, we can give it to you. I certainly would not suggest the officers go looking for it if they do not have it.

**Major Gen. Willis**—We do have it; I think it is a publicly acknowledged board.

**Senator Ian Macdonald**—So you do have it?

**Major Gen. Willis**—Yes. I do not think there is any problem with naming who is on it. I just do not have the names.

**Senator WEST**—That is fine.

**Senator Ian Macdonald**—Do they publish a journal?

**Major Gen. Willis**—Yes, they do.

**Senator Ian Macdonald**—Do we get a copy of that or is it on the Net?

**Major Gen. Willis**—It is ready available.

**Senator Ian Macdonald**—Can we give a copy of it to the committee?

**Major Gen. Willis**—Certainly. I could get one here by after dinner.

**Senator WEST**—Thank you. What is the criteria for this grant being given? How is it evaluated, its efficacy and value for money, et cetera?

**Major Gen. Willis**—Certainly they are the criteria on which it is based. As I mentioned earlier, it is based on articles, lectures and seminars on issues of national defence interest. They vary from time to time and various people give presentations at no cost. I have given a presentation to the RUSI at no cost. The CDF secretary briefs them; ministers brief them; I think opposition shadows brief them; and, if important overseas visitors who are passing through have the time and opportunity, they also brief them.

**Senator WEST**—I now turn to the big one, the Defence Family Support Funding Program, which I see is now up to \$1.25 million. It must have been going for almost 12 years. Have eligibility criteria changed at all in recent times?

**Major Gen. Willis**—Not that I am aware of. I would have to check on that and see if they have changed over time; I would not have thought so.

**Senator WEST**—When do they call for their applications?

**Major Gen. Willis**—They come in annually. I have not got the timetable. They get assessed annually.

**Senator WEST**—Can you, on notice, provide us with the timetable.

**Major Gen. Willis**—Certainly.

**Senator WEST**—I would like the breakdown of the last round. You usually have that on an electorate by electorate basis.

**Major Gen. Willis**—It was broken down into 298 grants from all across the country. We have that information. In line with what Mr Moore said previously regarding clearance from DOFA—if it is an Internet site as opposed to an intranet site, we are only too happy to table it.

**Senator WEST**—This committee has been provided in previous years with breakdown of where the grants went to, the amount and the sponsoring organisation so I can see no reason

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why this committee cannot receive that. What I am more interested in knowing is the timetable for the calling of applications. There is no recurrent funding in that, so each year is a one-off type grant. I recall those from the eligibility criteria. I would like a copy of those and that breakdown.

**Major Gen. Willis**—Certainly.

**Senator HUTCHINS**—General, can you tell me what the family support program consists of? I am not familiar with it.

**Major Gen. Willis**—The family support program is really quite expansive and it is growing all the time. It, essentially, provides funds to support projects initiated by Defence families, which are generally voluntary committees in local areas. It may be playgroups. It may be kindergartens. It may be community recreation centres, school P&Fs and those sorts of things where there is a Defence interest to assist and work with the community.

**Senator WEST**—Sometimes it does not even go to a Defence organisation but to, say, a school where there is a large Defence contingent in it—or it used to, anyway.

**Major Gen. Willis**—Yes. For instance, last year, the Moorebank Public School Parents and Citizens Association had a grant. Clearly there is a significant number of military families in that area because of the Holsworthy base in Moorebank but still it is not a Defence organisation per se.

**Senator WEST**—Have you developed some evaluation tool of the efficacy of the grants—following them up at all?

**Major Gen. Willis**—The Director General Community Services Organisation administers most of these on behalf of DPE and he has close relationships with most of these groups. I cannot answer precisely what his evaluation is, but they are ongoing.

**Senator WEST**—There are no other forms of grants or assistance it available to—

**Major Gen. Willis**—Not that I am aware of, in this sense.

**Senator WEST**—I understand that last week a person was found guilty of fraud in Townsville, relating to a misappropriation of moneys that had been received from Defence for the production of a community Defence newsletter. Is that correct?

**Major Gen. Willis**—I do not have information of that. I could certainly check.

**Senator WEST**—I am wondering, within those grants even, was there money given out for third parties to produce local Defence newsletters or was there money given out other ways?

**Major Gen. Willis**—We do assist local groups to produce newsletters, so the fact that we give money to local groups to produce newsletters is probably correct. But I cannot comment on whether someone has been involved allegedly in some fraudulent activity because I do not know.

**Senator WEST**—Leaving aside the fraudulent activities, how is the production of these newsletters by third parties undertaken. Under what auspices is the money given?

**Major Gen. Willis**—Whether you call them third parties or not is debatable, I guess. They are generally volunteers from within the defence family. They may be actual serving members that are working on a local P&F, for instance, or a local project or it may be their spouses or members of their family. Whether it is third party or second party I am not sure. They apply for the grant and they put forward the appropriate supporting documentation—

**Senator WEST**—Is this grant through the Defence Family Support Funding Program or is this just to the local CO, or what?

**Major Gen. Willis**—It would be to the local organisation itself. I do not know of the particular one you are discussing, but I can certainly find out.

**Senator WEST**—I am wanting to discuss the whole issue in general. If you cannot tell me about that specific one for Townsville I would like more details on that, but I also want to know about the general principle relating to the production of community newsletters within areas where there is a significant ADF presence.

**Major Gen. Willis**—Newsletters are produced all over the country, with more or less funding depending on their requirement or their ability to put forward a good case for it. Some newsletters are quite expansive and multipage and quite regular. Other newsletters are of a different quality altogether, depending on the local group that wishes to pursue that sort of activity.

**Senator WEST**—Where does the funding come from? What bucket of money does the funding come from for these organisations to produce newsletters? Is it out of the discretionary grants in the Defence Family Support Funding Program or is it from some other source within Defence?

**Major Gen. Willis**—I would have to go through the list and confirm that. I cannot answer that off the top of my head.

**Senator WEST**—You have just told me there are a whole lot of community newsletters out there, and they apply for funding. Where do they apply for funding from? Who funds them?

**Major Gen. Willis**—Just about all of those family newsletter type activities are sourced out of DGCO, through funding through DPE. My understanding is that it is through this funding program that we provide those fundings. I am looking through the list now to see if I can find an example: Newsletter production, No. 135, Wagga Wagga Defence Newsletter, Wagga Wagga, \$14,500 for the year.

**Senator WEST**—But you do not know if all of the Defence community newsletters that are produced are produced by organisations that receive funding through the DFSF program?

**Major Gen. Willis**—I am sure there is a mixture of funding. We do not fund all of it. There are some very active voluntary groups out there that have fundraising and use some of their local fundraising. I guess the amount they are supported by varies between local groups.

**Senator Ian Macdonald**—I think it is fair to say—isn't it?—that in this year's round there is only one that is specifically under the heading of newsletter production, and that is the one that you have mentioned. One out of 298 is specifically under the heading of newsletter production.

**Senator WEST**—Thank you, Minister. So that list has one. Do commanding officers or local support units provide funding for them? Because if that is the case—if Wagga Wagga was the only one that was funded under this program—and I have an allegation that a person was found guilty of fraud relating to misappropriation last week in Townsville then, if the Commonwealth is finding them guilty of misappropriation, I am wanting to know how that misappropriation has taken place or how a misappropriation could take place.

**Senator Ian Macdonald**—It might be helpful if you could give us the newspaper article, and then we might be able to trace through what it refers to and which program it is funded from.

**Senator WEST**—I have access to a lot of newspapers, but the *Townsville Bulletin* is one that I do not personally subscribe to. Sorry.

**Senator Ian Macdonald**—Do you have the date? Perhaps we could find it.

**Senator WEST**—All I know is that it was last week.

**Major Gen. Willis**—I will check with my staff tomorrow morning to confirm all those sorts of details for you and get back to you later on in the day when I re-present myself in one of my many incarnations.

**Senator WEST**—Thank you. I think we have pretty much dealt with the East Timor underspend and why it occurred. Did we clarify precisely why the East Timor underspend occurred?

**Mr Moore**—Just before we move off the discretionary grants, if I could return to the one for the Royal United Services Institute—Major General Willis indicated that we had funding information available at the table for 1996-97 onwards. In fact, the grant to RUSI has been going since 1974. Back in 1996-97, it was only \$25,000. My memory tells me that in years before that, it was of about the same order.

**Senator WEST**—But it is hoped that they will be self-funded by 2003. That is fine. I think we probably have dealt with the East Timor underspend and we were on another issue.

**Senator HUTCHINS**—Is there a British equivalent of the Royal United Services Institute?

**Major Gen. Willis**—Yes, there is. I think it is probably called the Royal United Services Institute also.

**Senator HUTCHINS**—I imagine it has the same sorts of functions?

**Major Gen. Willis**—It has the same sort of charter and functions, I would imagine, yes.

**Senator SCHACHT**—Mr Harper, an issue has been bubbling around in Adelaide for a long time to do with Torrens parade ground. What is the situation with Torrens parade ground? Every now and again, someone says that we should do something else with it than use it as a military barracks. It has become a very successful venue for some of the more innovative productions of the festival of arts every two years, but I am not sure that Defence should be paying for that.

**Mr Harper**—Mr Bain is better able than to answer that than I am.

**Mr Bain**—The Torrens parade ground has been identified under the Federation Fund for transfer to the South Australian government. The South Australian government has put a committee together that was looking at what future use options were available and how that might be managed. I understand they have completed their considerations and it is planned to transfer the site to the state government in August, I think. The Army elements that are currently there will stay on for a little while. That is part of the arrangement as we look to relocate them to another site in Adelaide.

**Senator SCHACHT**—Has the state government given any indication of what they are going to do with it? We are giving them a prime heritage asset—open space at the edge of the CBD. You can never trust state governments with some of this stuff; they will end up building a tram barn on it or some other atrocity.

**Mr Bain**—I am not precisely aware of what they have planned, but I think it is interim listed on the Register of the National Estate and it is also listed on the State Heritage Register so there are obligations in relation to its protection.

**Senator SCHACHT**—Is that the building or the actual open space parade ground?

**Mr Bain**—It is the whole site.

**Senator SCHACHT**—How much are they paying you?

**Mr Bain**—Nothing. That is the arrangement under the Federation Fund.

**Senator SCHACHT**—So the Federation Fund has paid you for it.

**Mr Bain**—Correct.

**Senator SCHACHT**—How much?

**Mr Bain**—The Federation Fund has paid \$3 million.

**Senator SCHACHT**—Keswick Barracks—the major barracks in Adelaide located just on the edge of the city—could also be considered by some developers around Adelaide as a reasonably prime site which Defence could sell and make a handy profit. Has anyone put up a proposal—state government or private developer—to shift you out of Keswick?

**Mr Bain**—No, they have not.

**Senator WEST**—Why has the East Timor underspend occurred?

**Mr Moore**—Are you referring to the expected underspend this year, in 2000-01, or are you referring to next year and across the forward estimates or are you referring to both?

**Senator WEST**—Start with this year.

**Mr Moore**—The underspend this year is \$150 million, from the estimate that we provided in the additional estimates.

**Senator WEST**—That has not changed.

**Mr Moore**—That \$150 million is going back to the general budget in accordance with the original government decision on Defence being funded for East Timor on a no-win no-loss basis. There are a number of reasons for the underspend. One of them is our ongoing difficulty in recruiting additional ADF personnel generally. You might recall that we were given agreement to raise two additional battalions for East Timor and there was a 3½ thousand personnel increase for that purpose, which has now been included in the long-term personnel baseline for Defence under the white paper. We are having continuing difficulty in recruiting to that high number of people, which is contributing to the underspend. There has also been some slippage in some of the capital acquisitions for Timor. You might recall the evidence that Ms Thorpe from the Defence Materiel Organisation provided to you on the underspend this year. She mentioned inventory consumption for Timor.

**Senator WEST**—Yes.

**Mr Moore**—That has also contributed to it.

**Senator WEST**—If part of this underspend is recruiting difficulties, precisely how are those recruiting difficulties causing an underspend?

**Mr Moore**—We are just not achieving the personnel numbers for salaries, as an example.

**Senator WEST**—Does that mean that you are not able to send the size of the groups across that you intend to send?

**Mr Moore**—No, we are still sending the full complement of people to Timor. But we are underachieving against the total target of the 3½ thousand increase that was provided for. As a result, we are returning part of the funding provided for Timor to the government.

**Senator WEST**—If that underspend is as a result of not recruiting enough people you are therefore saving on your training budget, your clothing budget—

**Mr Moore**—We are saving on all the personnel related items, as you could expect.

**Senator WEST**—It is not bound up with the fact that in some cases, with some of the specialty units, you are not giving them the full six months off before they rotate back through—that they are rotating through more quickly?

**Lt Gen. Mueller**—Not that I am aware of.

**Senator WEST**—And that is having an impact on the work that is able to be carried out by other units? Is that causing some of the underspend?

**Lt Gen. Mueller**—Not that I am aware of.

**Senator WEST**—Is it possible to check that, please?

**Lt Gen. Mueller**—Yes.

**Senator WEST**—It has been agreed that Defence can keep that underspend. Did you tell me that it was a no-win, no-loss situation?

**Lt Gen. Mueller**—For 2000-01 it was no-win, no-loss, and any underspend had to be returned to the budget. What we negotiated successfully with the government in the 2001-02 budget negotiations was for us to be able to keep \$100 million next year and \$70 million the year after in expected surplus East Timor funding that we can apply to general funding pressures within the defence budget.

**Senator WEST**—So you are anticipating an underspend in the next two outyears?

**Mr Moore**—Yes, we are.

**Senator WEST**—Of what magnitude?

**Mr Moore**—As I said, \$100 million and \$70 million.

**Senator WEST**—You are going to be allowed to keep the whole of those?

**Mr Moore**—Yes. Any underspend in addition to those two amounts will be returned to the general budget.

**Senator WEST**—You will be working very hard to come in on budget!

**Mr Moore**—You might recall that when these original estimates were derived it was very early in the days of INTERFET, and we had made a number of assumptions about the security situation in East Timor. It has turned out to be an outstanding success and we have not had to consume anywhere near the original estimates that we provided government.

**Senator WEST**—It is a fraction early to say it is a success. Shouldn't we be waiting until after the election, and seeing how that beds down?

**Mr Moore**—So far. But that is why there is an ongoing underspend projected right across the forward estimates. Even if we do recover our personnel situation, we still expect to be able to save that \$100 million and \$70 million over the next two years.

**Senator WEST**—Has the \$150 million that was underspent been earmarked for spending?

**Mr Moore**—No.

**Senator WEST**—It is sitting there, gathering you some interest?

**Mr Moore**—It is to be returned to the government by 30 June.

**Senator WEST**—You are not keeping the \$150 million that you have underspent on this?

**Mr Moore**—No. It is to go back to the government, to be recycled.

**Senator SCHACHT**—The finance department is always like that, isn't it?

**Senator WEST**—But you are going to be able to keep the underspends of \$100 million for next year and \$70 million for the year after?

**Mr Moore**—Correct.

**Senator WEST**—I misunderstood you; I am sorry. I thought you were going to be able to keep the \$150 million.

**Mr Moore**—No.

**Senator WEST**—What impact is that going to have on your budget—apart from the fact that you will be \$150 million down?

**Mr Moore**—We never planned to use that within Defence because, as I said before, it was on a no-win, no-loss basis. We put it to the government that the \$100 million and the \$70 million over the next two years be retained and they agreed to that. It was never in our budget projections to re-use any underspend for Defence purposes.

**Senator WEST**—Thank you.

**Senator HOGG**—I have just a brief question. It relates to a response to a question on notice—No. 2—on the white paper funding. You provided a table in response to my question which asked you to:

(a) Outline the details contained in the White Paper and provide a breakdown of the extra \$23.5b over the next 10 years.

It also asked:

(b) What would the Defence budget be on current estimates for each year over the next 10 years if maintained in real terms?

And so on. Can you explain why, in the table, it takes until 2004-05 for the retention of force generation capability to come in? Why is that?

**Mr Moore**—The \$415 million before that is tied to East Timor and it is already in our base. The current assumption is that East Timor funding will cease at the end of 2003-04. It could very well finish earlier than that, depending on the situation in East Timor. If we were required to stay there any longer, Defence would be seeking ongoing supplementation for the deployment cost. This \$450 million is for the force generation capability, to retain the additional forces that originally were generated for Timor that we now can keep—for example the two additional infantry battalions.

**Senator HOGG**—Given that the government has now put the budget together for this year and the outyears, and the budget was not available when these figures were put together by you, has this table altered in any way? If so, and if there is an update of the table, could you provide me with an update of the table?

**Mr Moore**—Yes, we have got an updated table for you. You might recall, for example, that the original white paper figures were based on an exchange rate of 61¾c. We covered it earlier today. The exchange has been updated, and we have also indexed it for price, as we have also covered. So the figures have changed from the ones that were previously provided to you, to incorporate those latest—

**Senator HOGG**—If you table that, we will take it on board and it will save anything else. Thanks very much.

**Senator WEST**—Can I just follow up about the East Timor underspend? The \$150 million went back to DOFA. Has the \$170 million for the two outyears been earmarked for spending?

**Mr Moore**—It has not been earmarked in terms of specific initiatives within the Defence funding base. We have had a number of personnel and operating cost funding pressures, and you might recall evidence earlier today that we had to transfer \$380 million out of capital into operating and personnel in 1999-2000. We were very conscious, in the white paper process, to not require any of the additional white paper funding to meet those pre-existing funding pressures, but they were still there. So, what the government agreed to was that this \$170 million could be applied generally to both personnel and operating cost pressures, but we have not tracked it specifically to initiatives.

**Senator WEST**—But it will relieve personnel operating cost pressures—

**Mr Moore**—For example, we have had to find internally \$100 million, as you might recall, for personnel initiatives—\$20 million for ongoing funding of the reserve initiatives, \$6 million for cadets. Even though those initiatives were announced in the white paper, the white paper funding did not cover those types of initiatives. We have also had to internally offset the rather large increase in fuel prices. So that surplus East Timor funding is being applied to those sorts of pressures.

**Senator WEST**—So that is where it is going to go?

**Mr Moore**—Yes.

**Senator WEST**—Thank you.

**Senator HOGG**—Can you provide an explanation of the funding being provided for the protection of the national information infrastructure and what Defence will be spending its money on. I understand it is—?

**Cdre Crane**—I represent Defence on an interdepartmental committee known as the E-Security Coordination Group. As part of that group, there has been an allocation of funds to Defence in the order of \$½ million for 2001-02. That money is allocated to the Defence Signals Directorate, and the money will be used to augment their facilities for providing advice to government and government agencies on the protection of their systems.

**Senator HOGG**—Is the money being spent in hardware costs or software costs, or is it being spent, as you said, on advice to government?

**Cdre Crane**—It is being spent both in terms of salaries funding and in some additional hardware and software facilities.

**Senator HOGG**—That is the expenditure for 2001-02. Are there any outyear expenditures in this area?

**Cdre Crane**—Not at this stage. My understanding is that, at this stage, there is no provision in the outyears for that funding to continue.

**Proceedings suspended from 6.26 p.m. to 7.36 p.m.**

**CHAIR**—Welcome back.

**Senator HOGG**—According to the running sheet, I understand we are now on financial statements. I do not think there are any more questions on budget summary. Could I refer to page 74 of the PBS. I understand that that is the budgeted financial position administered. My question goes to the military benefits. The budget for 2001-02 is not all that dissimilar from the previous years, and it is the same as indicated at the additional estimates last year. On the military benefits, what does that apply to?



**Mr Harper**—The figure that you are looking at comprises the unfunded and accrued military superannuation liabilities under the DFRDB scheme and the MSBS scheme. It is an actuarial assessment. It may perhaps not have changed between those two, because we have not had an intervening assessment.

**Senator HOGG**—Are you saying that there is an intervening assessment?

**Mr Harper**—No, I am saying that the previous estimate and the current estimate being identical may well be attributable to the fact that there has not been any actuarial reassessment.

**Senator HOGG**—All right. Is that amount there—the \$25.575 billion—actually paid in pensions or is that a liability? What is the amount of money that you pay in pensions?

**Mr Harper**—That amount is a liability.

**Senator HOGG**—Is that the overall liability? Where is the amount that you would pay on an annual basis?

**Mr Harper**—On an annual basis, if one went to page 73, the expense amount under military benefits is the annual payment of benefits and accumulation of benefits to members of both those two schemes that I mentioned earlier.

**Senator HOGG**—So the \$1.8 billion is what you would anticipate paying to retired military personnel in the forthcoming financial year.

**Mr Harper**—On reflection—I may have misled you—it may be better to look at page 75.

**Senator HOGG**—I am prepared to go where you direct me.

**Mr Harper**—On page 75, the administered cash flow statement indicates the cash that we would expect to pay to people in the form of pensions or lump sum benefits.

**Senator HOGG**—So that is just money that you administer. In a sense, it is straight in and straight out the other side.

**Mr Harper**—Do you mean by definition, in that it is in the administered cash flow statements?

**Senator HOGG**—Yes. Look, there is no trick question. I am getting to what I want to find out, and that is, are military pensions affected by the decision in the budget to index pensions six monthly and, if so, is that reflected in the figures in your budget?

**Mr Harper**—As I understand it, the short answer is no. The military schemes are statutory schemes and the intention is to visit that issue after the Nunn review.

**Senator HOGG**—So the decision on budget night only touched those people who work in the Public Service. Are there any people in Defence not in either of the two schemes, but in another scheme, or are they all covered by one or other of those schemes?

**Mr Harper**—My understanding is that all of our military people are in one or other of those schemes.

**Senator HOGG**—Right. And you mentioned that a review is going on. I presume currently that military pensions are indexed every 12 months?

**Mr Harper**—That is my understanding, Senator.

**Senator HOGG**—In a similar way to the other superannuants and people on pensions from the Public Service?

**Mr Harper**—Yes.

**Senator HOGG**—In respect of the review that is taking place, when did it commence and when is it likely to be concluded?

**Mr Harper**—I will need to take advice on when it commenced. It is expected to report to the Ministers for Defence and for Finance and Administration by the end of August this year.

**Senator HOGG**—When are the pensions currently indexed? At what time of the year?

**Mr Harper**—I do not have that information with me. I am struggling with the substance of some of these questions.

**Senator HOGG**—I understand that you are struggling. I am struggling as well, so that makes two of us and that is why I am asking these questions. I understand that you might not have the answers readily at your fingertips, but I am curious to understand the process as to whether these are all indexed, let us say, in January of each year. Perhaps they take a figure as at 31 December. I think there is actually another five months time lag before it is implemented.

**Mr Harper**—I do not know. However, I can say that three acts of parliament cover military superannuation. I understand that changes may need to be made to those acts in order to effect a change to the indexation dates.

**Senator HOGG**—Yes, I accept that. However, from what you have said, I understand that that is all premised on the review being carried out by—who did you say?

**Mr Harper**—By Major General Barry Nunn.

**Senator HOGG**—Sorry, you said that that report was due to go to the minister in August or thereabouts. I am not holding you exactly to the date.

**Mr Harper**—I am advised that it is due by the end of August. I should clarify, in case there is any misinterpretation or it is thought that I have said something peculiar, that the review is of more than just superannuation.

**Senator HOGG**—No, I did not take it to be solely focused on superannuation. It is just that with the recent announcement on superannuation, I imagine that people who are on defence pensions, if they are on a single indexation annually, will be looking forward to seeing that they are put on an equal footing with other public service pensioners and superannuants.

**Mr Harper**—We expect Major General Willis to be here at about 8.30. He would be far more competent to answer the detail.

**Senator HOGG**—All right, Mr Harper. The other thing that I am interested in, though—and this would obviously be subject to the answer that Major General Willis gives us—is that if one assumes that defence pensions are indexed not six monthly currently but 12 monthly—and I do not know whether one can do that—and Defence, after the Nunn report, determine that they need to move to six-monthly indexation, has Defence done the figures on the impact of six-monthly indexation? I can help you out, because I am on the Senate Select Committee on Superannuation and Financial Services. The only trouble is that I cannot lay my hands on the document that I think you people prepared that looked at the impact of six-monthly indexation as opposed to 12-monthly indexation. If that is the case, someone might alert the people back in Russell to alert Major General Willis to get across that as well. If there is a change, it will be interesting to see whether it impacts significantly on the payments that are made under the military benefits payments, as per page 75.

**Mr Harper**—Yes.

**Senator WEST**—Is there somewhere in the financial statements that indicates what the full impact of the increase in the price of fuel has been? I know that that will go across a number of outcomes, because it will affect the Navy, the Air Force and the Army, but is there somewhere in the document or somewhere else that indicates that Defence has actually assessed or anticipated the full impact of the increase in fuel costs?

**Mr Harper**—I am quite confident that there is nothing in this document—

**Senator WEST**—Is it in DMO?

**Ms Thorpe**—There is something in the budget documents to cover it. I believe it is something that we are funding from year to year through our own operations. This financial year, 2001—

**Senator WEST**—I am interested in this financial year, but if there have been some forward estimates done as well on the varying prices or increases—

**Ms Thorpe**—In this financial year it was about \$74 million, and we have funded it through various means internally through our own budget. As Mr Moore explained earlier, with our global budget we have been able to fund it.

**Senator WEST**—It has \$74 million this—

**Ms Thorpe**—It is \$74 million. We have managed to get back some of that. With the naval fuel, we can get it back through the rebate, and we have been doing that, but for future years we intend to fund it as we go through the current Defence budget.

**Senator WEST**—Some of the \$170 million underspend in the outyears was going to go towards the cost of fuel, too. Has any forward estimate been done on it?

**Ms Thorpe**—On the fuel?

**Senator WEST**—Yes.

**Ms Thorpe**—Only internally within Defence. I do not know whether we have figures from year to year. We do budget for our expected fuel consumption but, given the prices and the way it is going, it does go up and down. As I have said, we have been managing it internally.

**Senator HOGG**—The next heading is ‘Improvement initiatives’. I understand from our discussion pre-estimates that this is where I ask my questions about the DRP; is that correct?

**Mr Harper**—Yes.

**Senator HOGG**—Whilst I understand that the DRP is no longer active in a sense, it surprises me that, but for one small section of the PBS, the DRP is no longer mentioned at all. Is there a reason for that? Is there a reason why it was taken out?

**Cdre Lemon**—It will be reported in the annual report for this year, as the bridging year. The bulk of the funds have been programmed in forward estimates. The initiatives that are being transferred to continuous improvement will be monitored and reported through that process.

**Senator HOGG**—As I originally recall, with the DER cum DRP there was still some time for mature savings to be made—the final mature savings out of the DRP process.

**Cdre Lemon**—Yes.

**Senator HOGG**—I presume those savings that are being made out of the DRP, and still coming to maturity, are reflected somewhere in the budget papers. If so, where? I am going to be left with the problem, quite frankly, when we get to the annual report and I look at how those savings that are highlighted in the annual report actually fit into the ongoing savings

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that are going to be made in defence as a result of the DRP. That is all I am asking you to clarify for me.

**Cdre Lemon**—Of the savings that have already been achieved and put into the estimates, we have also harvested some savings into the outyears and they are rolled into the normal budgeting process. Where funds have been reinvested in personnel or equipment those stay in the line and we will report those in the annual report. They are actually subsumed within the figures in the budget. Where there are additional savings they will be reported in future against the improvement program.

**Senator HOGG**—Are there any additional savings arising out of the DRP in the current budget PBS?

**Cdre Lemon**—Not additional ones beyond those reported previously in the additional estimates.

**Senator HOGG**—I am not referring to ongoing savings. I am talking about savings that may well have been over and above the ongoing savings because they are savings that are coming to maturity now.

**Cdre Lemon**—Savings in the defence estate program were termed under the DRP as one-off savings but were really conversion of property to one-time cash savings. That program extends out as far as 2010 because the disposal program is in the short, medium and long term. They will be tracked and reported as being achieved or not achieved. The funds have been programmed. It is the implementation of the initiatives that still has to be achieved. There were 47 initiatives transferred to the continuous improvement program which we will have to monitor. They are not reflected in the forward estimates yet.

**Senator HOGG**—Why are they not reflected?

**Cdre Lemon**—We still have some indeterminate amount to achieve. We expect to achieve about \$718 million, of which we have already harvested \$640 million. The additional funds depend on some long-term exercises reaching maturity. Some of those are in respect of personnel—the savings are in terms of personnel and are being reinvested into other activities. That is being programmed in people terms, but the activities have not actually occurred yet.

**Senator HOGG**—That raises another issue. There were two savings—the savings in terms of money and the savings in terms of personnel. Some of those were because of market testing of programs.

**Cdre Lemon**—Yes.

**Senator HOGG**—I noticed in here somewhere, I think, that there are still about four that are currently being market tested. I think that is correct. Or perhaps there are four yet to be market tested.

**Cdre Lemon**—There are quite a number of market testing activities still being pursued, but certainly there are four major ones.

**Senator HOGG**—There are four major ones that could impact significantly on the overall result and which are yet to be announced. On page 98 of the PBS, you have got some information about the Woomera support services decision. The decision was to be announced in May 2001 and the contract signed in July 2001. Has that been determined?

**Cdre Lemon**—It has not been determined as yet. The decision is still expected; the date that I had when it was expected was in late May, so—

**Senator HOGG**—Is there now a new projected date for the expected outcome there?

**Cdre Lemon**—I have not been advised of any.

**Senator HOGG**—Regarding the rationalisation and market testing of ADF health services in Victoria, there are 275 positions, the decision was to be announced in May 2001 and the contract signed in August 2001.

**Cdre Lemon**—I believe that was announced in May. It was due on 25 May.

**Senator HOGG**—Is there a revised date for that?

**Cdre Lemon**—I am not sure. That may have been announced, but I would have to check.

**Senator HOGG**—Regarding publishing and printing, there are 238 positions and the decision is due to be announced in July 2001, so obviously that is still to come. Regarding rationalisation and market testing of ADF health services in the Australian Capital Territory and Southern New South Wales, there are 198 positions. In table 4.3, we see that a number of other positions are yet to be market tested. Further up page 98, it says, ‘Additionally, the result of the pilot phase of the recruiting market test will be known before August 2001.’ Is there a prospective date?

**Cdre Lemon**—That would be best addressed to the personnel executive.

**Senator HOGG**—I thought that might have been something that, as they have slipped it in under the commercial support program, was a hangover from the DRP or something. Your colleagues previously provided me with a broadsheet which contains information about where the DRP is to date progressively in terms of savings on personnel under the DRP, and also where the reinvestment and the savings are at under the DRP. Is that no longer relevant?

**Cdre Lemon**—It was not thought to be relevant for this. We were going to provide it for the annual report, which would be the close-up, and give you the situation at close plus all the interim activity for this year.

**Senator HOGG**—So the DRP does continue—is that correct?

**Cdre Lemon**—Yes. All the initiatives that were developed internally to support the DRP have been rationalised, and those that have not been completed will be put into a schedule in the annual report and will be carried forward for reconciliation as individual projects.

**Senator HOGG**—Given that you have still got some market testing, the results of which you will need to know both in terms of dollars and personnel, how long before you can say you have really closed the door on the DRP?

**Cdre Lemon**—Some of the individual actions will take considerable time in terms of initiatives relating to Headquarters Australian Theatre and initiatives relating to ADFA which will take some years to come to fruition because they are of a long-term nature. The reason that we have chosen to go this way is that they are individual activities which need to be managed as individual activities. We want to benchmark where we are and to go forward and manage the initiatives and report on those rather than try to relate back to the 1996 base line, which is becoming increasingly difficult.

**Senator HOGG**—I understand that and I appreciate that, but it is important because such a fanfare was made about the DER, which then became the DRP when it was first introduced, with the projected savings in personnel, the long-term savings in terms of the portfolio, and the reinvestment that could be made within the portfolio, that I think the committee has every right to expect at some stage that it can do a comparison as to what the expectations of the DRP were and what the final outcomes of the DRP were in just those raw terms.

There is another side to the DRP which needs to be evaluated as well—and I do not think this committee is placed, nor has the time, to do that—and that is the internal result of the

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DRP. Was it a success? Was it a failure? Was it a half success or whatever it might be? I am sure someone else will undertake that in the fullness of time. One thing that I have persisted with when talking about the DRP has been the internal audit processes or auditing of the DRP such that there is at least an internal assurance that the savings and the gains that were flagged in the DRP have, in effect, been achieved. I think in loose terms—and you can correct me—it has been indicated to the committee before that such a process was taking place. How formalised or otherwise, I have not ever been sure. Can you advise me: has there been an audit and what has been the result of the audit to date?

**Cdre Lemon**—There has been an internal audit. An internal report is being prepared for the minister and it is in the course of finalisation. The purpose of that report is to evaluate the status of the DRP as of 30 June last year to provide an assessment of the mature expectation of all the DRP savings and to identify which ones have been carried forward and to identify what was expected out of this year. If you take the target of \$773 million, which was regarded by the DER as estimated savings, with a further \$146 million which was to be potential savings, as of 30 June we had achieved \$457 million.

**Senator HOGG**—Is that 30 June last year?

**Cdre Lemon**—Yes. We expect that by maturity it will achieve \$718 million. I think it should be some \$610 million by the end of this year, but I will have to check that figure.

**Senator HOGG**—Some \$610 million by the end of this financial year?

**Cdre Lemon**—Yes, but I would have to check that. To do that, we started out with 102 individual initiatives and we have 47 that are incomplete in some form or other.

**Senator HOGG**—Sorry, was that 102 initiatives?

**Cdre Lemon**—Yes, and we have 47 which are incomplete in some form and will be carried forward for closing off under the continuous improvement banner. From a one-off savings point of view—‘one-off savings’ being an interesting term for turning assets into cash—we originally predicted some \$442 million. We have 25 of those asset disposal programs being carried forward and we expect to realise \$370 million from those asset disposals. So we expect to achieve the asset disposal program in full. However, it takes a long time.

**Senator HOGG**—I accept all of that. Do we know if the interim audit—if I can call it that, because it would be wrong to call it the full audit of the program—will be available to the committee at some stage?

**Cdre Lemon**—It will have to come through the minister’s office.

**Senator HOGG**—I accept that. I think it would be interesting if the full audit were to be made available to the committee so that we can finally put a track on the progress that has been made under the DRP. I have no further questions on the DRP.

[8.08 p.m.]

**Senator WEST**—Can I move to one of our favourite topics, DIDS? What is the latest?

**Major Gen. Haddad**—The latest is that it is still with government for decision.

**Senator WEST**—And it has been there since prior to September of last year?

**Major Gen. Haddad**—The evaluation of the tenders was completed in August of last year.

**Senator WEST**—People would have had time to get pregnant and deliver the baby in the time that it has taken the government to make this decision.

**Senator Ian Macdonald**—This is far more important than that, with all due respect. It takes a lot of serious thought. Although we are not suggesting that the other does not!

**Senator HUTCHINS**—I like your analogy, Minister. That will stand you in good stead in some circles.

**Senator WEST**—I am used to being in health estimates. You can make those comments there. So this decision has been in gestation for nine months?

**Major Gen. Haddad**—Yes, Senator.

**Senator WEST**—You, of course, do not know when the cabinet is going to make a decision. Please refresh my memory about extensions of the bids. They were initially called in 1999 and they closed when in 1999?

**Major Gen. Haddad**—Tenders closed on 1 March 2000.

**Senator WEST**—When were the tenders originally called?

**Major Gen. Haddad**—Tenders were released in November 1999 and they closed on 1 March 2000.

**Senator WEST**—They were then extended—

**Major Gen. Haddad**—Their expiry dates varied. They were originally all synchronised to end at the end of February and then they were extended a second time to 1 May 2001.

**Senator WEST**—So we are now out of tender date? We are now out of tender currency?

**Major Gen. Haddad**—Yes, Senator, the tenders all expired on 1 May 2001.

**Senator WEST**—What is the implication on any decision of that?

**Major Gen. Haddad**—What it means, Senator, is that those tenders are no longer valid and they would have to be revalidated if we were to use them.

**Senator WEST**—Does that mean recalling them?

**Major Gen. Haddad**—Yes, Senator.

**Senator WEST**—That does not mean we are going to go for more than 18 months through this process again, does it? Minister, when is a decision likely to be made? I think I asked you this last time around. Do you recall?

**Senator Ian Macdonald**—I do not recall. I will obviously take that on notice for Mr Reith, but it is obviously a matter that requires lengthy consideration by cabinet.

**Senator WEST**—You might also like to take on notice to find out what the cabinet thinks are the implications of the fact that the tenders that they would be considering are no longer valid. How are you able to consider tenders that are no longer valid?

**Senator Ian Macdonald**—I am not suggesting that we would be considering the tenders as such; we would be considering the whole issue and I can assure you cabinet would be aware of the relevant dates.

**Senator WEST**—You might like to ask the minister the reasons for the delay too, please.

**Senator Ian Macdonald**—Certainly I will do that for you.

**Senator WEST**—Thank you. What has been the comment of the bidders regarding the delay?

**Senator Ian Macdonald**—I do not know that either.

**Senator WEST**—I was going to ask Major General Haddad, as the person who is administering the program. I presume the tenderers must be making some comments to the department or the ADF.

**Major Gen. Haddad**—We have only had informal conversations with the bidders. So no formal notifications have yet gone to them.

**Senator WEST**—Have been received from them?

**Major Gen. Haddad**—We have not formally communicated with any of the bid teams. All that has happened is that their bids have expired.

**Senator WEST**—Are they making comments informally that they would have to review their whole application?

**Senator Ian Macdonald**—I do not know that is a fair question for an officer in an estimates committee. They might informally say lots of things. Perhaps I could take it to the minister to ask whether he has been approached by them and, if so, what their comments were. But I think it is a bit hard on the officers to be asked what people might be saying informally.

**Senator WEST**—I am trying to get some sort of handle on what the contractors or the potential contractors think of the process so far and whether, if cabinet decides to go ahead with it, they are interested in continuing with their tenders or with retendering if the case should arise.

**Senator Ian Macdonald**—I am sure that, until they were formally advised of what was happening, they would not be able to make decisions like that. But I will see whether Mr Reith wants to add to that.

**Senator WEST**—Is it possible to provide the committee with a list of each of the current DIDS sites involved, their primary function and the number of personnel on site?

**Major Gen. Haddad**—Yes, I can do that, but we have provided that previously.

**Senator WEST**—Is there any change to that information?

**Major Gen. Haddad**—No, because we are still using the baseline figures that we developed in 1999.

**Senator WEST**—I recall that for the assessment of this there was a new process being trialled.

**Major Gen. Haddad**—I think you are referring to TF2, which was a tool used to develop the statement of requirement, and then to assist in the evaluation and subsequent conduct of the contract.

**Senator WEST**—So you have not been able to evaluate the efficacy of TF2?

**Major Gen. Haddad**—Tabular format 2, as a tool, has been used for other projects. There has been no opportunity as yet, because we have not completed the process with DIDS, to give you an evaluation of its usefulness in this project.

**Senator WEST**—I understand that you have not provided us with a list of each site and of the personnel numbers on each site.

**Major Gen. Haddad**—I can do that now, as I have it in front of me. It is quite a large table. Do you wish me to read it out?

**Senator WEST**—If it can be copied and tabled, that would be fine. In relation to DIDS, what is being undertaken to ensure ongoing stocktake integrity?



**Major Gen. Haddad**—DIDS is covering the full operation of the site. Where manpower numbers have gone down because the services have been required to redirect that manpower, we have hired back casual labour, and we also have a temporary contract running for national freight distribution.

**Senator WEST**—What changes to the statement of requirement have taken place since November 1999?

**Major Gen. Haddad**—There have been no changes to the statement of requirement.

**Senator WEST**—No changes?

**Major Gen. Haddad**—None.

**Senator WEST**—So we will wait to see whether or not country bases are going to be included in this month's decision by the cabinet. What redundancy packages would be offered to current DIDS personnel?

**Major Gen. Haddad**—There have been no redundancy packages offered so far, but should the project proceed, normal provisions under the commercial support program would apply. Staff who were displaced because an in-house bid was not successful would be offered redundancy packages.

**Senator WEST**—Is that two weeks for every year?

**Major Gen. Haddad**—It is the standard departmental package.

**Senator WEST**—How does that compare with other Commonwealth departments such as Centrelink or Telstra?

**Major Gen. Haddad**—I am unable to answer that. When Major General Willis returns, you will be able to ask him.

**Senator WEST**—What impact would the falling Aussie dollar and the price of fuel have on potential bidders?

**Major Gen. Haddad**—This is a totally domestic contract and I do not think any impact would occur from the change in the value of the dollar or the price of fuel.

**Senator WEST**—What about the cost of fuel?

**Major Gen. Haddad**—It would only have a marginal impact on the freight distribution component of it.

**Senator WEST**—That is interesting because it is not the complaint I am getting from other transport operators. I suppose, with the way we are going with this proposal, that next year we will be able to ask the same questions about DIDS, if there is no—

**Senator Ian Macdonald**—I appreciate the fact that you will be asking the question, Senator.

**Senator WEST**—I was thinking actually that we would have made a decision. We could well be asking the questions from government, too. They might make some very interesting questions.

**Senator Ian Macdonald**—It will be decided long before you are in government, Senator.

**Senator WEST**—Will it? What is the impact going to be on rural areas, Minister?

**Senator Ian Macdonald**—It depends what the decision is, doesn't it?

**Senator WEST**—It goes back to when are you going to tell us. I am pretty appalled about the whole show, anyway—I have to say that.

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**Major Gen. Haddad**—Senator, the information you sought from me was provided in response to question No. 43 from the 23 November 2000 hearing.

**Senator WEST**—I did not bring that one with me. Thank you.

**Senator HOGG**—I need a bit of guidance from you, Mr Harper. I have a running sheet that says ‘Capital development’ and looks at the ANAO audit report on Australian Defence Force Reserves, and the knowledge system equipment acquisition projects in Defence, then it goes on to ‘Capital budget’. That is where Defence Materiel is; is that correct? I might just be getting my running sheet a little out of order here.

**Mr Harper**—Depending on the questions, they may be best fielded by the vice-chiefs area and/or the Defence Materiel Organisation.

**Senator HOGG**—I have some questions on Air 87. I want to find out about the *Jervis Bay*. That is more under capital budget, isn't it?

**Brig. Hurley**—If they are approved projects they will be with DMO, and if they are unapproved projects—that is, pre-government approval—they will be with the capability systems area.

**Senator HOGG**—What about the audit reports? Where should we deal with those?

**Brig. Hurley**—You can deal with them through me, and for the reserve forces through Colonel Stedman, and for the knowledge system equipment acquisition projects through Commodore Crane.

**Senator HOGG**—If you have the ANAO report on the Defence Force Reserves, I can take you to the individual pages which might assist you. I presume we will touch upon a fair amount of this when we come to the recruitment and retention inquiry that is being conducted by the Senate references committee, but I think it is important, when you get an ANAO report, that some opportunity is given to the department, where possible, without belabouring these, to respond. In many instances, the recommendations of the ANAO are listed as being ‘agreed’ or ‘agreed in principle’. There is the odd occasion when there is disagreement, and I can understand why. I would be interested in some expansion on the views that are expressed by the ANAO. For example, at point 6 in their overall conclusions on page 10, they state:

A major issue confronting the Army Reserve is the need to develop suitable roles and tasks to reflect the current strategic requirements. The ANAO also concluded that the collective military capability of the Army Reserve is very limited. Previous efforts to revitalise the reserves have not been successful, largely because roles have not been clearly defined and resources allocated to the Army Reserve from the Defence budget have been insufficient to achieve the capability required by Army. There is a body of evidence indicating that the Army Reserve is not providing a level of collective capability commensurate with the resources being expended.

That is fairly telling. I understand there are recommendations there, but without going to the recommendations can you tell us how Army are addressing that specific issue, given that I have always described the Audit Office as being very polite in the way in which they describe some of the situations they come across and I think that was being a little bit polite.

**Col. Stedman**—That is very much a question which the Chief of Army should answer.

**Senator HOGG**—So this is not the correct place to be asking these questions about the reserves?

**Col. Stedman**—Specifically for the Army Reserve, and those comments are specific to the Army Reserve, so the Chief of Army should answer that.

**Senator HOGG**—One of the things that stood out when I read the report was that it seemed to focus a fair bit on Army, so I might save that for Army because I think it is worthwhile getting some comments on it. The other question relates to knowledge system equipment acquisition projects in Defence. At paragraph 13 of the key findings it states:

The situation is much less clear for the many other projects, estimated to cost some \$4 billion, that will contribute to, or depend on, the DIE.

It goes on to state:

It is not clear that processes are sufficiently robust to allow the Chief Knowledge Officer to scrutinise these projects and, where appropriate, to challenge a perceived lack of coherency between the project and the DIE.

Do you have a response?

**Cdre Crane**—That is an issue that the Chief Knowledge Officer and his office are working on to date, as a result of the ANAO audit findings. What we have put in place is an architectural approach where we have established a defence architectures framework. Within our capability development process now, as a project comes forward for authorisation at committee, one of the key issues which the CKO's organisation will check is the compliance that that project is able to achieve with an overall architectures framework for the enterprise.

So we have a process whereby each project will develop either an operational architectures view or a systems view or a technical view or all three depending on the complexity of the project. That gives us the ability to ensure that the information systems of that particular project comply with where Defence wants to head within its overall enterprise architecture.

**Senator HOGG**—Is that the method that project management described at point 16 in the report, which refers to 'standard project management method'?

**Cdre Crane**—No, that is not. The standard project management methodology is a methodology applied to project management. What I was referring to earlier was in exercising CKO's responsibilities or architectural compliance with the defence enterprise architecture; the point in paragraph 16 is referring to something quite different.

**Senator HOGG**—What is the point in paragraph 16? What concerned me there was that it referred to, as at April 2000—admittedly, we have moved on 12 months—64 acquisition projects subject to SPNN, but only two of these were assessed as controlling their projects while using the SPNN. I presume there has been an improvement since then?

**Mr Roche**—Ms McKinnie will respond on that.

**Ms McKinnie**—From the time of the report until now, a large number of projects are using the project management methodology. We have found, though, that the methodology has some problems in it in terms of providing adequate monitoring and control and we are adding some new processes to that methodology based on governance arrangements, not dissimilar to private sector type board arrangements.

**Senator HOGG**—So there was an ANAO recommendation in respect of monitoring the adoption of SPNN? You are saying that, whilst you agreed with that, you have now changed your tack in some sense. Is that correct? I am trying to find out the value of these reports: do they have any standing, are they relevant today and, if not, why not?

**Ms McKinnie**—In the audit report on project management in Defence it was recommended, and this one continues in that vein, that we monitor the effectiveness of the project management methodology. We have been monitoring its effectiveness and are continuing to identify some weaknesses in it and are adding to it to improve it to overcome

problems that are arising, not only from the audit reports but also from internal audits and internal lessons learned.

**Senator HOGG**—Would it be fair to say that from when this report was tabled on 15 September 2000 until now that there has been a tightening of the processes—

**Cdre Crane**—It would very fair to suggest that.

**Senator HOGG**—and changed according to the circumstances? Have ANAO been back to you to monitor the implementation of their recommendations?

**Mr Roche**—I do not know if they have.

**Cdre Crane**—I do not think that they have within the CKO's organisation. But we have certainly found the report extremely useful and have used it to adopt new processes within the capability development area.

**Ms McKinnie**—The JCPAA have taken the issue of this report as well and are monitoring its implementation.

**Senator HOGG**—Thanks, I will leave it at that. It was just something that someone mentioned to me, and I had a quick look at it. Can we move on to the capital budget. That includes, as I understand it, DMO.

**Mr Roche**—It does.

**Senator HOGG**—The *Jervis Bay* is out of commission, isn't it?

**Mr Roche**—It is out of commission.

**Senator HOGG**—When was it decommissioned?

**Mr Roche**—I do not know the exact date but Admiral Scarce would be able to help you out with that.

**Rear Adm. Scarce**—I think the date was 12 May.

**Senator HOGG**—I understood—and I stand to be corrected—that the white paper canvassed that a study would be done to establish whether or not we continue to need this capability. If that is the case, was such a study done? If not, why not?

**Rear Adm. Scarce**—From memory, the white paper talked about examining the technology and seeing whether that was applicable. We did conduct studies, and the Chief of Navy will have the details. The Chief of Navy directed that studies into the technology commence last year, I think, and those studies were brought forward to him. He will be able to give you the detail.

**Senator HOGG**—So there was a study conducted within the department on this issue, and the Chief of Navy will tell me the findings?

**Rear Adm. Scarce**—That is my understanding.

**Senator HOGG**—As I understood it, the *Jervis Bay* did provide a different capability from *Manoora* and *Kanimbla*—a different capacity, and it was a different operational vessel. Is it the fact that the *Manoora* and the *Kanimbla* came on line that made the *Jervis Bay* redundant, or was it because of changes in the East Timor situation that that has been downgraded?

**Rear Adm. Scarce**—The former: when *Kanimbla* came on line there was no longer a need for *Jervis Bay*.

**Senator HOGG**—Not until we speak with the Chief of Navy will we be able to establish what the outcome of that survey was, so I will leave my other questions until I see the Chief of Navy. There have been a number of public reports of substantial helicopter support areas being built up in both Darwin and Townsville for the Army's new attack helicopter. Are support facilities being built at both, and where will the helicopters be based?

**Mr Roche**—There are no facilities under construction, to my knowledge, at this stage. I think they have to come forward to the Public Works Committee, which I think is intended to be early next year. At this stage a final decision on location has not been taken. Tenderers are being assessed on the basis of locations in Townsville and Darwin, and on a single location only.

**Senator HOGG**—Tenders have been called. When will tenders close?

**Mr Roche**—Tenders have closed already. They closed at the end of April, I think.

**Senator HOGG**—To be determined by?

**Mr Roche**—The timetable at this stage is for a source selection around the end of November, with a contract by the end of the year. Those dates, depending on the complexity of the next stage of the tender, could slip out by a month or two.

**Senator HOGG**—And you are looking at a single site to be selected, whilst there are two under consideration?

**Mr Roche**—No. There could be two or there may be one.

**Senator HOGG**—I misunderstood you before. I thought you said that it would be one of the two.

**Mr Roche**—Tenders have been called on the basis of locations in both Townsville and Darwin, and tenderers have been asked to provide the costs on the basis of a single location as well.

**Senator HOGG**—Does this project have a title?

**Mr Roche**—It is Air 87 armed reconnaissance helicopters.

**Senator HOGG**—Is that still running to schedule?

**Mr Roche**—Yes, it is.

**Senator HOGG**—Has there been any difficulty with, or complaints from any of the bidders regarding, the tender documentation and the process?

**Mr Roche**—Yes, there have. They complained that the tender documentation was overly long and called for more detail than they had expected. We would not regard it as a best practice tender. It was one of those tenders that were caught in the middle of our reform process. It had already been written under previous arrangements. There was substantial investment in the form of the tender. It was modified to take account of a number of our reforms, but the end result was not a fully reformed document. We should mention that, notwithstanding that there were complaints from the tenderers, they were all consulted at some length in March last year about the technical requirements. Indeed, those technical requirements were modified as a result of those consultations. So in terms of the technical requirements of the tender—apart from its layout and format and so on—I do not think there should have been any surprises at all.

**Senator HOGG**—You say that it was a lengthy and cumbersome document. Is that a fair way to describe it?

**Mr Roche**—It is certainly a lot longer than I would prefer.

**Senator HOGG**—How long, as a matter of interest? Was it hundreds of pages?

**Mr Roche**—From recollection I think it was 2,000 or 3,000 pages.

**Air Vice Marshal Conroy**—In a raw page account, taking out blank and title pages and contents pages, it was about 2,500 pages.

**Senator HOGG**—I can understand why there was some reaction. In your new version of that contract, what would that be down to?

**Mr Roche**—Very little was left uncovered in the document, Senator.

**Senator HOGG**—I think that is the claim of the year, Mr Roche. You get the award of the night. Very little would have been left untouched in over 3,000 pages. We are wondering whom the people were who were subjected to reading it. How many tenderers were there and are you going to shortlist those tenderers?

**Mr Roche**—There are four bidders and the process is to reduce those to a shortlist of two within the next month or so.

**Senator HOGG**—What will be the process once they have been reduced to two?

**Mr Roche**—From that we will reduce it to a preferred tenderer.

**Senator HOGG**—But you will not be going back to the tenderers?

**Air Vice Marshal Conroy**—We do have to go through a process of clarifying some of their bids. It is rare to get a totally compliant bid. There will be a dialogue process as we develop our views on which is the preferred tenderer.

**Mr Roche**—The intention is also that we will probably negotiate contracts with the two short-listed tenderers before a final selection is made. That means that there will obviously be some to and fro between the short-listed tenderers and us.

**Senator HOGG**—From the original concept, has the tender been altered in any significant way, such as introducing a UAV component to the project or anything such as that?

**Mr Roche**—There is no UAV component.

**Air Vice Marshal Conroy**—Three documents have been released to industry in the process of project Air 87. I requested proposals a couple of years ago. There was a draft request for tender in March last year where industry were asked to comment on the draft RFT and then the request for tender itself, which was issued in December last year. There is a high degree of traceability between those documents and no substantial changes, but there have been refinements as we have been through the process.

**Mr Roche**—The most significant changes that I recall included a change in the power requirements for hover out of ground effect. I think that was a reduction that was an easing of a requirement. There was an easing of a requirement of existing in-service equipment and a requirement to put forward an in-production version of the aircraft as well the desired version.

**Senator HOGG**—What is the delivery time frame?

**Air Vice Marshal Conroy**—The first aircraft delivery is in 2003, the white paper in-service date, which is a number of aircraft—six, from memory—with pilots individually trained and ready to start collective training is in December 2004; and last aircraft is in 2007.

**Senator HOGG**—Thank you very much.

**Senator WEST**—The development of chemical and biological capabilities is mentioned in the PBS. Can somebody explain what is exactly meant by that, what is involved?

**Dr Williams**—I see it listed on page 80 under ‘New major capital equipment projects’.

**Senator WEST**—Yes.

**Mr Roche**—I think Dr Williams may have some information on this one.

**Dr Williams**—A project approved in the budget, which is about to start shortly, is to provide a response capability so that we can deal with chemical and biological weapons threats. It is basically a terrorist response capability involving things like ability to sense, to test the presence of some of these agents.

**Senator WEST**—So it is not looking at us including any offensive weapons?

**Brig. Hurley**—No, it is purely a response to a terrorist capability.

**Senator WEST**—It is defensive?

**Dr Williams**—Yes.

**Senator WEST**—Do we have any costs attached to that?

**Dr Williams**—At this stage, it is only just approved, so there would be no figures publicly available. It is a relatively low-cost project. It is a major project, but it would be in the relatively low millions to tens of millions range.

**Senator WEST**—Is this the first time we have actually put it in the budget to look at, or has some work been done on it prior to this?

**Dr Williams**—There has been, in the context of the Olympics, some work done to have a response capability there and to some extent the project now would be trying to flow on and develop a more viable capability, I suppose you would say.

**Senator WEST**—Thank you. The minister has indicated his interest in Global Hawk but the white paper only gave \$10 million for research connected with that project.

**Mr Roche**—If I could just go back to the chemical, biological and radiological response project: we had provided a previous answer to Senator Hogg on this one and we said in that that it was in a cost band of \$20 million to \$50 million.

**Senator WEST**—There is nothing new to add to that?

**Mr Roche**—No, nothing new. The Global Hawk project is being managed within Defence by DSTO.

**Air Vice Marshal Conroy**—Thus far our expenditure on Global Hawk has been to make a contribution of \$US10 million to the project. The quid pro quo for our investment has been the exercise that has just been conducted—the deployment, the operation with the Australian ground station and the modification of the radar to produce a surface surveillance outcome as well as a reconnaissance outcome.

**Senator WEST**—Was the Global Hawk that stealth thing that flew around?

**Air Vice Marshal Conroy**—It is not a stealth aircraft.

**Senator WEST**—It is unmanned? I saw something flying around that did not have human beings in it.

**Air Vice Marshal Conroy**—It is uninhabited, but it has no radar cross-section reduction technology of any note. It can be seen by radars.

**Senator WEST**—It flies very high, though.

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**Air Vice Marshal Conroy**—It flies very high.

**Senator WEST**—It has no human personnel inside it?

**Air Vice Marshal Conroy**—That is correct.

**Senator WEST**—If we decided to purchase one of these, how much would the budget need increasing by? I presume these do not cost a peanut; they are pretty expensive.

**Air Vice Marshal Conroy**—In the defence capability plan that accompanied the white paper there was a bookmark expenditure for it in the out years, to go ahead with this project if the development of the technology continues to be as promising as it is. The funding line against it is of the order of \$100 million. We do not quite know how much the systems are going to cost. It initially started life being cost capped at \$US10 million, from memory, or \$US20 million per airframe. I do not think that will be sustained into the future. We really do not know. Right at the moment it is a concept of technology demonstrated in the US.

**Senator WEST**—And we have expended \$US10 million on that?

**Air Vice Marshal Conroy**—Yes.

**Senator WEST**—What has the \$US10 million been spent on? How has it been spent?

**Air Vice Marshal Conroy**—It has been spent mainly through the activities of DSTO in supporting and developing the processes for the recent deployment to Australia during exercise Tandem Thrust. There was a contribution to the US project office in order to be part of the process. In addition to that, we have spent a contribution out of DSTO's running activities.

**Senator WEST**—These days \$US10 million is about \$A20 million. I am wondering what value we got for that \$20 million, apart from some very interesting television footage of an aircraft with nobody in it landing at Edinburgh.

**Air Vice Marshal Conroy**—I would say that it is an investment in the future. If the future of military aviation is going to move from manned aircraft into uninhabited vehicles, it is necessary to have an intimate knowledge—or a good knowledge—of what the uninhabited vehicle can do, to know how well developed the technology is, where its limitations are and when is the appropriate time to really make substantial investments. It was seen by the Defence Capability Investment Committee equivalent at the time as being a sound investment in the future of the aerospace capabilities of the ADF.

**Mr Roche**—I thoroughly support what the Air Vice Marshal had to say about that, Senator. All of the reviews that we have done into the projects which have got into trouble have told us time and again that money spent up front investigating the technology thoroughly before you make a major commitment is money well spent.

**Senator WEST**—It is one way of overcoming the pilot shortage, is it? I notice that there is no comment. Is it early days yet with the evaluation?

**Mr Roche**—It would probably be worth asking the question of DSTO when you are talking to them tomorrow. From our point of view, I think that the excursion or the trial was very successful.

**Senator WEST**—Thank you. Where is the Collins combat system selection process up to? What is causing the delays?

**Mr Roche**—The selection of the system is with government.



**Senator WEST**—When was the minister provided with the recommendation from the department? I do not want to know what the recommendation is; I just want to know when he was provided with the recommendation.

**Mr Roche**—I would need to check on the exact details. It was around the end of the year and it was not long before Minister Reith became the defence minister. There was an issue, I recall, about whether it was actually processed in Minister Moore's office or whether it became a paper that was transferred to Minister Reith.

**Senator WEST**—Minister, have you any idea what the delays are, given that this has been with the minister's office for about six months?

**Senator Ian Macdonald**—No, I am afraid I do not, but I will take that on notice to see if Mr Reith wants to respond.

**Senator WEST**—Thank you. Has Defence received any complaints regarding the fact that Admiral Briggs is now working for one of the bidding teams?

**Mr Roche**—Yes, it has been put to me that he is in fact employed by STN Atlas. Admiral Briggs has assured me himself only within the last couple of months that that is simply not true.

**Senator WEST**—That he is not working for?

**Mr Roche**—That he is not working for STN.

**Senator WEST**—When did Admiral Briggs cease to be in the Navy?

**Mr Roche**—On 26 January this year.

**Senator WEST**—You tell me that he is not working for any of the bidding teams?

**Mr Roche**—There are only two teams that are in the competition at this stage. That is STN Atlas and Raytheon.

**Senator WEST**—Not only is he not working for them, but he is not working in any consultancy capacity for any of them or for any other organisation that might have contractors or subcontractors or for someone that might have an interest in it?

**Senator Ian Macdonald**—I would have thought the fairer question was, 'Have you dealt with him in that capacity?'

**Mr Roche**—We certainly have not dealt with him in any capacity and to our knowledge he has taken no part in anything to do with combat systems with either Raytheon or STN. He is doing some consulting work in the submarine business. My understanding is that that is with a Western Australian firm, Nautronix, that was associated with STN in the bid. It is something completely unconnected with submarine combat systems and it does not, to my knowledge, flow back to STN at all.

**Senator Ian Macdonald**—The point I am making is that you do not keep tabs on where these people work and what they do after they leave the forces, do you?

**Mr Roche**—Not normally, Minister. But on this occasion it was an allegation that was made. It was quite a serious allegation and we did pursue it.

**Senator WEST**—Admiral Briggs was responsible, he was the person who came to this desk in front of us to answer questions about the submarine project. I think in that situation it is fair to ask.

**Senator Ian Macdonald**—Do these officers know that he did not take a job today with someone? I have not got a clue; I do not think I even know Admiral Briggs or what he does. If he took a job today, would these people know?

**Mr Roche**—It was within the last couple of months. I in fact inquired of both STN and Admiral Briggs whether it was true and both STN and Admiral Briggs denied it. I do believe them.

**Senator WEST**—It is about perceptions as well as probity. If he is working in a consultancy capacity for another company that is doing something with submarines, you can understand why other people might be may be adding two and two together and getting four or three or five.

**Senator Ian Macdonald**—Perhaps an appropriate question—it is not for me to question the officers—is whether there is any rule against people doing this. Do we have some sort of propriety rules that prevent this happening? I would hope so, but I do not know.

**Lt Gen. Mueller**—Yes, there are guidelines with regard to people seeking employment after they separate from the service.

**Senator Ian Macdonald**—As far as you are aware, Admiral Briggs has complied with those guidelines?

**Lt Gen. Mueller**—As far as I am aware.

**Senator WEST**—Do we have a copy of those guidelines?

**Mr Roche**—One can be provided. There is guidance on this.

**Senator WEST**—One can be provided, please. You are in the process of rewriting a whole stack of them. Is this one of the ones that is being rewritten?

**Lt Gen. Mueller**—I have no idea.

**Senator HOGG**—It is called cutting up the red tape.

**CHAIR**—Have you finished on this subject?

**Senator WEST**—Just about.

**CHAIR**—We will take a short break.

**Proceedings suspended from 9.04 p.m. to 9.25 p.m.**

**CHAIR**—The estimates committee is now back in session.

**Senator WEST**—Has Defence awarded the Collins class general maintenance contracts yet?

**Mr Roche**—We have not yet agreed a long-term contract for the Collins class. That will be part of the arrangement that will include the new ownership with the Australian Submarine Corporation, but there are interim arrangements in place.

**Senator WEST**—Who are the interim arrangements in place with, or what are the interim arrangements?

**Rear Adm. Scarce**—The interim arrangements are that ASC will continue to provide the in-service support for Collins submarines.

**Senator WEST**—That would not be a contract—

**Rear Adm. Scarce**—There is an in-service support arrangement with ASC that covers the interim logistics support for the five submarines.

**Senator WEST**—What is the value of that support contract?

**Rear Adm. Scarce**—I will have to take that on notice.

**Senator WEST**—Okay. When do you expect the long-term contract to be sorted out?

**Mr Roche**—That will be when the ownership of ASC is resolved.

**Senator WEST**—Okay. Short, long or medium?

**Mr Roche**—Hopefully there will be some movement on that this year and certainly I would expect within the next eighteen months or so for it to be resolved.

**Senator WEST**—Do we have any idea of the budget that goes with that?

**Rear Adm. Scarce**—I would be giving you a rough order of magnitude but we would imagine it to be around \$120 million to \$140 million per year for the full submarine force.

**Senator WEST**—Each submarine or for the whole fleet?

**Rear Adm. Scarce**—The whole force.

**Senator WEST**—The whole fleet, okay. I cannot ask you all the other questions if you have not let the contracts. What is the current status of project SEA1439 phase 3 and what does it do?

**Mr Roche**—Is that the replacement combat system

**Rear Adm. Scarce**—Fourteen twenty-nine is the submarine.

**Senator WEST**—Is SEA1439 phase 3 capability?

**Mr Roche**—It is.

**Senator WEST**—It was in the pink book, was it not? Didn't Minister Moore put it there in 1998?

**Rear Adm. Scarce**—I have a feeling that was the replacement combat system for the Collins.

**Senator WEST**—Here comes the cavalry!

**Mr Roche**—Fourteen thirty-nine, phase 3 is the sustainable platform for the Collins class submarines.

**Rear Adm. Scarce**—That has not been to government yet.

**Senator WEST**—Right. Was it put in the pink book?

**Rear Adm. Scarce**—It is foreshadowed, yes, in this year's budget.

**Senator WEST**—Remind me what the pink book does—what does putting something in the pink book mean?

**Mr Roche**—The pink book is a term I am trying to discourage. It was basically the listing of unapproved projects.

**Senator WEST**—Unapproved, right. Did the minister receive a question about this in the House of Representatives recently?

**Rear Adm. Scarce**—Any more detail, Senator?

**Senator WEST**—No, I have not. I am sorry. I understood that the minister was asked that question. I am not in the same House as the minister—that is the problem. There was a question asked in the House of Representatives, and I am wondering what the repercussions of that answer were. You tell me that a decision has not yet been made on the capability platforms.

**Mr Roche**—It was foreshadowed in the white paper and the budget process. There will be a case going to government quite shortly for approval for this stage of the project.

**Senator WEST**—Has there been any project that looks at the follow-on submarine capability?

**Rear Adm. Scarce**—There is no project, although I know that the submarine arm had a conference at the end of 2000 to look at the capabilities that they thought might be appropriate for a follow-on submarine program. Those works are now being progressed by the submarine force element group and DSJO.

**Senator WEST**—It is the post Collins era that I am interested in. Is it SEA1439 or is it another?

**Mr Roche**—There is no formal project in the capability or acquisition process for a follow-on to Collins. Our focus is very much on Collins at this stage.

**Senator WEST**—So Minister Moore did not put that sort of project in the pink book?

**Mr Roche**—Not for a follow-on submarine to the Collins.

**Lt Gen. Mueller**—No, there is no project in the unapproved component of a major capital investment program for a submarine to follow Collins at the expiration of its life.

**Senator WEST**—That would raise with me: what is the status of the pink book at the moment if Mr Roche says he is trying to get rid of the terminology ‘pink book’?

**Mr Roche**—There is a fully funded capability plan set down by the government in the white paper. That is our guidance for the coming decade.

**Senator WEST**—So you are not going to be publishing another pink book in the future? The white paper is your pink book.

**Lt Gen. Mueller**—The major capital investment program essentially has two components. There is an approved component for those projects which have received government approval in the budget context, thereby authorising Defence to go ahead with the expenditure from the capital budget in order to acquire the preferred solution. There is an unapproved component which, as far as major capital investment projects are concerned, is represented by the Defence capability plan—the broad structure of which is contained, from memory, in chapter 8 of the Defence white paper. The unapproved component is what is sometimes referred to as the pink book. The pink book is reviewed annually in the light of changed strategic circumstances, possible shifts in technology, alterations in government priorities and possibly expenditure considerations within the unapproved part of the program.

**Senator HOGG**—I want to ask a couple of questions about the pink book. I heard Mr Roche’s comment before. He is trying to get away from the terminology. Can one assume that the pink book no longer exists as such? Is it still a terminology that you use?

**Lt Gen. Mueller**—The pink book is only a term of convenience.

**Senator HOGG**—I understand that.

**Lt Gen. Mueller**—It is used to refer to the unapproved part of the major capital investment program.

**Senator HOGG**—I understand that, but even as a term of convenience within the department, is it something that you are trying now to put out of the language?

**Mr Roche**—Lieutenant General Mueller and I are working together to describe a capital investment plan which has an approved and an unapproved component, and to take the two parts together and run them as a single capital investment budget.

**Senator HOGG**—But are you still putting together the equivalent of the old pink book?

**Lt Gen. Mueller**—Yes, because there has to be a program for that part of the major capital investment program which, as yet, is unapproved. In particular, industry are acutely interested in what is in the unapproved part of the capital investment program.

**Senator HOGG**—That is right, and that was always my understanding of the value to industry of using the pink book. In that way, industry knew what the unapproved projects were and that enabled them to keep an eye on the game.

**Mr Roche**—The intention is not to deny them that. The projects that have been brought forward in the white paper probably have a stronger status than the old pink book projects which did not necessarily have any government endorsement. The projects in the white paper have an in principle agreement on the part of government and they need to go back only for a formal approval.

**Senator HOGG**—Are you able to give us a list of the unapproved projects that were in the pink book prior to the release of the white paper?

**Lt Gen. Mueller**—Yes, that can be done.

**Mr Roche**—It can be done. The pink book exists.

**Senator WEST**—It is on your web site, isn't it?

**Senator HOGG**—I understand that the web site has not been updated for a while. Can you list or annotate the projects which were in the pink book prior to the release of the white paper but which are no longer on even the unapproved list?

**Lt Gen. Mueller**—Yes, that can be done.

**Senator HOGG**—Is the web site still operating, for industry's sake, in the unapproved area?

**Lt Gen. Mueller**—We would have to take that on notice. I do not know the answer to that.

**Senator WEST**—The question was asked on 3 April.

**Senator HOGG**—Have any complaints been received from industry regarding the status of the pink book? From what you have said, I presume that currently no version of the pink book is available because you say that it does not have the importance or status that it previously had.

**Mr Roche**—Lieutenant General Mueller and I have undertaken to industry to produce an unclassified version of the Defence capability plan which will include both approved and unapproved projects. They will be able to pick up the total picture from one place.

**Senator HOGG**—When will that be available?

**Lt Gen. Mueller**—As I understand it, it is your intention to issue it at the Defence and industry conference at the end of this month.

**Mr Roche**—That's called nailing me!

**Senator HOGG**—I presume that they will be clearly distinguishable within your Defence capability plan.

**Mr Roche**—Yes, the status of the projects will be quite clear.

**Senator WEST**—Will the long-term plans for the Collins class addition or replacements be included?

**Lt Gen. Mueller**—No, because there is no plan. There is no foreshadowed project for the replacement of the Collins, at this point in time, in the unapproved component of the major capital investment program.

**Senator WEST**—What is the life of the Collins?

**Mr Roche**—Thirty years.

**Senator HOGG**—It might be appropriate if I ask a couple of questions on the major capital equipment projects. On page 81 of the PBS is the Anzac ship project. I am just a little confused about this project. The approved cost, as you can see, is \$5,245 million. The approved project cost in the annual report of 1999–2000 was \$6,163.5 million, which is a little bit higher than what you have indicated in the current PBS. However, when I looked at the cumulative expenditure to 30 June 2000 in the annual report, it was \$4,759.8 million and yet when I look to this year's PBS the estimated cumulative expenditure to 30 June this year, 12 months after the annual report, is \$4,231 million. So somehow, in the annual report last year, unless I have read the annual report incorrectly, the cumulative expenditure to 30 June was \$4,759.8 million and yet now the expenditure on that project has dropped back to \$4,231 million.

**Mr Roche**—I will have to take that on notice. It appears anomalous.

**Senator HOGG**—It does, because when you take that together with the—

**Mr Roche**—I have just been advised of the answer and it is lurking in footnote 4 on page 82. The New Zealand receipts have been netted off from those figures. The figures in the annual report are gross figures, by the look of it.

**Senator HOGG**—When you do things such as that, it makes it difficult for people like us to follow what is going on. We do not end up being able to compare like with like. I knew there was an explanation. I read the footnote, but the footnote explains nearly \$900 million, I think it is, worth of expenditure.

**Mr Roche**—I will certainly look at the presentation of those figures to see that they are on a comparable basis in the future.

**Senator HOGG**—Can you draw up some sort of explanation for me because I have no doubt that there is nothing wrong there but it just seems inconsistent when you try to work the figures over.

**Mr Roche**—I will provide you with the reconciliation, but the difference is that one is a net figure and one is a gross figure.

**Senator HOGG**—I accept that, but some consistency would be helpful in those things.

**Mr Roche**—I agree.

**Senator HOGG**—Can I ask about the Anzac ship helicopter. Part of the summary on page 85 of the PBS states:

The contract is running two years late with final acceptance of supplies planned for March 2003. The delay has been caused substantially by the partial failure of Litton Integrated Systems, which is contracted to develop the integrated software.

What is a 'partial failure'? Had the company gone into receivership? I am trying to work out what the explanation means.

**Mr Roche**—I do not think that it was meant to refer to the status of the company. The company have been taken over by Grumman, but the company simply failed to produce for Kaman, the prime contractors under the project, the mission system software to a suitable

quality. There has been a protracted dispute between Kaman and Litton over this matter—we have been applying a lot of pressure to both companies—and Kaman believe that the relationship between the two companies had got to the point where they could no longer continue with them. There was a commercial settlement between the two of them, and Kaman are now proposing to move the development of builds 2A and 2B of the software to another subcontractor. It is a very unsatisfactory situation.

**Senator HOGG**—Has the failure of that contract realised any penalties against the former contractor for failing to deliver?

**Air Vice Marshal Conroy**—The financial situation between Kaman and Litton is a matter for Kaman to manage, not the Commonwealth. They have come to some confidential settlement between themselves—an agreement that allows Litton to finish to the stage of development of the software that they are capable of doing, some final settlement and a formal agreement on intellectual property and the handover of documentation, et cetera, to the next builders.

**Senator HOGG**—In the documentation you supplied to us, you say that the contract is running two years late, with final acceptance in March 2003. Will this further hiccup—and that is how I am interpreting it—set the project back further?

**Mr Roche**—This is the continuing hiccup. The rest of this project has gone according to plan—the aircraft is flying—and the entire difficulty is revolving around the mission control system. It has been an ongoing difficulty.

**Senator HOGG**—Will that date of 2003 be pushed out? I am not going to hold you to it.

**Air Vice Marshal Conroy**—This is the declared delivery date by Kaman, the prime contractor, after it restructures its software subcontracts. Is that a believable schedule? Not only you are asking that question, but so am I.

**Senator HOGG**—Good. We both want to know the answer; you might tell us.

**Air Vice Marshal Conroy**—To the extent that we even asked Kaman's senior executives to apply liquidated damages to their forecast if they cannot make it. They are in the fortunate position of having a contract with us at the moment that does not have a liquidated damages component, and not surprisingly they do not want to enter into that territory. Nonetheless, we will be making it quite clear to them that any further delays in this project will cause us damage and we will be reserving our position.

**Mr Roche**—We do have open to us legal remedies, and we have not accepted the first aircraft. Kaman was very keen for us to provide a qualified acceptance of the first aircraft. That has not been done, and we are protecting our legal position.

**Senator HOGG**—I now have a couple of brief questions on facilities projects and the naval ammunition facility in Eden, New South Wales. Page 90 of the PBS states:

Land tenure issues, including negotiation of an indigenous land-use agreement, are currently under consideration.

Can you give us an update on that?

**Mr Bain**—We are well progressed with the negotiations on the indigenous land use agreement. That started in September last year, if I recall, and it has been progressing well. We are hopeful to resolve that in the next couple of months.

**Senator HOGG**—So there is a prospect of a settlement in sight there—thanks very much. I have a few quick questions about your table 3.12, which extends over pages 91 to 94. I believe the annual report indicated that last year there was \$60,000 to be spent on the

Enoggera Barracks catering rationalisation, but there is a total expenditure allocated in the PBS of \$11.6 million. Expenditure to date has been \$60,000 and that is it. There is no further expenditure on the project. Why has that ground to a halt?

**Brig. Kelly**—That project was approved in the previous year's budget and the \$60,000 was spent on development of the project. There was what we call an 'internal facilities forum' at the end of last year to approve the project internally, and no agreement was reached on the user requirement at that stage, and therefore the project has not progressed.

**Senator HOGG**—When is it likely to progress? It is a fairly large allocation.

**Brig. Kelly**—I believe that the user requirement is being redefined. I cannot specifically answer the question; it is not expected that there will be any expenditure in the next financial year, so I would expect that within about six months or so we would be confirming the requirement.

**Senator HOGG**—Will the redefining of the project see a change in the estimated expenditure allocation?

**Brig. Kelly**—It could. We do not consider that this is an absolutely critical project. It is aimed at rationalising the number of messes in Enoggera Barracks, so it is not capability driven as such. But we are having some difficulty in defining how many messes Army requires in the area.

**Senator HOGG**—So Army have got to get their act together, in other words?

**Brig. Kelly**—We are there to provide a service to Army. We are trying to facilitate the most economical solution.

**Senator HOGG**—I think that is very praiseworthy indeed. On page 92, under the heading 'Herbert—Medium Works' a total estimated expenditure of \$3 million is listed for the Halifax Bay range relocation in Townsville. What is that about? I have got the minister interested.

**Senator WEST**—The utterance of the word 'Townsville' is enough to wake him up!

**Senator Ian Macdonald**—You sure have. I do not know how they can relocate the range; it is a bit of ocean, isn't it?

**Senator HOGG**—As I understood, it is a very well-sited range, in the sense that there is one particular rock that they bomb there or something.

**Senator Ian Macdonald**—It is called Cordelia Rock, near Rattlesnake Island.

**Senator WEST**—Get the right island, Minister.

**Mr Bain**—The RAAF has used Cordelia Rock, in the Halifax Bay weapons range, for many years as a target for high explosive bombing. Historically, that has been up to the 2,000-pound size but more recently it has been restricted to inert ordnance and occasional use of 500-pound bomb size. The HE bombing has been subject to some community and media attention in several years. In response to that and in consultation with the Great Barrier Reef Marine Park Authority, Defence is examining relocating that range to the Townsville field training area, impact sector north, and that will be an alternative site for a high explosives range. There are currently studies—

**Senator HOGG**—Excuse me, could I just stop you there, Mr Bain. Does that mean that Halifax Bay will continue to be a range that is used for low explosive ordnance?



**Mr Bain**—I think so for now, although it is infrequent. Ultimately it will just be used for inert bombs.

**Senator HOGG**—And what is the \$3 million actually to be used for? Is that remediation work?

**Mr Bain**—No, it is to establish the range on the Townsville field training area. Once the studies have been completed, there is a siting board which has to look at the various technical aspects for such a range. Brigadier Kelly may be able to help.

**Brig. Kelly**—I am not familiar with the user requirement at this stage but I would expect it would include things such as targets, access, range control and things like that.

**Senator WEST**—Are you satisfied, Minister?

**Senator HUTCHINS**—Have you got the right island now?

**Senator Ian Macdonald**—It is not where it was but where it is going that I am interested in.

**Senator WEST**—Where is it going?

**Senator Ian Macdonald**—It is in the Army north range, isn't it?

**Mr Bain**—The Townsville field training area.

**Senator HOGG**—And how far north of the existing site is that, roughly?

**Senator Ian Macdonald**—It is west.

**Mr Bain**—It is out the back of the Lavarack Barracks.

**Senator WEST**—This is on land rather than on sea?

**Senator Ian Macdonald**—It is up in the high range area, which is a very big area set aside for defence manoeuvres for the last 30 years or something.

**Senator HOGG**—All right, so it is a move west. The next matter I want to raise briefly with you is the Wallangarra storage facilities. You have allocated for the project \$5.7 million and this year you are going to spend \$2.7 million. What is actually happening at Wallangarra? I have run into people who have said that you would not even know what was at Wallangarra, that no-one has done a proper inventory of what exists at Wallangarra.

**Senator Ian Macdonald**—It is very important locally, Senator, and you would not know it was there.

**Senator HOGG**—Very important in rural terms, Minister, as you would know.

**Mr Bain**—The facility is for the storage of F111 spares.

**Senator HOGG**—I then take you across the page—

**Senator HUTCHINS**—Could I ask about New South Wales?

**Senator WEST**—Yes, there are a couple of New South Wales senators here.

**Senator HUTCHINS**—Four.

**Senator HOGG**—Everyone wants to ask questions. I am sorry. I give in.

**CHAIR**—Are you going to ask a question, Senator West?

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**Senator WEST**—Yes, I was wanting to know about Mulwala—\$63 million expenditure, nothing for this financial year and only \$1 million next year. What is going on with that remediation? Have you actually identified what you have got to remediate yet? That, I recall, was a problem.

**Senator Ian Macdonald**—Mulwala?

**Senator WEST**—It is on the border near Albury. We have discussed Mulwala before. What is going on there, please?

**Mr Bain**—Senator, the \$63 million that you refer to was raised last time. This is the remediation of ground water contamination and soil contamination. There is still further work to be done there in relation to developing the remediation options. We are working with the New South Wales Environment Protection Authority in relation to that. Specifically we are examining the extent of soil contamination and that is due for completion this month. The report is currently being reviewed by an independent auditor and the New South Wales Environment Protection Authority, but there is further work to go before we actually determine the extent of the work and how to approach the remediation.

**Senator WEST**—This study has been going on for a while, has it not?

**Mr Bain**—It has.

**Senator WEST**—How long? I am trying to think how long it is since I asked questions about it, but it is a while.

**Mr Bain**—I am not sure, Senator. I will take that on notice.

**Senator WEST**—Okay, thank you.

**CHAIR**—How is it possible to make forward estimations for the value of the remediation of \$63 million without considerable work as to what was required?

**Mr Bain**—There was some time back an estimation of what would be required. I think the figure was \$60 million to \$130 million. We have gone to the low end. We believe that from overseas experience there are ways to remediate ground water and soil contamination that is less expensive than traditionally has been the case. But we do need to do further work and that estimate may prove to require adjustment.

**CHAIR**—The Mulwala factory is subject to another investigation, is it not, on the future operation of the factory?

**Mr Bain**—It is.

**Major Gen. Haddad**—Yes, there is an investigation going on at the moment about the future of the Mulwala operation.

**CHAIR**—And how is that investigation proceeding?

**Major Gen. Haddad**—I anticipate that we will be able to make a recommendation by the end of this year.

**CHAIR**—Is consideration of the timing of the environmental work affected by the parallel decision about the future of the factories?

**Mr Bain**—No, the environmental work will have to be done regardless.

**Senator HUTCHINS**—Mr Bain might be able to expand on this. Is the Ermington site pre-disposal for \$33 million also remediation?

**Mr Bain**—No, not a remediation. It is major infrastructure on the site so that the site can then be sold off in super lots rather than in one package which would be difficult for the market to digest without significantly discounting it. However, as is noted in the PBS, there may be an outcome with industry whereby they take responsibility to do that under some joint venture arrangement and therefore that money would not be required. But to go to the market there had to be some certainty that if required we would undertake that work.

**Senator HUTCHINS**—Is that decision pending about the joint venture or has that been made?

**Mr Bain**—We will have to go to the market. But now that the PWC has approved the project we are ready to go to the market and see what interest there is.

**Senator HUTCHINS**—What is the PWC?

**Mr Bain**—Sorry, the Public Works Committee.

**Senator WEST**—Can I go back to Mulwala? That site is used by ADI for a propellants and explosives facility. Is that correct?

**Major Gen. Haddad**—Yes, Senator, that is correct.

**Senator WEST**—A decision has not yet been made on future ADI involvement in that?

**Major Gen. Haddad**—A decision has not yet been made on whether we wish to continue domestic production of high explosive and propellant or use importation.

**Senator WEST**—So one of the options for these items is overseas suppliers?

**Major Gen. Haddad**—Yes, Senator.

**Senator WEST**—What are the current contract arrangements that Defence has with ADI for propellants, ammunition and so forth?

**Major Gen. Haddad**—Defence has a contract with ADI for the manufacture of ammunition at Benalla in the Mulwala operation, which is also linked to that. That particular contract is for production of high explosive and propellant as inputs to the ammunition production. It is possible for us to step out of the second part of that contract.

**Senator WEST**—Being the high explosives—

**Major Gen. Haddad**—And propellant. It is a Commonwealth owned facility operated by ADI.

**Senator HUTCHINS**—What would happen to Mulwala then?

**Major Gen. Haddad**—A decision has yet to be made on that. It is one of the issues that would have to be addressed.

**Senator WEST**—One of the things that Defence is considering for that is the overseas supplier issue.

**Major Gen. Haddad**—There is a strategic issue as to whether we wish to maintain domestic capability or substitute that with importation. There are a range of issues that need to be addressed, which is why it will take us through towards the end of this year to come up with a position on this matter.

**Senator WEST**—What are the issues?

**Major Gen. Haddad**—The issues relate to the extent to which we can trust the alternative sources of supply. The options available are to stockpile, import direct and use directly, or to produce domestically.

**Senator HUTCHINS**—So this debate is under way at the moment, is it, and has been for some period?

**Major Gen. Haddad**—The debate has been under way for some period, but it will take a while before we can finalise a position to recommend to government.

**Senator HUTCHINS**—Who makes that recommendation to government? Is it Joint Logistics or is it someone else?

**Major Gen. Haddad**—Joint Logistics Command is responsible for the current operation, but in the end it would be a capability decision by Defence.

**Senator WEST**—Who overseas is capable of supplying these sorts of items?

**Major Gen. Haddad**—There are a range of suppliers in Europe, the United States and the UK that can provide these products for us.

**Senator WEST**—If you had them supplied, how would you go about storing them in Australia?

**Major Gen. Haddad**—That is one of the issues that need to be addressed in the study. There are storage sites currently available at Mulwala and you could construct storage sites at Benalla if necessary.

**Senator WEST**—How easily transportable is some of this material?

**Major Gen. Haddad**—It is currently transported from Mulwala to Benalla for production, so it is transportable.

**Senator WEST**—There is a big difference between transporting something from Mulwala to Benalla and transporting something from Liverpool docks to Sydney or Melbourne for transportation then to Benalla.

**Major Gen. Haddad**—There is certainly a difference, Senator. But if that were the decision, it would be shipped and imported through the entry point, which is currently down in Victoria, and then transported to where we would store it at either Benalla or Mulwala. So I do not see transportation being an issue.

**Senator WEST**—Are these large explosives and propellants that we are talking about?

**Major Gen. Haddad**—The current consumption is about 250 tonnes of high explosive and 250 tonnes of propellant, used at the Benalla plant per annum.

**Senator WEST**—What do our comparable overseas military forces do, such as the British and US forces?

**Major Gen. Haddad**—As far as I am aware, their practices are not that markedly different from ours. They import some completed products—that is, ammunition that has been manufactured—or, where they have a domestic manufacturing capability, they either manufacture their propellant and high explosive or import it.

**Senator WEST**—If you were going to be importing your high explosives and propellant, would it be easier to bring them in in the finished product?

**Major Gen. Haddad**—That is an alternative. At the moment we have made a decision to have domestic ammunition manufacturing capability or a range of natures of ammunition. For those, we need the high explosive and propellant as part of the inputs of that production process. Clearly the alternative is to import fully produced ammunition.

**Senator WEST**—We are looking at being totally self-sufficient and not importing anything or we are looking at importing some of the product half made and continuing the process here or we are looking at total importation of everything.

**Major Gen. Haddad**—Our current arrangements are a mixture of all those things that you just outlined. We manufacture some at Benalla and we import other natures.

**Senator WEST**—What do we import?

**Major Gen. Haddad**—Currently we import 25 millimetre ammunition, for example. We import about 93 per cent of our guided weapons. It depends on the nature. The plant at Benalla is capable of manufacturing most of our needs, but an economic decision is made as to whether it is more cost effective to import a particular item. That really drives most of our decisions for importation at the moment.

**Senator WEST**—And cost effectiveness is one of the things you are looking at?

**Major Gen. Haddad**—Yes.

**Senator WEST**—When did you say the decision on this is likely to be made?

**Major Gen. Haddad**—Our target is by the end of this year.

**Senator HOGG**—I am interested in the Bradshaw infrastructure in the Northern Territory. The project cost is \$54 million. I understand there are land rights issues there. I have been asking this question for a while, so I thought I would ask it again. Where has that issue progressed to?

**Mr Bain**—Your question is very timely. On 1 June, we received in principle agreement to the form of the indigenous land use agreement with the Northern Land Council and the traditional owners. We will now proceed to come up with a detailed document. That should take a couple of months.

**Senator HOGG**—One should then start to see the allocation that has been made there being used up to put the infrastructure in that is necessary?

**Mr Bain**—Yes.

**Senator HOGG**—Will that agreement make any difference to the allocation in this year's budget?

**Brig. Kelly**—It will. In fact, it will proceed fairly quickly with the Northern Territory government which, on our behalf, is going to deliver the bridge across the Victoria River. That will allow us to get into the training area and develop the infrastructure. That will probably result in an expenditure in this financial year of around \$7 million to \$8 million.

**Senator HOGG**—The budget figure there—whilst it is showing \$600,000—as a result of that agreement now will be \$7 million.

**Brig. Kelly**—In the next financial year, correct.

**Senator HOGG**—The last question I have in this area relates to the Australian Capital Territory. I am very interested in the Russell child-care facility—\$2.4 million with a budget expenditure of \$1.4 million. What sort of childcare facility are you building for \$2.4 million?

**Mr Bain**—We can provide you with details of the breakdown of the cost. The child-care centre will be the refurbishment of the canteen at Russell, which is on the eastern side of the Russell precinct. We will be converting that building into the child-care centre.

**Senator HOGG**—And that is going to cost \$2.4 million?

**Mr Bain**—Yes.

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**Senator HOGG**—I am not an expert in child care, but I have made a few inquiries around the place. When I have mentioned that figure, people have asked me where the gold taps are going to be situated within the child-care centre. How would that cost compare with general commercial child-care centres and other child-care centres and facilities that are made available to Defence personnel?

**Brig. Kelly**—Senator, I cannot comment on commercial provisions, but I can compare it in general terms with some other child-care facilities which we have delivered in recent years in Tindal, Palmerston near Darwin and Enoggera barracks. I cannot recall exact details, but they were in the order of \$2 million to \$2½ million.

**Senator HUTCHINS**—Do you have any child-care facilities there now?

**Brig. Kelly**—At Russell—no.

**Senator HUTCHINS**—Do you know how many people work at Russell?

**Senator HOGG**—And how many have indicated that they will use the facility?

**Senator WEST**—How many places will there be?

**Mr Bain**—I think there are 80.

**Senator WEST**—Eighty—that is a large child-care centre.

**Senator Ian Macdonald**—Do we have one in Parliament House?

**Senator WEST**—No, Minister. It is of no concern to me, but it is to some people around here.

**Senator HOGG**—Mr Bain, were you going to add something more to your answer?

**Mr Bain**—Yes, we just wanted to clarify something. There might be a small child-care facility in DIO.

**Senator HOGG**—I presume Mr Harper, who has a smile on his face, has a child there.

**Mr Harper**—For the record, my children probably would not fit in the child-care centre.

**Senator HUTCHINS**—Did you say DIO?

**Senator HOGG**—It seems a rather large sum to me. Perhaps you could give us some break down of how that compares with your other child-care centres. Whilst you are at it, a magical word was mentioned there: Tindal. Have the child-care facilities at Tindal been fixed up? I understand there were five facilities at Tindal that were used for either day care or after care facilities, and I understand that they did not meet the occupational health and safety conditions and therefore had to be closed down. I understand that a number were re-opened—that number being two out of the five. Firstly, have the other three at Tindal been re-opened? Secondly, in other facilities operated by Defence where child-care centres were closed for occupational health and safety reasons, how many of those were closed and how many of those have now been re-opened?

**Brig. Kelly**—Senator, we could take those questions on notice, but I can say that a new child-care facility was delivered in Tindal about two years ago, which presumably has overcome the problems you talk about.

**Senator HOGG**—I do not think so, because when I was there—I might be incorrectly describing them—there were five facilities that were used by the parents on the base for their children for either day care or after school care or holiday care. It struck me that in such a remote location as Tindal that was an essential item for the good harmony on the base in

terms of looking after some of the children that were on the base. I have a particular interest in Tindal. I did speak to Mr Corey about it at one stage.

**Senator WEST**—He is not here tonight.

**Senator HOGG**—Could you find out?

**Mr Bain**—I know the issue you are referring to. I will get the answer for you tomorrow.

**Senator HOGG**—Thanks very much. I will return now to the general area.

**CHAIR**—You wouldn't like to have an early night, Senator Hogg?

**Senator HOGG**—I have still got a few questions to go, Chair. I would love to have an early night.

**CHAIR**—It was just an option provided to you.

**Senator HOGG**—I appreciate that. Who has the maintenance and fit-out work for surface combatants?

**Mr Roche**—Admiral Scarce is your man, Senator.

**Rear Adm. Scarce**—Which particular surface combatants?

**Senator HOGG**—It is a broad question.

**Rear Adm. Scarce**—We have a number of contractors that provide us with support. In the Anzac system it is principally through Tenix for platform and SAAB for weapons systems. In the FFG there will be a range of contractors in Sydney. If I can have some specifics I am sure I can give you some information.

**Senator HOGG**—It is a broad question. You can probably take that on notice. If you would list your various contractors and detail the costs of the contract and the fit-out work, and when the contracts were leased, that would suffice.

**Rear Adm. Scarce**—Senator, that is an enormous question. We have hundreds of contracts.

**Senator HOGG**—Your major contracts, then. How many major contractors would you have?

**Rear Adm. Scarce**—How do you define major? I am not trying to be difficult. What about in terms of money, then?

**Senator HOGG**—All right, I will go away and I will come back with that question rephrased. My next question is: I understand that SingTel has purchased Optus. Is that correct? I understand also that Defence has a contract in respect of a satellite project with Optus.

**Mr Roche**—I do not know that the purchase has actually taken place yet. It is subject to the Treasurer's approval. I believe there is certainly an offer and we are certainly dealing with SingTel on the basis that they do want to go ahead with the purchase.

**Senator HOGG**—Had you actually confirmed the deal with Optus, prior to that purchase, for their satellite?

**Mr Roche**—We have a contract with Optus for the provision of shared access to their satellite.

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**Senator HOGG**—Will that purchase by SingTel, if it proceeds, make any difference to the contract that you have with Optus?

**Mr Roche**—We will be looking for some changes to it, to reflect the change in ownership, but we are not expecting there to be any increase in costs or anything like that.

**Senator HOGG**—I understand that SingTel is owned in part by the Singapore government. Does it make any difference to Defence's attitude to using the satellite when it is owned by a foreign government?

**Mr Roche**—It does mean that we have to build additional national security safeguards into the contractual arrangements.

**Senator HOGG**—Does Defence express a view to the Foreign Investment Review Board about that proposed takeover?

**Mr Roche**—Defence will express a view to FIRB about the proposed sale, and that will be after we have completed our discussions with SingTel and Optus about the contractual changes that would be necessary to satisfy us.

**Senator HOGG**—When is that likely to be made? Is there a timetable in place?

**Mr Roche**—We are working fairly quickly to achieve an agreement with the companies. It is always hard to say how quickly you will reach a final point in these agreements but it could be just a matter of weeks away.

**Senator HOGG**—At this stage you have made no submission to Treasury?

**Mr Roche**—That is correct.

**Senator HOGG**—Where is the program up to for the replacement of the patrol boat, because we have heard about it at a number of estimates now?

**Rear Adm. Scarce**—We have recently put a recommendation to government in relation to the patrol boat.

**Senator HOGG**—From my recollection of my reading of the white paper, that particular project was not mentioned in it.

**Rear Adm. Scarce**—It was not mentioned but it was foreshadowed and there is funding for it.

**Senator HOGG**—Has there been an RFT for the project at this stage?

**Rear Adm. Scarce**—There has not been an RFT released to industry at this stage. Until the government approves the project, we will not be proceeding with that.

**Senator HOGG**—You have submitted the project for approval and you are now awaiting approval from the government.

**Rear Adm. Scarce**—That is correct.

**Senator HOGG**—Have you been given any indication of the time lines involved?

**Rear Adm. Scarce**—I think we only provided it to government last week.

**Senator HOGG**—That is what I am trying to find out.

**Rear Adm. Scarce**—We are still hopeful of proceeding with an RFT in the middle of the year—in the next couple of months.

**Senator HOGG**—Is there any allocation for the project in this year's budget or in the forward estimates?



**Rear Adm. Scarce**—There is a provision for funding for the patrol boat in this fiscal year.

**Senator HOGG**—Is it in the PBS? Can you draw my attention to it?

**Rear Adm. Scarce**—It is not a specific amount. It is foreshadowed only. It was foreshadowed in the white paper. The white paper said:

On current planning, a project will start next year to provide a new class of patrol boat to replace the Fremantles as they are decommissioned. The new boats, preferably built in Australia, are expected to enter service in 2004-05.

The reason it was not identified specifically in the budget is that, as General Mueller explained earlier, the projects, while approved in principle or foreshadowed in the white paper, do require approval in the budget context. That is part of the government requirements these days. This particular project has just gone forward in the last week or so. I would expect it to be dealt with within a matter of weeks.

**Senator HOGG**—So, whilst there is no allocation within the budget—

**Rear Adm. Scarce**—Funds are available in the budget for the project to commence.

**Senator HOGG**—Can you point me in the direction of where the funds are available?

**Rear Adm. Scarce**—They are in the general capital funds; they are not specifically tagged.

**Senator HOGG**—They are not specifically tagged? Mr Harper seems to be looking at something.

**Mr Harper**—No, they are not tagged.

**Mr Roche**—They are in amongst the top line on page 71, under 'Purchase of specialist military equipment'.

**Senator HOGG**—They are amongst that pool of \$2.803 billion?

**Mr Roche**—Yes, they are.

**Senator HOGG**—How many other projects are in a similar state to that in that \$2.803 billion? That is not a small project by any stretch of the imagination.

**Mr Roche**—There were a number that were foreshadowed in the budget that have not yet received formal approval: the patrol boat replacement, C1444 phase 1; C1448 phase 2 Anzac anti-ship missile defence; C1390 phase 4B of the FFG SM1 missile replacement; Air 5046 phase 6, which are additional airlift helicopters—that may not happen this year—and the Collins upgrades that we talked about.

**Senator HOGG**—Do you have an individual value for those projects?

**Mr Roche**—No. We have provided banded estimates for these projects. In the order that I gave you, the patrol boat replacement would be \$400 million to \$500 million, the Anzac anti-ship missile defence \$500 million to \$600 million, the SM1 missile replacement \$200 million to \$300 million and the additional airlift helicopters \$400 million to \$500 million.

**Senator HOGG**—Is that all part of that \$2.803 billion?

**Mr Roche**—Yes. They are total project costs, not expenditure.

**Senator HOGG**—I understand. They are total project costs, so there will be a refining of those costs as time goes on.

**Mr Roche**—Not all of them will be incurred in the coming year.

**Senator HOGG**—I accept that as well. Can I assume that, as we get to the additional estimates, if any of these projects are approved, you will excise that and give the approved cost within the PAES?

**Mr Roche**—Yes, we will do that.

**Mr Harper**—That is the normal practice. To clarify what we just said, we would normally not disclose the costs until a contract had been signed. There is a distinction between approval to go ahead with something and signing a contract.

**Senator HOGG**—I would accept that.

**Mr Roche**—That is precisely why I gave you rough bands.

**Senator HOGG**—I understand that fully, and that is why I did not pursue it any further. I was just trying to get a feeling on the record as to where we were going with that particular issue. Where are we now with the M113 upgrade program?

**Mr Roche**—Again, that project was mentioned in the white paper. That project has caused us some troubles. There have been a number of difficulties, including budgetary difficulties. We have had concerns about the design of the turret and a major worry about the total weight of the vehicle which, in the early design stages, exceeded the original equipment manufacturer's gross vehicle weight. I think we have now been able to develop a way forward in an engineering sense. We have been able to specify our requirements which apparently can be met within the gross vehicle mass limits of the OEM and we can do that broadly within our budget amount. We are in the process of working up the designs with Tenix.

**Senator HOGG**—So the project is with Tenix?

**Mr Roche**—Yes, it is.

**Dr Williams**—At the moment, we have a sole-source arrangement with Tenix in which they are undertaking some project definition work. They have already constructed mock-up vehicles which will allow us to test some of the space and other issues. They are working on a turret development which will probably take into 2002. The intention would be that they would also put in a bid and we would hope, probably in early 2002, to be in a position to sign a contract for the full upgrade involving the 350 vehicles as outlined in the white paper.

**Senator HOGG**—So has Tenix won the tender for this?

**Dr Williams**—A number of events coincided when the original project started. There was phase 1 which was for an A2 level upgrade some years ago and Tenix won that in an open tender arrangement. In respect of a separate commercial support program, a test was carried out for the Bandiana repair facility and Tenix also won that in open competition. On the basis of that, it made reasonable sense for Tenix to be given a sole-source contract for the full upgrade to the A3 level. As a result of that, we entered a sole-source tender arrangement with them. As the under secretary said, the project previously ran into difficulty. It was not sufficiently funded. The white paper has rectified that. We have now gone to Tenix to get them to undertake a project definition phase. Subject to that being satisfactory, we hope to enter a contract with them in due course.

**Senator HOGG**—Am I to understand that Daewoo were originally selected to provide the engine for the upgrade?

**Dr Williams**—Under the previous project, which I said was not affordable with the then available funding, the Commonwealth had a sole-source arrangement with Tenix. Tenix then undertook a process to select various subcontractors to carry out various parts of the work. One of the major areas was provision of the drive train. In the process that Tenix undertook,

Daewoo was identified as the preferred tenderer. However, the total price of the bid from Tenix was unaffordable and, as a result, the Commonwealth had to decline. At about the same time, we also had some concerns about vehicle weight in respect of which, as the under secretary said, some of the early designs exceeded the design limit of the vehicle. Because of price limitations, we also had some concerns that, if we needed to operate a mixed fleet of different variants, we would need some commonality between the old and the new vehicles. So a range of factors coincided for us to go back somewhat to basics. That is why we are doing a project definition phase. We have asked Tenix to review their arrangements with subcontractors and they will be undertaking a process to reconsider, in particular, the major components like the drive train, to select who will get those components.

**Senator HOGG**—Can I interpret from what you have said that Daewoo are no longer in the project?

**Mr Roche**—We effectively drew a line under the project as it stood last year. It was clearly not travelling in a satisfactory direction so a line was drawn under it and a halt was called to all work. We spent no more money with Tenix and we said that we wanted to step back and reconsider our options. We have come forward with a different project. It involves a stretch to some of the vehicles to accommodate a higher gross weight. It involves some reduction in armour on some of the vehicles and a change in the turret design. Given those significant changes, we want Tenix to go back to taws and rebid the project.

**Senator HOGG**—I am really trying to find out whether there was a contractual arrangement, not with Defence, but with Tenix from Daewoo.

**Dr Williams**—No, there was no contractual arrangement. Tenix undertook a process in which they selected Daewoo as the preferred company under the previous project.

**Senator HOGG**—I accept all that.

**Dr Williams**—There was no contractual arrangement. When the Commonwealth was unable to accept the Tenix bid, on price and other grounds, the result was that Tenix advised all its preferred tenderers that it would not be proceeding and basically put them on hold.

**Senator HOGG**—How many other preferred tenderers were there?

**Dr Williams**—The key one was the drive train, and Daewoo were nominated at that stage. There were various other smaller components but that was the significant element. For the drive train Daewoo had been nominated under the previous arrangement as Tenix's preferred tenderer.

**Senator HOGG**—Was there any response from Daewoo to Defence?

**Mr Roche**—Yes, Daewoo have made a large number of representations to Defence and to others. I have met with Daewoo on a number of occasions and I have told them that we were not taking a decision on the project without consulting with them. They were then informed that the project had been redefined and would be rebid. They are aware that they are free to put forward a proposal for the project in its new form.

**Senator HOGG**—I presume Tenix are still handling the project.

**Mr Roche**—Yes.

**Senator HOGG**—When will their subprograms be closed off? When will the contracts be let out? Have Tenix given you any indication?

**Mr Roche**—They cannot be closed off until we have accepted Tenix's design and bid. As Dr Williams said, we expect that to be early next year. Tenix are already in the process of going back to their subcontractors and reconfirming prices, availability and so on.

**Senator HUTCHINS**—Mr Roche, what led you to redefine the bid?

**Mr Roche**—The project was clearly in an unsatisfactory state. It had an overweight vehicle, it was over budget and it did not meet Army's requirements in relation to the tariff. I was not prepared to authorise the expenditure of further money on a project in that state. I wanted to stop, stand back and take a very hard look at exactly where it was going. We did that and subjected it to a full engineering roundtable analysis. At that point we concluded that there was a serious problem with the vehicle weight; it had to be rectified.

**Senator HUTCHINS**—What would have led Daewoo not to comply with your specifications? What occurred?

**Mr Roche**—It was not a matter of their not complying with the specifications. They were suppliers of Tenix. The total vehicle simply did not meet that manufacturer's limits.

**Dr Williams**—In essence, the project is quite substantially different. At the time that Tenix put their proposal to us, which concluded Daewoo is their preferred supplier of the drive train, the project was some \$200 million over the funds we had available. There was no way the Commonwealth could accept the offer on those grounds alone. There were also the concerns of weight. It is not a simple on/off situation. In other words, if you exceed the design weight, then you raise risks. Without thorough engineering analysis, the more the weight, the more the risk. Further analysis just made us somewhat cautious and we decided we should review the weight issue. There is also the issue of space, which has now caused us to look more closely at a stretched vehicle. The basic M113 is fairly tight in internal space. We are now looking at an option that would stretch it so that it would accommodate the Chief of the Army's preferred carriage of nine troops plus a crew of two.

**Senator HUTCHINS**—I might not be able to grasp this, but I imagine you have advised the successful tenderer that that is what you require in the vehicle. Am I right in assuming that Daewoo did not do what you required them to do?

**Dr Williams**—We had a project in which we intended to upgrade 350 vehicles to A3 standard, to a single fleet standard. We went out to Tenix with specifications, and it was their responsibility to select their tenderers, their subcontractors. They did that, and on the basis of a range of information they selected Daewoo as preferred.

We were unable to proceed with that bid because of cost. There was also a concern that we could not fit in the number of people that the Army preferred in some of the vehicle variants, which caused us to review a stretched option. That also meant that we would have a mixed fleet, so that, instead of operating one type or common, we would need some commonality with others. Finally, the weight issue became more critical. As it happened, the Daiwoo solution was heavier than some of the others. They have advised that they have alternatives, and we would assume that Tenix would be looking at that, amongst other solutions.

In essence, we are looking at a fundamentally different project in quite significant ways, so it is not a matter of whether there was a problem previously; we now have a different set of requirements. At the moment we are articulating that with Tenix, and that would be the basis of their re-tendering.

**Senator HUTCHINS**—Are there different sets of requirements now for these upgrades than when you originally called for them to be upgraded?

**Dr Williams**—Yes, there are.

**Senator HUTCHINS**—Is that on the basis of fact—

**Mr Roche**—We now know the importance of vehicle weight. We now have a redefinition by the Chief of Army of his requirements for the ability to carry troops and the number of troops to be carried, and we also have a stronger view of the need for fleet commonality.

**Senator HUTCHINS**—It seems a little obvious to me that those would be fundamental matters that you would take into account.

**Mr Roche**—These were thought about—it was not that people did not realise—but there was greater engineering confidence than perhaps was warranted that the problems of excess weight could be dealt with by an upgrading of the suspension and so on.

**Senator PAYNE**—You had greater engineering confidence, or Daiwoo did, or Tenix did? Whose confidence was that?

**Mr Roche**—It would be fair to say that Tenix, Daiwoo and, possibly, some of our project team all had confidence that the weight issue could be dealt with.

**Senator PAYNE**—What light went on that indicated that that was not going to be the case?

**Mr Roche**—When we undertook a thorough project review because of the budget and schedule problems that we were experiencing. At that stage, we determined to get all the problems out on the table. The engineering consensus at that stage was that the best route was a conservative one to keep it within the weight limits. My view is that that was an entirely sensible approach. I do not know of a single military vehicle that has lost weight during its service life.

**Senator PAYNE**—We would all like to be able to do that, Mr Roche! Doesn't a thorough project review at that point in the process make it quite difficult for companies involved in the tendering process who may have expended funds in making what they hoped was an acceptable tender to be told that the project is going to change fundamentally and that they are back to taws, which I think were your words?

**Mr Roche**—I can imagine there being some disappointment on the part of the companies. I make no apology for calling for the project review—I believe that it was the right thing to be done—and I have much greater confidence that we will have a project that will now deliver. To an extent, we all have to share some of the blame.

**Senator PAYNE**—'We all' being?

**Mr Roche**—We, the project team in DMO, Tenix and Daiwoo, because they were all quite confident of their ability to deal with these issues.

**Senator PAYNE**—What systems of communication are in place between DMO and the companies involved in a process such as this when you decide to do a project review at a mid-term point to ensure that they are not living in false hope of continuing to participate at the same level at which they thought they had participated in the project?

**Mr Roche**—We have worked very closely with Tenix, who are the prime contractor. It was Tenix who did the major dealing with Daiwoo, so the chain of communication should have been from us to Tenix and from Tenix to Daiwoo. But inevitably, we became involved more closely with Daiwoo, and we certainly spoke with them, as I said, on a number of occasions

and we were quite open about what we were doing. Daewoo were reluctant to accept that the project might not go ahead in its current form and that it may be redefined and recompleted.

**Dr Williams**—If I could just add to that: certainly with Daewoo, the representatives of the company and the local agents have met with me on a number of occasions and we have accepted every request to meet with them. To go back to the original rejection of the previous Tenix proposal, Tenix obviously advised all the companies involved directly and, essentially, put them on hold and said that, depending on what form the project would take, they would review their relationship. I think both Tenix directly and we also, where we have been invited to deal with contractors, have tried to be fairly open and up-front with them.

**Senator PAYNE**—So if subcontractors had tried to approach you and members of your organisation, you would have been able to give them that access?

**Dr Williams**—Yes. I have probably had three or four meetings with Daewoo over the last six months.

**Mr Roche**—I have had at least three, and I have also met a series of other representatives on their behalf, ranging from the Korean air force to politicians and so on.

**Senator PAYNE**—I am sorry to interrupt you, Senator Hutchins. I do not know whether you had finished.

**Senator HUTCHINS**—I am fine.

**CHAIR**—Senator Schacht, would you be mindful of the fact that we have limited time.

**Senator SCHACHT**—Mr Roche, there is a firm in Western Australia that produces a four-wheel drive vehicle called Oka. They were producing it in the mid-1990s and then in the last couple of years they stopped because they had a number of financial problems with the company and capitalisation. They also stopped producing in the process of producing a new upgraded model with more capacity, et cetera. I understand that some time around the middle of this year that new model may be available. It is totally Australian made—I think the engine and some other parts are imported, but it is a substantially Australian manufactured four-wheel drive. I have to declare my interest in it: I do not own one but I have had a ride in one several years ago and its four-wheel drive capacity, going up and down sandhills and steep slopes, was stunning. Have you or Defence had any contact with the company in the last recent while?

**Mr Roche**—I have not had any personal contact. I know that there trials of some of their earlier vehicles were conducted some while ago, but General Haddad might be able to throw some further light on the matter.

**Major Gen. Haddad**—I really cannot add any more to what Mr Roche has just said. A number of years ago we did buy some vehicles from Oka to conduct trials with them. They proved to be unsuccessful and we subsequently disposed of those vehicles. I have no record, in recent times, of being reapproached by that firm.

**Senator SCHACHT**—Can you recollect why they were unsuccessful? Was it capacity, power or robustness of design?

**Major Gen. Haddad**—No. We would have to take that on notice.

**Senator SCHACHT**—I would not mind your taking that on notice. I am certainly not asking Defence to buy any acquisition that does not meet standards and criteria, but the old saying is that no-one ever got sacked for buying from IBM—maybe they might now—and no-one gets sacked for buying a four-wheel drive off Toyota, I presume, and so on. I would be interested to know whether, if they are back in the marketplace for an upgraded improved capacity vehicle and they do make contact with you, you would at least give them a hearing. Again, I do not have one and I know their shortcomings, but I am always interested in promoting Australian industry.

**Mr Roche**—I would certainly give it a hearing, Senator. We will provide on notice, if we can, the outcome of those trials of some years ago.

**Senator SCHACHT**—I have a question on another matter; this may have to be taken on notice and may well have been covered by my colleagues when I was not here. In all the argy-bargy about the cost of the upgrade to the Collins class submarine, has Defence been able to work out what the percentage cost of the upgrade was in relation to the original price? Are we talking about a 100 per cent, 30 per cent, 20 per cent or 10 per cent blow-out from the original contract?

**Mr Roche**—That is quite a difficult question to answer.

**Senator SCHACHT**—You can take that on notice. I want to make another point about this. In Australia, there has been—sometimes for political reasons—great emphasis given to the teething problems of the Collins class submarine and the fact that it cost several hundred million dollars to fix, and may cost a billion or a couple of billion dollars more. But in percentage overrun, I remember when we bought the F111 off the shelf in the mid-sixties and, by the time we actually got the plane, it was many years over delivery time and the price we signed up for under the Menzies government had gone through the ceiling, yet no-one seemed to complain that the Americans may have touched us up. Yet we seem to do a good job on ourselves when we try to do it within Australia.

**Mr Roche**—The original prime contract cost looks to be \$4.2 billion—

**Senator SCHACHT**—I remember a figure of around \$4 billion dollars in the mid-eighties.

**Mr Roche**—The figure we have for expenditure to date is \$4.236 billion, so we are virtually 100 per cent expended. The figure I have here for total project cost, which would include the modifications, is about \$5.1 billion. I would have to go back and check.

**Senator SCHACHT**—I appreciate that. That is a 20 per cent increase. Is that right? I am on your side on this, I think.

**Mr Roche**—I just want to make the point that we have a bit of a moving target here too, because not all of that could be said to deliver the submarines to the—

**Senator WEST**—You can't shoot a moving target!

**Mr Roche**—Sorry, that was probably a wrong choice of words. Not all of it is necessary to bring it to the stage that the original contract envisaged. Some of it is for—

**Senator SCHACHT**—At the moment, that is 20 per cent over the original price to get it to the stage where—according to leaked reports—in recent exercises with the Americans, the submarine performed reasonably well. No-one has said that the press reports are wrong. I know you cannot comment, for obvious reasons. But I compare the hysteria that went on about the Collins class submarine with the fact that when the F111 was years late and blew out in price—I think it damn near doubled from when the contract that was signed at the time

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of the 1963 election—we just rolled over and said, ‘Well, that is the Americans. Thank you very much.’ They got the industry development, the jobs and the money, and we just rolled over and said, ‘Fine. That is the Americans.’ Yet we get into hysteria in Australia when there is a 20 per cent blow-out.

**Senator Ian Macdonald**—Is this relevant to the estimates?

**Senator SCHACHT**—I just want to make the point that I have got the figure of a 20 per cent blow-out for a submarine that appears to be performing very well now. It is made by Australians, and the only thing that went wrong was the control system, which the Americans got the contract for—

**CHAIR**—In the late sixties and early seventies, there was hysteria about the cost blow-out of the F111 too.

**Senator Ian Macdonald**—Absolutely.

**CHAIR**—Minister, I thank you and the officers of the Department of Defence. We shall reconvene tomorrow morning at 9.00 a.m.

**Committee adjourned at 11.00 p.m.**