

Senate Standing Committee on Foreign Affairs, Defence and Trade

Supplementary Budget Estimates Hearing, 19 October 2010

Questions Taken on Notice

Q5

MEAO Air Sustainment Tender, Hansard 19 October p 43-44
Senator Johnston

- (a) Provide balance sheets for Adagold Aviation.**
- (b) How much is Adagold Pty Ltd's asset backing?**
- (c) Does it own any property?**
- (d) What have they told you they are going to do? What is the plan?**

Response:

- (a) Adagold provided its financial statements as part of its tender submission. Adagold is a private, not a public, company. These details were provided on a Commercial-in-Confidence basis and are treated as such.
- (b) See (a).
- (c) See (a).
- (d) In accordance with contract AO/014/09-10 between Adagold and the Commonwealth, Adagold will provide air charter services between Australia and the Middle East Area of Operations (MEAO) in support of ADF operations in the MEAO. Adagold commenced provision of air charter services on 23 November 2010.

Q6

Strategic Reform Program, Hansard 19 October p 51-53

Senator Johnston

Can you give me a clear break-up of what services have been refined, improved in terms of efficiency, to go towards the \$460 million? Where do we get that number from? Provide all SRP savings and also for non-equipment procurement such as garrison support.

Response:

In 2009-10, Defence successfully achieved Strategic Reform Program (SRP) cost reductions of \$1022 million against the target of \$797 million. The total cost reduction achieved therefore exceeded the target by \$225 million.

Cost reductions achieved in 2009-10 across SRP streams are detailed below:

Stream	Cost Reduction Target (\$m)	Variance against Reduced Budgets (\$m)	Total Cost Reduction Achieved (\$m)
Non-Equipment Procurement (NEP)	172	171	343
ICT	49	45	94
Smart Sustainment	263	197	461
Workforce and Shared Services (WFSS)	58	-188	-131
Logistics	5	—	5
Reserves	—	—	—
Other cost reductions	250	—	250
Total	797	225	1,022

Notes:

1. No cost reductions were programmed from within the Reserves stream for the 2009-10 financial year.
2. Figures in tables and in the text may be rounded to the nearest million. Discrepancies in tables between totals and sums of components are due to rounding.

Some streams exceeded their reduction targets; in other cases external factors prevented some Groups and Services from living within their reduced budgets.

Non-Equipment Procurement (NEP) stream

The Non-Equipment Procurement (NEP) stream comprises a number of categories including travel, ADF removals and relocations, building maintenance, professional services and garrison services (which are support services provided at Defence bases such as hospitality and catering, cleaning, grounds maintenance and access control). Additional cost reductions achieved in 2009-10 in the NEP stream came from areas including removals, minor NEP and one-off savings which are not expected to be available in future years e.g. building maintenance.

Workforce and Shared Services (WFSS stream).

As a result of increased rates of retention, Army and Air Force did not meet targets for reduced military workforce numbers. This resulted in ADF numbers of about 2 per cent higher than planned. As a result, their employee expenses exceeded their budgets, which in turn lowered cost reductions achieved under Workforce and Shared Services (WFSS). Cost reductions in the WFSS stream were also impacted upon by superannuation pressures outside the control of Defence.

The overachievement in military workforce numbers was more than offset by greater than planned cost reductions in other reform streams.

Logistics stream

The Logistics stream seeks to implement a robust, flexible and responsive logistics system capable of providing future support to operations in the global context. In 2009-10, the Logistics stream renegotiated some distribution contracts and introduced a user-pays model to help influence user demand.

ICT stream

Within the ICT stream, reforms included the renegotiation of contracts with suppliers, software licence rationalisation and the leasing of a new data centre which will begin the process of data centre consolidation.

Reforms against Other Cost Reductions include changing the way Defence manages its financial risk through smarter management of the Defence budget.

Smart Sustainment stream

Defence more than achieved the cost reductions programmed under the Strategic Reform Program (SRP) Smart Sustainment stream for the 2009-10 financial year. These cost reductions were achieved against sustainment activities conducted by the Defence Materiel Organisation (DMO) in support of its customers as follows:

Service / Defence Group	Cost Reduction Target (\$m)	Variance¹ against Reduced Budgets (\$m)	Total Cost Reduction Achieved (\$m)
Army	65.5	28	93.5
Navy	118.5	119	237.5
Air Force	73	48	121
Chief Information Officer Group	6	5	12
Vice Chief of the Defence Force Group	-	5	5
Other	-	-8	-8
TOTAL	263	197	461

Note: Figures in tables and in the text may be rounded to the nearest million. Discrepancies in tables between totals and sums of components are due to rounding.

¹ Positive variance indicates under-expenditure against budgets reduced by 2009-10 cost reduction targets.

Initiatives to achieve the \$263 million in Smart Sustainment cost reductions beyond those commenced in 2008-09 included the renegotiation and re-tendering of support contracts, changes in demand for services and optimisation of servicing intervals, improved inventory management, asset withdrawal and DMO process improvements. The additional cost reductions of \$197 million achieved in the financial year were largely a result of one-off reductions in expenditure (such as lower than expected fuel costs), which are not expected to be available in future years.

Q7

HMAS *Success* Commission of Inquiry, Hansard 19 October p 62
Senator Johnston

Is there going to be a figure for military staff costs?

Response:

The costs related to the support team to the HMAS *Success* Commission of Inquiry for the period 1 March 2010 to 31 January 2011 was \$499,930.91.

Q8

HMAS Success Commission of Inquiry, Hansard 19 October p 62-63

Senator Trood

Regarding the action taken against individuals notified of possible adverse findings. He will not make the charges, but following consideration of his report if charges are to be laid they will then follow?

Response:

The Commission of Inquiry itself has no executive authority to implement the findings and recommendations made by the President. Decisions in relation to these are the responsibility of the Chief of the Defence Force.

Part One of the Commission of Inquiry report has been received and is being considered by the Chief of the Defence Force. After taking advice, reviewing and analysing the report he will determine whether to accept the findings and recommendations. This analysis and review will be done as quickly as possible but may take some time. This process will involve consultation with key stakeholders who may be involved in any implementation actions. Following this, a decision and implementation directive is issued, documenting the accepted findings, recommendations and implementation actions.

Administrative sanction may be considered against individuals if the evidence discloses shortcomings in their performance. In such cases, an affected person is provided with a notice outlining the particular administrative sanction proposed and the reasons why it is being considered. The person is given an opportunity to respond and put their case against imposition of the sanction, in accordance with procedural fairness requirements. Administrative sanction can take a number of forms including formal counselling, formal warning, censure, or termination of service.

It is not the function of a Commission of Inquiry to conclude or find that a disciplinary or criminal offence has been committed by any person. The President has been directed that if he forms the view that a person is likely to have committed a serious criminal or disciplinary offence, such matters are to be reported to the Provost Marshal of the Australian Defence Force for criminal or disciplinary investigation.

Q19

DMP Response to Submission, Hansard 19 October, p. 17
Senator Johnston

Has there been a requirement for the DMP to provide written reasons in response to the submission?

Response:

Section 5A of the *Defence Force Discipline Act 1982* enables a superior authority to represent the interests of the Defence Force in relation to charges that are being considered by the Director of Military Prosecutions (DMP) for possible trial by a Defence Force magistrate or a court martial. Such representation would normally be initiated on the invitation of the DMP. If a superior authority represents those interests, there is no requirement for the DMP to offer any response. In particular, if it should appear that the DMP has made a decision in spite of an interest represented by a superior authority, the DMP has no obligation to explain to the superior authority the rationale for her decision. Such an obligation would not be consistent with the prosecutorial independence which the DMP's office was created to achieve.

It is noted that Major General Greg Melick AM RFD SC told the Committee on 19 October 2010 (Hansard, 19 October, p. 22) that, in his experience as a senior lawyer in civilian life, it is unusual for Directors of Public Prosecutions to give detailed reasons for continuing to prosecute in spite of submissions to the contrary. Major General Melick spoke of his understanding that there is no requirement for the DMP to give reasons as to why she rejected submissions made to her. This experience is consistent with prosecution decisions in the civilian environment not being reviewable decisions.

Decisions under the *Defence Force Discipline Act 1982* are specifically excluded from the *Administrative Decisions (Judicial Review) Act 1977* (ADJR Act), in Schedule 1 of the ADJR Act.

WRITTEN QUESTIONS

W3

Capability Funds Delivered to 'Suppliers'

Senator Johnston

- (a) In May you indicated that an additional \$100 billion would be delivered to 'suppliers' from 2010 until 2013. Currently, what percentage of 'services' procured by Defence as part of the \$5 billion a year capability budget is reaped by Australian employees?
- (b) Of the \$100 billion forecast in May, what percentage of those suppliers will be Australian firms? In other words, you forecast an 'investment' of around \$5 billion a year over the next 20 years, so how much goes to Australian firms?
- (c) What is the forecast Australian workforce growth that will arise from this investment of an additional \$100 billion in 'supplier' orders?
- (d) What joint initiatives have you entered into with the Department of Industry to ensure that the dividend forecast is received by Australian firms?
- (e) What joint initiatives with AUSTRADE are currently funded by you to assist Australian exports? I'm aware there is a Defence Export Unit, but what is the budget – APS salaries excluded- of that unit? How is their funding dispersed? Through what competitive mechanisms? If not, why not?

Response:

In clarification to Part (a) of this question, the statement made at the Joint Standing Committee on Foreign Affairs, Defence and Trade hearing by the Secretary of the Department of Defence, Dr Ian Watt, on 31 May 2010 was:

"Finally, I would like to comment on the allegation that industry or suppliers will bear a greater share of the SRP savings than is appropriate. In the 2009-10 budget, the government provided Defence with a new funding model which will result in Defence being provided with an additional \$146 billion over the 21 years to 2029-30. Around two-thirds of the Defence budget is spent on capital equipment and operating costs—nearly all of which are payments to suppliers, including the defence industry. As a consequence of the White Paper in the order of \$100 billion in additional purchases from suppliers will be made over the period 2009-10 to 2029-30."

- (a) In 2010-11, the Defence major capital equipment acquisition and sustainment budget is approximately \$10.6 billion covering equipment sourced domestically and from overseas. Of this budget, approximately 51 per cent is estimated to be directed to Australian-based defence industry.
- (b) The Defence Materiel Organisation forecasts that, on average, 53 per cent of combined acquisition and sustainment capital equipment and related operating expenditure will be directed to Australian-based suppliers in the coming decade. It is anticipated that this trend will continue and apply to the graduated introduction of the additional \$100 billion over the next 21 years to 2029-30.
- (c) The current Australian defence industry workforce is estimated at 29,000 employees and is forecast to increase to about 30,000 employees by 2013-14. Between 2013-14 and 2017-18, the workforce in Australian defence industry is estimated to rise by an additional 4,000 to 5,000 people. However, precise long term forecasts of industry employment are difficult to make given the possibility of changes in general economic conditions, Defence capability requirements and rates of industry productivity growth.

- (d) The Defence Industry Innovation Centre is the principal joint initiative between the Department of Defence and the Department of Innovation, Industry, Science and Research which assists Australian industry to bid for and win Defence work. The Centre has assisted over 450 Defence small to medium Enterprises since its launch in September 2009.

Defence also provides a range of mechanisms and programs that Australian firms can access to build their expertise to support Defence and be more competitive in the local and global marketplace and are available at

http://www.defence.gov.au/dmo/id/dips/dips_2010.pdf. These programs are identified in the 2010 Defence Industry Policy Statement.

- (e) Defence does not fund any 'joint initiatives' with Austrade. The Defence Export Unit works closely with Austrade on defence export matters and has a Memorandum of Agreement with Austrade (signed in March 2010) on facilitating/promoting Defence Exports. The Defence Export Unit and Austrade jointly identify and disseminate defence export opportunities and market information to Australian companies; and coordinate export market activities (including trade promotion events) with other Federal and State agencies, and industry.

Through the Government's 2010 Defence Industry Policy – *Building Defence Capability: A policy for a smarter and more agile defence industry* - the Unit has a total funding of \$34 million over the ten-year period 2009-19 to support Australian industry in growing exports. The Defence Export Unit budget for Financial Year 2010-11 (salaries excluded) is \$3.1 million.

Companies do not compete for Defence Export Unit funds, nor are funds passed directly to companies. Defence Export Unit funds are used in export promotion and facilitation services offered by the Unit. These services are open equally to all Australian companies that wish to make use of the services. Services include: defence export opportunity identification; overseas market research; advice on foreign defence procurement policies and processes; promotional material; and involvement in major international defence trade exhibitions and missions.

Participation in trade exhibitions and missions is conducted under the Team Australia banner. On behalf of Australian companies, the Defence Export Unit coordinates with the event organisers and arranges for the floorspace and the design/construction of an appropriate Team Australia stand. Through economies of scale, the participation cost for individual companies is less. Team Australia participants contribute to the overall costs of the event. The Defence Export Unit generally covers the costs for common facilities (such as reception area, storage and meeting rooms etc). Companies are responsible for their travel and accommodation costs, and pay a reduced fee for floorspace and stand costs on a pro rata basis.

Funds are also used to cover travel expenses for Defence officials to promote and introduce Australian companies to foreign governments and military customers, and overseas prime companies, during trade exhibitions and targeted missions. The Defence Export Unit has three Reserve Two-Star Military Specialists - one from each Service - available to provide this promotion and advocacy support.

The Defence Export Unit competes the acquisition of trade promotion facilities on a restricted basis.

W5

Fraud Control
Senator Xenophon

- (a) Are you familiar with the concerns of former Army Reservist, Michael Wunderlich?**
- (b) Mr Wunderlich has raised a number of concerns around the fraud control process within the department, which he says he witnessed first hand 15 years ago and says it is still apparent today. What is the current fraud control process within the department in terms of items such as travel allowances?**
- (c) Were any changes made following the 2000-2001 Audit Report no. 22, Fraud Control in Defence?**
- (d) When will the department next review this process?**
- (e) Is the \$5000 benchmark still the current measure demarcating who handles a fraud investigation?**
- (f) How many fraud investigations were initiated by the Inspector-General each year between 1994 and 2000?**
- (g) How many were successfully prosecuted? To what value? What amounts were recovered?**
- (h) How many fraud investigations were initiated by the Inspector-General each year between 2000 and 2008?**
- (i) How many were successfully prosecuted? To what value? What amounts were recovered?**

Response:

Responses to questions (b – i) were provided on 7 October 2010 as part of the Budget Estimates response to W7 – Fraud Control and Investigations.

- (a) Yes.
- (b) The Commonwealth Fraud Control Guidelines 2002 require agencies, including Defence, to have in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes. As part of these obligations, Defence conducts a biennial fraud risk assessment across all aspects of Defence business, including activities such as travel allowances, and develops treatment actions for any risks assessed as being unacceptably high. These risk assessments and treatment actions are incorporated into a biennial corporate fraud control plan that is now in its eighth iteration. Defence also utilises a range of ongoing strategies to identify and review potentially fraudulent transactions.
- (c) Defence implemented all of the agreed recommendations arising from the Australian National Audit Office Audit Report 2000-2001 No. 22. Revised Commonwealth fraud control arrangements were subsequently introduced in 2002 and Defence adjusted its fraud control processes accordingly. Fraud control planning processes have remained essentially the same since 2002, although Defence has adopted an approach of continuous improvement and refinement with each iteration of its corporate fraud control plan.
- (d) Defence is not contemplating any formal review of its fraud control system at this time. Defence is, however, actively participating in a review of the Commonwealth Fraud Control Guidelines by the Attorney-General's Department. Defence also observes that the Australian National Audit Office recently released its 2009-10 Audit Report No.42, being a cross-agency audit of Fraud Control in Australian Government Agencies. The

Australian National Audit Office has also nominated fraud control in Defence as a possible topic in its 2010-11 audit work program for Defence.

- (e) A number of considerations are taken into account for determining whether an alleged fraud involving a military member will be investigated for prosecution in the civil criminal courts or as a service offence under the Defence Force Discipline Act 1982. These considerations include monetary value, complexity, sensitivity and whether civilian co-offenders are involved. Since 2005, a monetary value of \$20,000 has been applied as one of the considerations in determining jurisdiction.
- (f-i) The information requested about investigations by the Inspector General is provided in the following table:

Financial Year	No. of Investigations	No. Successfully prosecuted¹	Value \$m²	Amount Recovered³
1994/95	53	13	\$0.557	\$0.112
1995/96	50	13	\$0.138	\$0.564
1996/97	38	22	\$0.142	\$0.150
1997/98	53	18	\$0.244	\$0.051
1998/99	52	20	\$0.164	\$0.111
1999/00	29	15	\$0.748	\$0.169
Subtotal	275	101	\$1.992⁴	\$1.157⁴
2000/01	30	25	\$0.099	\$0.097
2001/02	50	33	\$0.076	\$0.075
2002/03	50	17	\$0.611	\$0.611
2003/04	37	21	\$0.160	\$0.053
2004/05	40	14	\$0.194	\$0.033
2005/06	44	23	\$0.367	\$0.081
2006/07	40	23	\$0.214	\$0.088
2007/08	56	27	\$1.881	\$0.034
2008/09	77	44	\$0.366	\$0.295
Subtotal	424	217	\$3.969⁴	\$1.367⁴

Note 1: The number of Inspector General investigations that resulted in successful action being taken against a suspect, including criminal prosecution, action under the Public Service Act Code of Conduct or other adverse administrative action.

Note 2: The estimated value of the loss due to fraud of matters investigated by the Inspector General.

Note 3: Where large recovery amounts are involved, recovery action can continue for many years beyond the active investigation phase.

Note 4: Totals may not add up due to rounding.

W6

Strategic Reform Program

Senator Johnston

- (a) What is the target in planned curtailing of services that must be achieved in the forward estimates?**
- (b) If you achieve these savings, what is it that the department is no longer doing?**
- (c) How does the capability program deliver the services you need to remove? In other words, are they paid for anyway, but called capability?**
- (d) If you are saving considerable sums of money, when do we anticipate seeing cuts in your senior executive service staff numbers? Clearly, if you are doing less, especially given the money involved, we should anticipate similar significant savings in staff numbers in DSG Group? If not, why not?**
- (e) With the sort of SRP 'efficiencies' forecast in May when can we anticipate significant and permanent cuts in senior executive service numbers within the ranks of the APS within Defence as a whole?**
- (f) Are cuts in the senior executive service part of the SRP dividend? When can the Army, Navy and Air Force anticipate turning SES car parks, executive salary perks and superannuation payments into soldiers, sailors and airmen capable of deploying on operations, or crewing new submarines?**

Response:

- (a) The Strategic Reform Program (SRP) is a decade-long campaign of reform that will change and improve the way Defence does business, which will reduce Defence's costs and will allow the resources freed up by these cost reductions to be re-invested in *Force 2030*.

It is incorrect to suggest that services will necessarily be curtailed. SRP cost reductions are specifically designed not to impact on the readiness or operations of the Australian Defence Force (ADF). The SRP is about more than finding cost reductions; it will deliver fundamental and sustainable changes to the way we do our business to increase effectiveness and efficiency. For example, changes to sustainment contracts and activities will lower costs without reducing the availability of ADF capability.

The 2009 Defence White Paper produces a substantial additional investment in the capability of our Navy, Army and Air Force. *Force 2030* will be a balanced and agile force that provides a large degree of flexibility for the ADF to meet a wide array of contingencies in the coming two decades. In fact, under *Force 2030*, there is potential for a net growth of around 3,800 ADF positions and 1,500 civilian positions to 2018-19, reflecting this additional investment in the balanced force of the future. However, before finalising any decisions to increase positions in the years leading up to *Force 2030*, Defence will review its requirements and apply rigor to ensure those additional positions are genuinely required.

- (b) It is important to appreciate that you don't have to stop doing things to achieve cost reductions. Indeed, Defence is not focussed primarily on curtailing services. The 2009 Defence White Paper outlines the need for a larger and more muscular ADF. The SRP is a key enabler for the White Paper, both in delivering the cost reductions required to help fund *Force 2030*, and in transforming the way Defence operates so that it can better support a larger ADF and national security apparatus into the future.

The ADF and Defence will still need the services that are provided today, such as sustainment, ICT support, workforce planning and estate management. But under the SRP, it will be provided in a more efficient and cost conscious way. For example, SRP reforms to the way Defence undertakes equipment sustainment activities will improve the way platforms are serviced (better inventory management, administration overhead, allocation of effort). Another example is in the Intelligence and Security Group where backroom corporate support has been rationalised and consolidated to generate cost reductions but the actual service is still being provided, albeit in a modified and more efficient manner. While the SRP will lead to some processes and actions ceasing, they will be replaced by more efficient and cost conscious methods of operating and this is the primary impact of SRP.

- (c) Services are not now paid for as capability. *Force 2030* can only be delivered through reinvestment of approximately \$20 billion of cost reductions generated over the decade 2009-10 to 2018-19 from SRP initiatives. These cost reductions have been earmarked for reinvestment in current and future military capabilities to deliver *Force 2030*.

Defence's budget to 2019 has already been adjusted to take account of the \$20.6 billion in reinvestment required for *Force 2030* – this requires us to think less in terms of adding up cost reductions but more on reforming current business activities.

- (d) and (e) As previously mentioned in the responses to questions (a) to (c), the SRP will not result in Defence “doing less”. In fact, the delivery of *Force 2030* requires the Defence organisation to do a lot more. SRP is about generating a smarter way of doing business to ensure Defence can meet the requirements of *Force 2030*, and reinvesting cost reductions into new Defence capability.

The SRP does not include a specific review of the Senior Executive Service (SES), but a broader review of the SES is underway within the Australian Public Service, led by the Australian Public Service Commission. Defence is participating in this review and this will be the mechanism through which Defence will examine its SES workforce, including a review of the work level standards used to classify SES roles. Defence will apply rigour in actioning any recommendations of this review, particularly if the review demonstrates any potential concerns regarding Defence SES roles.

Of note is that Defence has experienced slower growth of its SES workforce over the last decade compared to some other large portfolio agencies. In the last ten years, Defence's number of SES personnel has increased by 70 per cent, an increase that is less than some other comparable portfolio agencies. This growth is attributed to organisational restructure (for example, the creation of Divisions within the Defence Materiel Organisation prior to it becoming a prescribed agency) and in response to Government decisions (resulting from the Brady Review into Intelligence Capability and the Defence Management Review).

Defence maintains one of the lowest ratios of SES staff to civilian employees in comparison to other large agencies, at just 0.81 SES staff per 100 employees as at the end of FY 2009-10.

- (f) Defence's employment arrangements for its SES workforce balance the need to provide a package of conditions that are attractive enough to attract and retain key talent, with the need to ensure that the conditions are appropriate and measured, given Defence's focus on cost-consciousness. The December 2009 Mercer Survey demonstrates that the total reward package for Defence's SES members is, on average, near the midpoint of the range of reward packages provided across the broader Australian Public Service.

W7

Strategic Reform Program Savings

Senator Johnston

- (a) SRP has been underway for some time now; what are the top ten SRP initiatives?**
- (b) How many of the SRP 'initiatives' have seen services originally delivered by personnel at a base or facility now managed by a central call centre, or Defence staff having to go online to get the deliverable once given by actual staff?**
- (c) What metric did you use to measure the impact of this change? In other words, what metric did you use to ensure that simply transferring functions to a call centre, or making staff do online training, did not result in non-delivery of the service?**
- (d) What is the financial return achieved from no longer delivering these 'services'?**
- (e) Where services have been altered, how did you measure what the absence of those services might be on the efficiency of the Australian Defence Force? In other words, if you reduced the number of staff at a base, or now required Defence staff to ring a hotline for help, or told Defence staff they now had to get the same service by doing online training; how did you measure the cost and the efficiency impact of the change?**

Response:

- (a) The Strategic Reform Program (SRP) has just completed its first year of what is a decade-long campaign of reform. The SRP consists of over 300 separate initiatives, some of which are major reforms and others which will help us deliver our outcomes better.

There are no 'top ten' SRP initiatives. Instead, Defence is utilising a risk-based approach to identify those initiatives that will drive other reforms at different stages of the program. These initiatives, and those initiatives which are dependent on them, are being carefully monitored through the strong governance and management arrangements Defence has put in place around the SRP.

The SRP reforms are categorised into two streams – those which will directly help us to achieve cost reductions, and those that do not directly lead to cost reductions. Reforms within the non-cost reduction drive more efficient and effective outcomes but do not have any cost reductions directly attached to them. The reforms within the non-cost reduction stream include:

- Strategy Led Planning
- Capability Development Process
- Output Focussed Budget Model
- Preparedness and Personnel Operating Costs
- Estate
- Procurement and Sustainment
- Intelligence – Human Resources and Information Communication Technology
- Science and Technology.

The reforms within the cost reduction stream aim to deliver effective and efficient outcomes and have cost reductions directly attached to them. The reforms within the cost reduction stream and their associated cost reduction targets include:

- Logistics – \$350 million
- Reserves – \$360 million

- Information Communication Technology – \$1.9 billion
- Workforce and Shared Services – \$2.8 billion
- Non-Equipment Procurement- \$3.8 billion
- Smart Sustainment – \$5.5 billion
- Defence Savings Program – \$6 billion.

Further information on each stream and the SRP generally is available on the Defence internet site at www.defence.gov.au/SRP.

- (b) Under the SRP, Defence is currently exploring options to improve the effectiveness and efficiency of service delivery across a variety of services including, but not limited to, payroll administration, travel, library services and accounts processing. These will be incrementally developed over the next five years. Some of these services are already supported by online and call centre environments. Options for improving the delivery of services through greater call centre and online support are being explored in consultation with the Services and staff to minimise impact on personnel.
- (c) Following the White Paper process, Defence has been through a diagnostic exercise to determine baseline metrics that will be used to measure shared service enhancements going forward. Across a variety of services, usage/volume is already monitored and a system for obtaining regular customer feedback is in place. The SRP initiatives are seeking to ensure that the mechanisms through which services are delivered offer more effective, cost conscious solutions. Hence, this diagnostic information is a key input into the decision-making process as new service delivery options are explored.
- (d) It is important to note that services will not be ceased under the SRP. Defence is exploring alternative mechanisms for delivering services. The intent of initiatives identified in the White Paper is to maintain service levels through more efficient means. The SRP will provide the necessary funding to meet Defence's strategic and capability needs and is to ensure that every dollar is well targeted and well managed to get the right Defence capabilities for the right cost.
- (e) Strategic Reform initiatives are in the early scoping phase and the delivery of services has not changed at present. The initiatives identified in the White Paper are being assessed within Defence, with a range of options being explored. Defence is keen to balance any workforce impacts, cost reduction and service provision. The SRP is intended to support, not impede, Defence capability and the cost reductions are to be achieved without effect on capability or safety. The department will reinvest savings from SRP into priority Defence capability requirements.

W9

ADF Reconstruction and Relief Aid in Afghanistan

Senator Brown

- (a) What measures does the Australian Defence Force (ADF) take to monitor and evaluate the impact of ADF reconstruction and relief aid in Afghanistan?**
- (b) How much did the ADF spend on Overseas Development Assistance (ODA) eligible aid in Afghanistan in 2006-07, 2007-08, 2008-09 and 2009-10?**
- (c) Please provide a breakdown of expenditure by project for ADF delivered ODA eligible aid to Afghanistan in 2006-07, 2007-08, 2008-09 and 2009-10.**

Response:

(a) The ADF provides Trade Training and Managed Works contributions to the civilian led Provincial Reconstruction Team in Uruzgan. The Provincial Reconstruction Team is currently led by a Department of Foreign Affairs and Trade officer and determines how these capabilities will be employed in the socio-economic development of Uruzgan. The ADF is not responsible for these development plans, but provides these capabilities to the Whole of Government effort. The ADF also provides security and support to the Australian Government Officials in Uruzgan Province. Lower level monitoring of managed work projects and trade training output is undertaken by the ADF. The ADF does not independently evaluate the development impact of these projects. The comprehensive assessment of development projects in Afghanistan is done by the International Security Assistance Force. International Security Assistance Force reporting is monitored by the Provincial Reconstruction Team and the ADF to ensure that projects provide the necessary impact in Uruzgan Province.

(b) The ADF's spend for Official Development Assistance (ODA) Aid in Afghanistan is as follows:

2006-07	\$46.479 million
2007-08	\$70.360 million
2008-09	\$84.416 million
2009-10	\$41.071 million

In accordance with arrangements agreed with AusAID, Defence reports expenses incurred with the delivery of Official Development Assistance. In the case of Afghanistan this includes allowances, logistics support and other costs of personnel deployed undertaking Reconstruction Tasks.

(c) Expenditure by project, excluding personnel, support and associated costs, are listed below.

FY 2006-07		
Projects	Expended US\$	Aust \$ at 0.7924
Trade Training Centre	\$88,029.00	\$111,091.62
Tarin Kot Boys School	\$69,792.00	\$88,076.73
Tarin Kot Hospital	\$498,602.36	\$629,230.64
National Directorate of Security Compound	\$269,692.36	\$340,348.76
Eastern Causeway	\$244,064.00	\$308,006.06
Sedfidkar Flood Mitigation	\$9,295.00	\$11,730.19
Western Checkpoint	\$34,559.00	\$43,613.07
Eastern Checkpoint	\$9,873.80	\$12,460.63
Womens Training Project	\$2,918.00	\$3,682.48
Yaklenga Health Centre	\$130,401.74	\$164,565.55
Uruzgan Wells	\$14,345.00	\$18,103.23
Talani School	\$72,941.00	\$92,050.73
Afghan Health and Development Services Training Facility	\$3,875.00	\$4,890.21
Total 2006-07	\$1,448,388.26	\$1,827,849.90

For 2006-07 the net additional costs of ADF personnel, support and associated costs total \$44.7 million.

FY 2007-08		
Projects	Expended US\$	Aust \$ at 0.8968
Eastern Causeway	\$649,026.00	\$723,713.20
Tarin Kot Hospital	\$864,074.00	\$963,508.03
Eastern Checkpoint	\$12,055.00	\$13,442.24
Western Checkpoint	\$51,719.00	\$57,670.61
National Directorate of Security Compound	\$402,819.00	\$449,173.73
Women's Training Project	\$2,918.00	\$3,253.79
Tarin Kot Boys School	\$607,999.00	\$677,964.99
Trade Training Centre	\$85,622.00	\$95,475.02
Sedfidkar Flood Mitigation	\$141,728.00	\$158,037.47
Tarin Kot Waste Management	\$85,345.00	\$95,166.15
Afghan Health and Development Services Training Facility	\$760,728.00	\$848,269.40
Yaklenga Health Centre	\$323,624.00	\$360,865.30
Talani School	\$72,941.00	\$81,334.75
Uruzgan Wells	\$57,055.00	\$63,620.65
Ministry of Rural Reconstruction and Development Compound Refurbishment	\$5,020.00	\$5,597.68
Forward Operating Base Locke	\$817,576.00	\$911,659.23
Governor's Compound	\$99,995.00	\$111,502.01
Baluchi Crossing	\$330,595.00	\$368,638.49
Naway Waleh School	\$122,614.00	\$136,723.91
Patrol Base Liddiard	\$18,468.00	\$20,593.22
Patrol Base Worseley	\$35,913.00	\$40,045.72
Patrol Base Baluchi	\$1,196,915.00	\$1,334,650.98
Baluchi Community Project	\$700.00	\$780.55
Civilian and Military Cooperation (CIMIC) Engagement	\$43,424.00	\$48,421.05
Total 2007-08	\$6,788,873.00	\$7,570,108.16

For 2007-08 the net additional costs of ADF personnel, support and associated costs total \$62.8 million.

FY 2008-09		
Projects	Expended US\$	Aust \$ at 0.7477
Eastern Causeway	\$15,070.00	\$20,155.14
Tarin Kot Hospital	\$409,788.53	\$548,065.44
National Directorate of Security Compound	\$15,190.00	\$20,315.63
Tarin Kot Boys High School	\$964,143.25	\$1,289,478.73
Afghan Health and Development Services Training Facility	\$662,843.00	\$886,509.30
Talani School	\$1,750.00	\$2,340.51
Tarin Kot Boys Primary School	\$970,863.50	\$1,298,466.63
Sorkh Morghab Basic Health Centre	\$1,014,428.34	\$1,356,731.76
Dorofshan Basic Health Care Centre	\$264,704.00	\$354,024.34
Ministry of Rural Reconstruction and Development Compound Refurbishment	\$94,050.26	\$125,786.09
Baluchi Crossing	\$298,646.00	\$399,419.55
Talani Crossing	\$2,000.00	\$2,674.87
Tarin Kot Wells - various location	\$231,779.43	\$309,989.88
Kowtwal Crossing	\$2,357,016.80	\$3,152,356.29
Ministry of Energy & Water Compound	\$11,680.00	\$15,621.24
Patrol Base Qudus	\$272,639.79	\$364,637.94
Baluchi Community Projects	\$272,418.24	\$364,341.63
Sorkh Morghab Community Projects	\$441,087.00	\$589,925.10
Patrol Base Khoma	\$1,902,254.00	\$2,544,140.70
Zabul Bridges	\$900.00	\$1,203.69
Afghanistan National Army Patrol Base Winterisation	\$149,585.31	\$200,060.60
Total 2008-09	\$10,352,837.45	\$13,846,245.08

For 2008-09 the net additional costs of ADF personnel, support and associated costs total \$70.6 million.

FY 2009-10		
Projects	Expended US\$	Aust \$ at 0.8821
Irish Crossing Refurbishment	\$23,081.00	\$26,165.97
Tarin Kot Boys High School	\$114,968.74	\$130,335.27
Tarin Kot Waste Management Facility	\$1,026,062.40	\$1,163,204.17
Afghan Health and Development Services Training Facility	\$36,000.00	\$40,811.70
Tarin Kot Boys Primary School	\$730,729.00	\$828,397.01
Tarin Kot Hospital	\$11,363.00	\$12,881.76
Dorofshan Basic Health Centre	\$97,226.00	\$110,221.06
Ministry of Rural Reconstruction and Development Compound Refurbishment	\$2,024.00	\$2,294.52
Talani Crossing	\$75,434.00	\$85,516.38
Tarin Kot Wells - various locations	\$42,661.00	\$48,363.00
Kowtwal Crossing	\$330,244.00	\$374,383.86
Ministry of Energy & Water Compound	\$205,691.00	\$233,183.31
Sorgh Morghab Mosque	\$205,296.00	\$232,735.52
Tarin Kot Girls School Expansion	\$197,115.00	\$223,461.06
Chora Food Storage Cellars	\$63,854.00	\$72,388.62
Chora Clinical Health Centre Expansion	\$148,642.00	\$168,509.24
Sorkh Morghab Community Projects	\$65,361.00	\$74,097.04
Rosie Khan Mosque	\$54,328.00	\$61,589.39
Patrol Base Maintenance	\$63,865.00	\$72,401.09
Mirabad Basic Health Centre	\$18,733.20	\$21,237.05
Total 2009-10	\$3,512,678.34	\$3,982,177.01

For 2009-10 the net additional costs of ADF personnel, support and associated costs total \$37.1 million.

W11

Future Submarine Acquisitions

Senator Johnston

- (a) Could you confirm that current planning continues to be centred around acquisition of 12 submarines, and could you provide the expected financial cost for this number of vessels?**
- (b) SEA 1000 comes online in 2016, midway through the next DCP. What impact is this purchase having on other military capability, given budget limitations?**
- (c) Can you confirm that if we acquired six Collins Class submarines – vessels we own the intellectual design property for – that those vessels would today cost \$900m each? How would you fund 12 vessels of a new design, given the current Defence budget?**

Response:

- (a) Planning is based on the Defence White Paper 2009, which states at paragraph 9.3 “the Government has decided to acquire 12 new Future Submarines”. The Government is yet to make a decision on the type of submarine to be acquired.
- (b) Funding for the Future Submarine project, SEA 1000, is included in the current Defence Capability Plan. There is no impact from SEA 1000 on other military capability.
- (c) Parametric studies suggest a new-build Collins could cost in the range \$1 billion to \$1.25 billion per submarine in recurring costs. The total program cost to acquire twelve new-build Collins Class submarines would be substantially greater than this amount when non-recurring expenses are taken into consideration. Provision has been made for SEA 1000 in the Defence Capability Plan, within Government’s public funding model for Defence.

W12

Collins Class Submarines Crewing
Senator Johnston

- (a) Could you confirm our current capacity to crew our existing Collins Class submarine force?**
- (b) What plans do we have in place to crew for this planned future submarine force, including commanders for each of the new submarines?**

Response:

- (a) Navy's requirement for the existing (Collins Class) submarine force is for four sustainable crews supported by a Submarine Support Group and a sustainable shore support workforce. Currently three crews and a support group are being provided. The fourth crew is planned to be established in December 2011.
- (b) The overall workforce size for the future submarine force is yet to be determined as it is based largely on the crew size of the future submarine. Planned increases in Navy's authorised funded strength to meet the future submarine requirement have been allowed for in future budget planning. Commanding Officers will be one of a number of important workgroups that will be grown to meet the future submarine requirement.

W13

Submarines

Senator Johnston

- (a) Has the DMO ever benchmarked the sustainment costs of the Collins Class submarines. If so, how does it fare against other submarines. If it hasn't benchmarked the sustainment costs, then why not?
- (b) Collins has been at the top of the DMO's 'Projects of Concern' list for some time now. It is noted that Defence seems to be making some headway with the Collins Class submarine with increasing availability of submarines over the past few months. What impact has that effort had on the submarine sustainment budget?
- (c) What are the projected annual sustainment cost to achieve availability of 4 submarines.
- (d) When are we likely to see 4 submarines available for use by the Maritime Component Commander at Joint Headquarters?
- (e) With the recognition that the Collins is not an AIP submarine. There are numerous conventional submarines in our region that have AIP. Does the Navy concede that Collins would have a significant "indiscretion ratio" disadvantage when conducting the same tasks, or operating against, belligerent AIP submarines.
- (f) Collins has an open source (Janes, 2009) maximum operating depth of 300+ metres, which would seem to be shallower than the 350+ metres reported (DNCS, 2008) maximum operating depth of a Scorpene Class submarine or the 400+ metres reported (TKMS, 2007) maximum operating depth of a Type 214 submarine. Does the Navy concede that Collins would have an operational disadvantage in regard to maximum operating depth?
- (g) As the Collins has a *standard* main motor as opposed to the *permanent magnet* main motor of both the Scorpene and Type 214s. Does the Navy concede that Collins would suffer indiscretion, endurance and propeller noise disadvantages in relation to submarines fitted with such permanent magnet motors?
- (h) Collins has signature reduction technology that is 20 years older than that found on Scorpene and Type 214s (made by the same group of companies as the Collins class). Does the Navy concede that Collins would suffer acoustic, magnetic and thermal signature disadvantages when compared to these modern submarines?
- (i) Collins has 1980 sonar arrays. Modern submarines have newer ceramic technologies in their sonar arrays, better own noise decoupling technologies, outboard digitisation and greater sampling resolutions. They also use the latest signal processing hardware and algorithms. Does the Navy concede that Collins is likely to have a disadvantages with respect to the sonar performance of modern submarines, particularly noting Project SEA 1439 Phase 6, a project that "*aims to upgrade the sonar system in the Collins class submarines through a program of replacement and improvement of onboard processors and outboard sonar arrays in order to address a range of capability improvement requirements*", and which has appeared not to have progressed much at all.
- (j) Noting that the 2009 White Paper explicitly highlighted the importance of upgrading the sonars on the Collins class submarine, what is the delay? Are we serious about crawling back an edge in relation to sonar performance? The Defence White Paper says "*The Government has also agreed to further incremental upgrades to the Collins class submarines throughout the next decade, including new sonars, to ensure they remain highly effective through to their retirement*". Why has the First pass for this project delayed?
- (k) Collins has a program in place to upgrade its SATCOM from UHF to SHF. Almost all modern submarines already have SHF. Does the Navy concede that our

submarines have less capability to engage in Network Centric Warfare or to receive and transmit communications at high data rates?

- (l) Modern submarines have totally integrated combat system. It is my understanding that Collins has a mix and match of sensor systems from multiple vendors and a US Command and Control System that does not pass data back to the sensor subsystems. Does Navy concede that the totally integrated SUBTICs system on the Scorpenes and the ISUS system on the Type 214s may afford these submarines an advantage over Collins.**
- (m) The Type 214 submarine has a Torpedo countermeasure system that can simultaneously fire up to 40 jammer or decoys instantly. According to Janes, Collins has two Submerged Signal and Decoy Ejectors (SSDEs) meaning the best we can do is fire two countermeasures simultaneously. If you were unfortunate enough to be have a torpedo fired at you, which submarine would you rather be on?**
- (n) Noting that reliability is a fundamental input to capability, and that Collins seems to suffer from reliability, do you concede that other submarines in the region may have a “reliability” capability advantage over our submarines?**
- (o) Following from that, and despite the professionalism of our submariners, unavailability of submarines must have had an impact on the ability of our uniformed personnel to experience and practice all of the roles and functions that a submarine can perform. Surely this fact puts us at a disadvantage with respect to those regional submarine forces that do not have such availability problems.**
- (p) It is acknowledged that it takes years of training and practice to develop the expertise required to operate and fight a submarine effectively. Continuity of a nation’s core submarine operating expertise is critical in maintaining and improving a submarine capability, including the teaching of future submariners. Capability lost can take years, if not decades, to restore. What are we doing, or planning to do, to ensure that this skill base is maintained?**
- (q) The Chief of Navy is quoted in the paper as saying “*“It isn't as simple as saying a couple of Scorpene submarines from France can replace our Collins-class submarines because they cannot. They cannot go anywhere near the capability of our Collins-class submarines.”* Is that still the CN's view?**
- (r) On October 15th the CN is quoted as saying, “*The navy has fired back at critics of its push to have 12 new submarines built in Australia. It says an "off-the-shelf" European boat would not have the range or capability to hit targets far away in wartime.*” In light of these comments, how can the comments of Rowan Moffitt at Senate Estimates in June this year when he said: “*For example, one of the military off-the-shelf options available from one of the European manufacturers can come in today at a stated nominal range that exceeds the Collins class range somewhat in a much smaller submarine—two-thirds the size. It is not an easy comparison to make, however, because it depends totally on the conditions: the climate conditions, the water temperatures, the distances over which the submarine is being asked to perform and exactly how the mission is being executed by the submarine.*”**
- (s) When the Navy says that it has three submarine available at present, can you confirm that all three of these submarines are without operational restrictions of some sort? (e.g. constrained maximum operating depth, constrained number of diesels operating simultaneously, ability to operate equipment to full design specification, ability to deploy log ranges etc).**
- (t) I note that modern MOTS submarines are sold to South Korea, Malaysia, Singapore, Greece, Pakistan, India, South Africa, Chile, Brazil, Sweden and others. They seem to be designed to operate in all waters – hot, cold, shallow, deep, low and high salt content. Do you see the Australian operating environment conditions different in some way? If so, how?**
- (u) It is clear that Australian submarines have to travel long distances to get to their operating areas. Can you tell me how many times in the history of our submarine**

force our submarines have travelled to the northern hemisphere or similarly long distances without calling into a forward base of some sort at some stage throughout the deployment?

- (v) **How many times have Collins class submarines spent more than 50 days at sea continuously. On those trips, did they operate from a forward support base. On those trips, what distance did they cover?**
- (w) **Noting that the Navy has indicated that we notionally need to have a new submarine in the water by 2025 to start replacing Collin Class submarines, and noting that the project does not seem to have progressed very far, do we still have the time to develop a home grown submarine?**

Response:

- (a) Yes. A Maintenance Benchmarking Review was conducted in early 2010 against the US Los Angeles 688 Class (nuclear) and the Swedish Gotland Class. Significant differences exist in fleet and platform size, operational concept and environment, propulsion (diesel vs nuclear), crew composition and skills, and system complexity. As a consequence, this study did not provide a robust benchmark, but indicated Collins was likely to have a high cost to sustain, given its unique characteristics.

Building on this outcome, the Collins Program is conducting a detailed review of the Collins sustainment system over the next 12 months, to establish an internal benchmark. This review will be informed by the work conducted under the agreed Integrated Master Schedule (IMS) between Navy, the Defence Materiel Organisation (DMO) and ASC AWD Shipbuilder Pty Ltd (ASC), and initiatives to refine sustainment workscope.

- (b) The agreement of the Integrated Master Schedule (IMS) and other reform initiatives has produced an improvement in submarine availability. To support delivery of the IMS and continuing refinement of sustainment workscope requirement, the Collins Program is currently negotiating the In-Service Support Contract with ASC. To continue implementation of such reform initiatives, it is envisaged that higher levels of funding will be required. Until negotiations are complete, the extent of this funding increase is not available.
- (c) A new In-Service Support Contract is in negotiation with ASC, to support reform initiatives including the IMS and refinement of workscope requirements. It is envisaged that higher levels of sustainment funding will be required. Until negotiations are complete, the extent of this sustainment funding increase is not available.
- (d) Navy's current requirement is four submarines manned and operating from Fleet Base West. Three of these will be available for sea at any one time with one in some form of maintenance availability as part of the Usage Upkeep Cycle (UUC). Under this plan there will be very few periods when four submarines are available for operational tasking.
- (e) Air Independent Propulsion (AIP) systems extend the dived endurance of conventional submarines under specific circumstances for a limited period and mere possession of an AIP system does not automatically confer an overall capability advantage. The Collins Class is assessed as being more capable than regional conventional submarines in many capability areas and this offsets any advantages currently presented by AIP systems. The future submarines will be designed to counter the current and future capability of regional submarines.

- (f) The diving depth of the Collins Class submarine is classified and is considered adequate for purpose. Deeper operating depths do not necessarily confer any operational advantage.
- (g) Permanent magnet main motors represent a new generation of motor technology and are generally smaller and more efficient than traditional direct current machines of the same capacity. Indiscretion ratio is driven by main battery and diesel generator capacity rather than motor performance. Propeller noise is unrelated to motor type.
- (h) Successful signature reduction in a submarine depends on more than just technology. Maintenance, acoustic and magnetic 'grooming' and operator training are equally important. Trials and exercises indicate that the stealth of the Collins Class is equivalent to, or better than regional submarines.
- (i) SEA1439 Phase 6 (sonar upgrade) is required in order to maintain a capability advantage against regional submarines.
- (j) 2010 focus has been to stabilise submarine availability for Navy to enable the conduct of raise, train and sustain activities. Stabilising the new Integrated Master Schedule and progressing negotiations for the replacement In-Service Support Contract with ASC were also considerations in the decision to delay First Pass for Phase 6. The revised schedule for First Pass is April 2011.
- (k) Network Centric Warfare (NCW) requires more than just a communications bearer such as SHF SATCOM. It also requires that the infrastructure inside the submarine is able to process Internet Protocol (IP)-based data and distribute that data to end-users. Project SEA 1439 Phase 5B2B has been established to deliver, among other improvements, a Modernised Submarine Communications System (MSMCS). The MSMCS will deliver an end-to-end communications solution incorporating an Information Management system, wideband SATCOM capability, a new Communications Centre and a submarine-wide multi-enclave Local Area Network environment. This project is preparing to approach industry for cost and solution advice that will inform the Second Pass approval submission scheduled for FY 2011-12 to FY 2012-13. When the capability is delivered Collins Class submarines will have a communications architecture that will enable NCW operations and considerably enhanced interoperability with Australian and allied forces.
- (l) The Collins combat system is the same as that installed in United States Navy (USN) Virginia class submarines. Cooperative development of this system with the USN was chosen by Government in 2001 after a careful evaluation of the Military off-the-shelf (MOTS) ISUS combat system.
- (m) The capability of a countermeasure against threat torpedoes is more important than the quantity of decoys able to be launched.
- (n) No.
- (o) The Collins Class has suffered from poor availability over the past two years, but availability is now improving. Royal Australian Navy submarine operational experience is based on over 40 years of continuous submarine operations.
- (p) Navy has set a clear availability target for the Collins Class. The DMO is focussed on achieving this target.
- (q) Yes.

- (r) To achieve or exceed the Collins range, the smaller military off-the-shelf submarines travel at a slower speed and therefore take much longer to reach the required distance. As their overall endurance is less than Collins, the result is that their time on station is significantly less than Collins.
- (s) Navy will not comment in detail on submarine operational capabilities or limitations.
- (t) MOTS submarines purchased by other countries are generally tailored to meet the maritime operating environments of those nations and are commonly intended for littoral operation in the country's immediate sea areas. The operating profiles are universally far less demanding than that required by the unique requirements faced by the ADF. The scale and geography of Australia's submarine operating region require the ADF submarine capability to be able to operate in all the climatic conditions presented by those nations mentioned, at a far greater range and for much longer periods.
- (u) Navy will not comment in detail on submarine deployments.
- (v) Navy will not comment in detail on submarine deployments.
- (w) Options to sustain Australia's submarine capability are being examined and will be considered by Government in due course. The life of the Collins Class is notional rather than fixed and will be influenced by the ongoing supportability and relative capability of the Collins Class as well as the delivery programme for the Future Submarine, which has not yet been determined. The transition plan will be designed to minimise impact on overall submarine availability, the period of transition and the associated costs.

W14

SEA 1000 – Staffing and Salaries

Senator Johnston

- (a) **As far as this project is concerned and the current \$19 million allocation Defence salaries should be costing nothing for the taxpayer; after all, we already pay for those in the Defence budget as part of the people cost – around \$6 billion a year currently. So what and more importantly who have we spent \$6 million on? And who will get the other \$9 million?**
- (b) **In terms of fiscal management of the DOD. If we sent an EL2 on full-time study for one year doing a masters in project management, full cost recovery for that employee would be no more than around \$150,000 in salary plus superannuation, and perhaps another \$50,000 in course fees. An outlay of around \$200,000. Once trained, they would cost us \$150,000 a year to utilise in a project, but we would in effect ‘own the asset’, because the employee would work for the Commonwealth and their salary is already paid in the People component of the Budget. Why are we employing contractors, especially if their cost exceeds \$200,000 a year?**
- (c) **Why haven’t departmental SES leaders planned the training of middle management staff as soon as there is an inkling any project is to be undertaken? How is this in any way responsible fiscal management, as stipulated in Section 14 of the FMA Act? How is this reflective of SRP?**
- (d) **SEA 1000 is not slated to be listed in the DCP until 2016. How can issues of schedule be driving employment of contractors at this point in time, or the commissioning of a report by RAND Corporation?**

Response:

- (a) The \$19 million approved to date for the Future Submarines is exclusive of Defence salaries. The funding is primarily for studies by specialists to inform the program office, and through it the Government, on matters such as design and technology options, and on commercial aspects related to program management. Contracts undertaken to date (total value \$6.263 million) include the following:
- June 2010 – Rapid Prototyping, Development and Evaluation (RPDE, Defence) – Workshops with industry on how to develop a domestic design - \$330,000.
 - April 2010 – BMT Defence Services - Special Forces Requirements - \$167,000.
 - March 2010 – Defence Science and Technology Organisation – Various for contractor support and study travel pertaining to studies on behalf of SEA 1000 - \$348,000.
 - March 2010 – Composite Materials Technology Study – \$74,000.
 - February 2010 – Defence Science and Technology Organisation – Air Independent Propulsion Study - \$64,000.
 - January 2010 – Babcock Integrated Technology – Lessons learned from the United Kingdom’s ASTUTE and SUCCESSOR Programs - \$26,000.
 - December 2009 – Defence Science and Technology Organisation – Hydrodynamics Study - \$66,000.
 - November 2009 – United States Naval Sea Systems Command – Readiness Review Study - \$646,000.
 - October 2009 – RAND Corporation - Domestic Design Capability Study - \$1.632 million.
 - July 2009 – Phillips Group – Strategic Communications Advice - \$24,000.

- July 2009 – Professional Service Provider (PSP) Mr Paul Tuck – Assist in development of SEA 1000 - \$73,000.
- July 2009 – Oscar Hughes - Lessons Learnt From Collins - \$38,000.
- July 2009 – Resource Management International – Cabinet Submission drafting support - \$10,000.
- June 2009 – Change Drivers - Workforce Planning for Program Office - \$35,000.
- May 2009 – Request For Information - \$1.2m [\$300,000 each to Navantia (Spain), DCNS (France), Howaldtswerke-Deutsche Werft (HDW, Germany) and Kockums (Sweden)].
- May 2009 – URS Australia – Environmental Issues - \$44,000.
- May 2009 – Australian Government Solicitor (AGS) – Legal Services to Program - \$200,000.
- April 2009 – Phillips Group – Communications and Public relations strategy - \$39,000.
- March 2009 – BMT Defence Services – Assistance with Capability Development Documentation - \$522,000.
- February 2009 – Babcock Integrated Technology Australia – Payload Requirements Study - \$150,000.
- December 2008 – Pacific Marine Batteries (PMB) - Battery Technology Study - \$441,000.
- December 2008 – University College London (UCL) Consultants – Feasibility study on evolving existing submarine designs - \$10,000.
- November 2008 – Change Drivers – Planning workforce support - \$53,000.
- November 2008 – BMT Defence Services – Request for Information Development support - \$71,000.

A range of further studies is planned for the balance of the funding allocated. These studies will include analytical modelling to support determination of the capability required, and further studies of the capabilities of off-the-shelf options.

- (b) The Defence Materiel Organisation (DMO) invests in professionalising and developing its staff in the core skills relating to its business. The Executive Masters in Complex Project Management, and its partner qualification in Strategic Procurement, are examples of this strategy at work. This targeted strategy provides the most cost effective way to support the DMO's prime project and sustainment businesses, and maximises the training return on investment. Contractors are engaged to supplement where the DMO does not have expertise because it is not cost effective to develop this in-house, or where external advice or specific information is required. No contractors are employed by SEA 1000 on an ongoing basis.
- (c) Ten year workforce plans have been developed based on skill sets for Australian Public Service and Australian Defence Force staff to work on SEA 1000. The workforce plans will be revised each year as Government provides direction to Defence on the acquisition strategy and sustainment strategy for the platform. The DMO is already providing training for Project Managers and other skill sets for this and the other major projects to be delivered over the next ten years.
- (d) SEA 1000 is listed and funded in the current Defence Capability Plan. As per the public Defence Capability Plan 2009, SEA 1000 is scheduled for second pass consideration in the period Financial Year 2013-14 to Financial Year 2015-16. The Defence Procurement

Review 2003 (Kinnaird Review) recommends significant investment should be made ahead of an acquisition decision, to understand the capability requirements and options. The SEA 1000 pre-second pass funding is for this purpose. The RAND study is one such activity intended to inform the acquisition options for Government consideration in due course.

W19

Remote Locality Leave Travel Allowances
Senator Johnston

It was said that there would be a review of allowances for remote locality leave travel for Defence personnel. How has that matter resolved itself?

Response:

The terms of reference for a review of the Australian Defence Force (ADF) remote location leave travel provision were approved by the Secretary of Defence and Chief of the Defence Force on 13 October 2010. A copy of the Terms of Reference is attached.

The aims of this review are to examine Remote Location Leave Travel provisions to ensure it best suits the needs of ADF members in remote locations and, wherever possible, simplify the administrative processes to capture cost reductions through reduced administration, and make appropriate recommendations.

The outcomes of the review are scheduled to be presented to the Minister for Defence Science and Personnel in the second half of 2011.

In parallel with this review there will be a review of the provisions for remote location leave travel available to Australian Public Service employees in Defence, namely Assisted Leave Fares Allowance.

Defence can only vary Assisted Leave Fares Allowance provisions through the agreement making process for the next collective agreement which will not be effective until 1 July 2011 at the earliest. The review of Assisted Leave Fares Allowance may be influenced by Whole of Australian Government reforms.

Both the reviews of Australian Defence Force and Australian Public Service remote location leave travel will be considered in the context of Defence's broader Strategic Reform Program measures.

TERMS OF REFERENCE

REVIEW OF ADF REMOTE LOCATION LEAVE TRAVEL

1. In late 2009, the Strategic Reform Program review of options for cost reductions in the Non-Equipment Procurement stream of Defence identified remote location leave travel (RLLT) as an area where rationalisation and business process re-engineering cost reductions may be available. Defence therefore decided to review RLLT with the aim of ensuring it best supports our people in remote locations while at the same time identifying any cost reductions which could flow from simplified administrative procedures.

2. The Minister for Defence referred to this review during the Senate Foreign Affairs, Defence and Trade Legislation Committee Estimates hearing in May 2010. In his comments the Minister for Defence clearly stated that all locations currently categorised as remote by Defence will remain so and that no ADF member would be worse off. In part he stated 'the service of our ADF members in these localities is valued and we will not see any benefits that they receive adversely affected'.

3. In parallel with this review there will be a review of the provisions for remote location leave travel available to APS employees in Defence, namely Assisted Leave Fares Allowance (ALFA). The review of ALFA may be influenced by Whole of Australian Government reforms.

Aims

4. The aims of the review are to examine the RLLT provision to ensure it best suits the needs of ADF members in remote locations and wherever possible, simplify the administrative processes to capture cost reductions through reduced administration and make appropriate recommendations.

Scope

5. The review is to include but is not limited to an examination of the following aspects of remote location leave travel:

- Whether or not the provision can and should be made more contemporary
- If the provision can better fit the sorts of circumstances that people in remote locations currently experience
- If the provision should be made more flexible, including the number of destinations available, and if so how this can be most appropriately achieved
- How the administration of the provision can be streamlined and made more efficient and cost effective without adversely affecting ADF members and their families
- If appropriate, identify options for the reform of remote location leave travel
- Any reforms which would adversely affect the conditions of service of ADF members or have an adverse impact on their dependants are not to be considered.

6. The review is to be limited to RLLT and is not to consider the classification of any location as remote per se.

Review Principles

7. The review should take in a wide range of views through extensive consultation with all parties with an interest in remote location leave travel. Any potential impacts on the families of ADF members and Defence employees working in remote locations should be considered.

8. Any proposed changes are not to adversely impact on ADF members or their families, however where possible, administration of the provision should be streamlined and made more efficient and cost effective.

Resources

9. A working group comprising representatives from the three Services, Defence Support Group and Personnel Strategies and Policy Group is to be formed to conduct the review. Any travel or other expenses are to be provided by the relevant area.

Reporting

10. Following initial scoping of the task the working group will:

- Report to the Personnel Steering Group (PSG) on proposed changes to the provision in February 2011
- Focus its efforts on those aspects agreed by the PSG
- Submit a paper on proposed reforms, including costs, to the PSG for agreement in April 2011
- Submit a paper to the Defence People Committee (DPC) containing the reforms agreed by the PSG for agreement in June 2011
- Submit a paper to the Minister for Defence Science and Personnel, through the Chief of the Defence Force and Secretary of Defence, seeking approval of the proposed changes to the provision agreed by the DPC in August 2011.

W22

Reserve Numbers
Senator Johnston

CDF, you indicated in May we had seen a 13 percent increase in Reserve numbers since 2005. Are the Reserves still as vibrant and, more importantly, attracted to service with the ADF now as you indicated in May?

Response:

There are very positive indicators of both the relevance and attractiveness of Reserve service in the ADF.

Between December 2009 and June 2010, the strength of the ADF Active Reserve has continued to increase, albeit modestly, by about 230 personnel, and has only been constrained by recruiting targets and the current positive retention rates. These two facts combined should be viewed as a very positive indicator of the current state of morale within the Reserve.

Another key indicator of both the vibrancy and attractiveness of Reserve service continues to be the utilisation of the Reserve on operations.

Routine Reserve personnel surveys have noted that 76.6 per cent of all Active Reservists indicated that they would be willing to undertake operational service:

- Non-warlike service overseas – 66%.
- Domestic Security Operations – 65.4%.
- Warlike service overseas – 62.2%.

This aligns with other anecdotal evidence from Reserve Commanders, personnel and their employers and professional judgement which indicates that this attraction to operational service remains strong and is one of the primary motivators for Reserve service.

The following table indicates the number of ADF Reservists deployed on operations in the past four completed financial years.

Reservists Deployed on Operations (Source: PMKeyS)

Year	Navy	Army	Air Force	Totals
2006-07	62	1473	101	1636
2007-08	137	1498	211	1846
2008-09	106	1989	143	2238
2009-10	102	839	125	1066
Totals:	407	5799	580	6786

While the figures for 2009-10 are lower than previous years, it is noted that the figures for 2006-07 – 2008-09 include Reservists deployed on the following significant domestic operations:

- Operation VIC FIRES ASSIST (Victoria Bush Fires February/March 2009) - 1030 personnel;
- Operation ACOLYTE (CW Games September 2006) – 683 personnel;

- Operation DELUGE (Asia Pacific Economic Cooperation (APEC) September 2007) – 395 personnel;
- Operation OUTREACH (Support to Indigenous Communities June 07-November 08) – 246 personnel spread across financial years 2007-08 and 2008-09; and
- Operation TESTAMENT (Support to World Youth Day July 2008) - 300 personnel.

These operations are ‘one-off’ domestic operations in support of specific operational requirements. There was no such major incident/event in financial year 2009-10.

When these figures are taken into account, it shows that the use of Reservists on operations overseas is generally increasing, clearly demonstrating the importance of Reservists to ADF operational effort. Furthermore, the ease in which these positions are filled is a testament to the focus and willingness of Reserves to contribute.

At this time, individual Reservists are deployed on operations in the Middle East, Sudan and Iraq, while the ADF contingents to the Solomon Islands is predominately comprised of Reservists. In October 2010, a company size force element of 160 Reservists from the 11th Brigade deployed to East Timor as part of the approximately 400 strong ADF contingent to Operation ASTUTE. This deployment of a company of Reservists is in addition to approximately 36 individual Reservists deployed to Operation ASTUTE.

Headquarters 11th Brigade advise that within the Brigade alone there were at least 250 volunteers for the initial 130 positions in the company to deploy to East Timor. More recently, Headquarters 11th Brigade was tasked to assess its ability to provide support, if required, to the South Queensland Flood Disaster. Within four hours, the Brigade had received over 200 volunteers to deploy if the task was stood up. As of 25 January 2011, approximately 392 Reservists had deployed to OP QLD FLOOD ASSIST, and 130 Reservists had deployed to OP VIC FLOOD ASSIST.

Successful recruiting and retention of Reserve personnel, high operational tempo and the willingness of Reservists to serve at home and abroad, demonstrates the vibrancy and attractiveness of Reserve service.

W27

Birdon Marine Group
Senator Williams

- (a) Where contracts have been let to the Birdon Group, could you please list the successful contract price, and if this varied from the final price, what was the final price?**
- (b) Have there been any Federal or State Ministerials involving the Birdon Group presented to Departments. If so, how many and what were the nature of the complaints?**

Response:

- (a) The Department of Defence and Defence Materiel Organisation Interim Defence Contract Register (for contracts over \$100,000) and the Austender records (for contracts over \$10,000) show there have been 152 contracts with the Birdon Group. Thirty-five of these contracts show a variation between the contract price and the final price. This is not unusual as scope changes and contractual variations will change the contract price. The details of all 152 contracts are provided in the attached Table.
- (b) The Department of Defence and Defence Materiel Organisation have received two Ministerial Representations from State Members of Parliament and three from Federal Members of Parliament involving the Birdon Group.

Of these five representations, only one – a letter from the former Federal Member for Lyne, the Hon Mark Vaile MP - involved a complaint. This letter raised concerns regarding the exclusion of a solution proposed by the Birdon Group from the request for proposal for the Amphibious Watercraft Project, JP 2048 Phase 3. In response, the Member for Lyne was informed of the tendering process adopted and the reason for exclusion of the tender made by the Birdon Group and its tendering partner. The Member for Lyne was also informed that the proposer had been fully briefed on the reasons for the rejection of the proposal.

W28

RAAF Base Scherger
Senator Boswell

Under the advice of Senator Carr during the Legal and Constitutional affairs estimates hearings on Tuesday 19th October, I am approaching the Department of Defence with the following questions:

- (a) Who did the Department of Defence contract to perform the fencing around the accommodation area at the Scherger RAAF base site facility?**
- (b) When did the contractor sign this contract?**
- (c) When did the Department of Defence begin discussions with the contractor about the fencing work that was required?**
- (d) When were the fencing post-holes dug out?**
- (e) Why was the work undertaken at the Scherger base?**
- (f) Was there any written or oral communication between the Department of Defence and the Department of Immigration and Citizenship that led to the work on Scherger base being undertaken?**

Response:

- (a) Defence has in place a North Queensland Base Services Contract with Serco Sodexo Defence Services (SSDS). Through this contract a sub-contractor named Secure Fencing was selected to undertake the fencing work at RAAF Base Scherger.
- (b) On 4 October 2010 Secure Fencing was engaged via purchase order by SSDS to construct the fence.
- (c) At the request of Defence, SSDS sought quotations with three potential fencing sub-contractors on 27 July 2010.
- (d) Digging of fence post holes commenced on 14 October 2010 (pm hours) and concluded on 29 October 2010.
- (e) The fencing work was undertaken for the purpose of short term interim accommodation for irregular maritime arrivals as per the Government announcement of 17 September 2010. The additional fencing was erected to isolate the identified site from the rest of the base.
- (f) As there was already an immigration detention centre operating on Defence land at Curtin, regular written and oral communication was already occurring between Defence and the Department of Immigration and Citizenship. This ongoing communication also included discussion regarding potential additional sites should a need arise, including RAAF Base Scherger. Despite being discussed as hypothetical options, no works commenced at RAAF Base Scherger until after the announcement by Government on 17 September 2010.

W29

Defence Clothing Contracts

Senator Johnston

- (a) Why wasn't the contract relating to fabric for ADF uniforms which was awarded to ADA signed off by a more senior official than someone acting in the position of Director of Clothing Systems Program Office?
- (b) Who overviewed and vetted this high risk contracting decision at this time, immediately prior to Christmas?
- (c) Was the Chinese Fabric submitted for review fully compliant visually and aesthetically when compared to the existing Australian fabric?
- (d) It would appear that the contract was awarded to ADA on the basis of best value for money due to the option for the Chinese fabric reducing the overall cost of the contract. As the Chinese fabric was not proven at the time the contract was signed, isn't it that the competing Australian garment manufacturer, who did not include an offshore made fabric in their tender submission, was significantly disadvantaged in the awarding of a contract on the basis of a fabric source that was unproven?
- (e) I refer to the review of export contract of DPCU 8818, incorporating the near IR signature management technology that was announced by MINDEF on June 1 2010. Why has this review taken so long and, if completed, what was the outcome?
- (f) When will the Lewincamp report be publicly released, if not why not? If this report has been completed?
- (g) At the recent clothing SPO industry forum in Melbourne, concerns were raised by industry about the contracting and tender delays that are due to the Lewincamp report not being tabled and in turn policy decisions not being made. Will you release this report as a public document?
- (h) I refer to the contract awarded for extreme cold weather underwear in December 2009. Why was this 5 year standing offer awarded on the basis of the fabric and the garments being made in China when an interim one off purchase, was awarded in September 2009 to an Australian garment maker using Australian fabric, with that purchase order being supplied on time and to the quality specification?
- (i) I refer to the following equipment that Defence has indicated as being sourced from foreign suppliers. Which of the following products cannot be manufactured in Australia? Why has not Australian industry been awarded the contracts to supply this equipment?
- Italy: Cold Weather Boots (2003).
 - Laos: Kumul Pattern Shirts and Trousers (2008), Jacket Cold Weather (2009), noting some quantities were also manufactured in Australia.
 - Sir-Lanka: Broad Brim Hats (2009).
 - UK: cold Weather Jackets (2002), Cold Weather Overalls (2002).
 - US: Extreme Cold Weather Mittens (2006) and Socks (2005). Cold Weather Gloves (2006), Combat Boots (2004), Hot Weather Boots (2007).
 - Vietnam: Coveralls (2010).
- (j) As there is no answer to the question asked of Maj. General Cavanagh regarding the number of offshore supplier manufacturing facilities that have been *audited* over the past 5 years for quality control and work place compliance, I would request that an answer be supplied?
- (k) On or around the 27th August 2010 Tender number CBT/CLOSPO/09/03 was awarded to a small Sydney based company for the supply of Army Cadet Uniforms (20,000 Coats and 20,000 Trousers).

- (l) Has this contract been awarded to a company that is producing these uniforms offshore using Australian made fabric which has been supplied by DMO from their Bandiana warehouse?**
- (m) Has the camouflage fabric used near IR signature management properties and that the garment maker was not aware that an export permit was required for the transfer of that fabric to the offshore garment making facility.**
- (n) A Circular from the Director of the Clothing Systems Program Office was issued at the start of the Tender process where he indicated to prospective Tenderers of his concerns regarding the security issues associated with garments manufactured overseas. Were these security issues taken into full account prior to the awarding of the contract?**
- (o) When making the decision to award this contract to a contractor using offshore labour was made, were the working conditions that the garments are being manufactured under to achieve such a low price taken into full account so that Australian manufacturers are not placed at an unfair advantage?**

Response:

- (a) The contract relating to fabric for ADF uniforms which was awarded to Australian Defence Apparel (ADA), was signed off by the then Acting Director of Clothing Systems Program Office on 22 December 2009 as he held the appropriate delegation to sign a contract of this value.
- (b) The Director Clothing Systems Program Office oversaw the decision to enter into the contract. Overall, the procurement activity was assessed as low risk by the Tender Evaluation Board.
- (c) In conducting tender evaluations, offered solutions are compared against a specification, not directly against each other.

Neither the Chinese fabric nor the competing Australian manufactured fabric was fully compliant against the relevant specifications.

- (d) Neither ADA nor the competing Australian manufacturer offered fabric that was fully compliant against the relevant specifications. However, the Tender Evaluation Board assessed that these deficiencies were not so great as to prevent entering into contract with either tenderer. Nonetheless, the Defence Materiel Organisation (DMO) acknowledges that its evaluation process should have better assessed the potential risks associated with a new supplier of Disruptive Pattern Cloth and, if necessary, sought additional evidence from ADA to allay any risks that may have been identified.
- (e) The former Minister for Defence advised the Foreign Affairs, Defence and Trade Legislation Committee at Estimates on 1 June 2010 that an internal investigation into the allegation of a breach of the Customs Act would be conducted. That review commenced on 11 June 2010 and was completed on 7 September 2010. The outcomes of the review relate closely to separate reviews underway within Defence, namely the Whalan Review of the Reporting of Defects with ADF Personal Equipment and Combat Clothing (announced by the then Minister for Defence, Senator Faulkner on 1 June 2010) and the Lewincamp Review of the Policy Framework for Clothing Procurement. Defence received all three reports and prepared responses to the recommendations they contain as a package. The Minister for Defence and the Minister for Defence Materiel have considered the reports and Defence's proposed responses. The Minister for Defence Materiel released the Whalan and Lewincamp reviews at the Land Warfare Conference on 19 November 2010. A statement about the review of the export control matter was

released publicly on 22 December 2010, with the media release available at <http://www.defence.gov.au/media/DepartmentalTpl.cfm?CurrentId=11238>. In summary the investigation found evidence that a small sample fabric had been exported without the necessary permission. The Defence assessment is that approval for the export of the fabric sample would have been granted had it been sought. The Defence Export Control Office, in conjunction with the Defence Materiel Organisation, has initiated a targeted outreach program to raise awareness of Australia's export controls among companies who support Defence clothing and equipment programs.

- (f) See answer to question (e).
- (g) See answer to question (e).
- (h) The contracts for Extreme Cold Weather and Cold Weather Undergarments span 11 different products, and were awarded to four Australian companies: Merino Country Unit Trust, Mont Adventure Equipment Pty Ltd, Wilderness Wear Australia Pty Ltd, and Platypus Outdoors Group Pty Ltd. The contracts were awarded on the basis of value for money in accordance with Commonwealth Procurement Guidelines and Defence procurement policies.

The interim purchase, awarded in September 2009, was for an urgent operational requirement for one of the 11 items while the tender for cold weather undergarments was being assessed. This purchase was awarded to Wilderness Wear Australia Pty Ltd, one of the companies ultimately selected for the five year standing offer for cold weather undergarments.

- (i) DMO undertakes tender processes in accordance with Commonwealth Procurement Guidelines which require that property or services on offer must be considered on the basis of their suitability for their intended purpose and not on the basis of their origin. All clothing contracts during financial years 2008-09 and 2009-10 were with Australian companies.

Industry is always seeking opportunities to reduce tender prices in order to win contracts and this has seen a number of companies recently tendering both offshore and local 'manufacture' bids for the same product. Nonetheless, where tenderers offer only an offshore manufactured solution this is a commercial decision taken by the tenderer and each tender is considered on its merits by the DMO.

In selecting a preferred solution based on value for money to the Commonwealth, the DMO is limited to considering the solutions tendered by industry.

Italy: Cold Weather Boots (2003)

To DMO's knowledge, there are currently no companies that manufacture a cold weather combat or cold weather hiking boot in Australia.

The Cold Weather Boot manufactured in Italy was identified by Army as appropriate to meet an operational requirement.

This contract was awarded to an Australian company, Mainpeak Pty Ltd, of Cottesloe, Western Australia.

Laos: Kumul Pattern Shirts and Trousers (2008)

The contract for Kumul Pattern Shirts and Trousers was for the Papua New Guinea Defence Force (PNGDF) and Tongan Defence Forces. It was awarded to Australian Defence Apparel (ADA), an Australian company based in Coburg, Victoria.

The Kumul pattern PNGDF uniforms purchased by the DMO were manufactured by Venture International (Vietnam). This approach took advantage of a concurrent contract awarded to ADA by the Government of PNG for the supply of the same items to the PNGDF. These uniforms are funded by Defence as part of Australia's support to PNG's and Tonga's contribution to regional operations.

Laos: Jacket Cold Weather (2009), noting some quantities were also manufactured in Australia

The contract for the Cold Weather Windproof Jacket was awarded to Australian Defence Apparel (ADA), an Australian company based in Coburg, Victoria. One third of the contracted quantity with ADA was manufactured in Australia. The rest of the contract was manufactured in Laos.

Sri-Lanka: Broad Brim Hats (2009)

This contract was awarded to Mountcastle Pty Ltd, an Australian company based in Yeronga Queensland. The hats were manufactured by Statesman Hats Sri Lanka, a fully owned subsidiary of Mountcastle Pty Ltd.

UK: Cold Weather Jackets (2002), Cold Weather Overalls (2002)

The most recent contract for these items, signed in 2010, was awarded to Mont Adventure Equipment, an Australian company. Previously these items were supplied by Platypus Outdoors Group, an Australian company, who sourced the product from Snugpak, UK.

US: Cold Weather Gloves (2006)

The supplier for the Cold Weather Gloves in 2006 was Platypus Outdoors Group Pty Ltd, an Australian company.

US: Extreme Cold Weather Mittens (2006)

The supplier for the Extreme Cold Weather Mittens in 2006 was Mainpeak Pty Ltd, an Australian company.

US: Socks (2005)

The supplier for the Socks in 2005 was Mainpeak Pty Ltd, an Australian company.

US: Combat Boots (2004)

A recent Request for Information released to Industry resulted in only 1 of 19 respondents committing to local manufacture of the combat boot. Several refused to commit to local manufacture and some respondents indicated that they may consider local manufacture provided other conditions were met.

US: Hot Weather Boots (2007)

To DMO's knowledge, there are currently no companies that manufacture a Hot Weather Boot in Australia. The contract for Hot Weather Boots was awarded to an Australian company, Lymington Pacific Pty Ltd, based in NSW. However, the boot is manufactured in the USA.

Vietnam: Coveralls (2010)

This contract was awarded to Australian Defence Apparel, an Australian company based in Coburg, Victoria. The uniforms ordered against the current contract were manufactured in Laos.

- (j) No offshore companies have been audited for quality control and workplace compliance over the past five years.

However as recorded in the Budget Estimates Hansard of 1 June 2010 p 63, one visit has been conducted to an offshore manufacturer of Defence apparel in the last five years. This was to Apex Ventures Private Limited, a sub-contracted manufacturer for Crossfire (AUST) Pty Ltd, located in Vietnam. This visit was undertaken by the Defence Attaché in Vietnam.

- (k) The Contract for Army Cadet Uniforms (CBT/CLOSPO/09/03) was signed on 23 August 2010 with Babylon Industries Pty Ltd of Villawood, Sydney, NSW. The contract was gazetted through Austender on 24 August 2010.
- (l) Babylon Industries Pty Ltd is producing the garments at its Villawood, NSW, site using Australian made fabric which has been supplied by DMO from Defence's Bandiana warehouses.
- (m) The camouflage fabric being used has Near Infrared (NIR) signature management properties; however since manufacture is being conducted in Australia there is no need for an export permit.
- (n) Yes.
- (o) This contract has not been awarded to a contractor using off-shore labour. The contract has been awarded to Babylon Industries Pty Ltd which is accredited by Ethical Clothing Australia (formerly the Homeworkers Code of Practice).

W30

Unity Resources Group

Senator Trood

- (a) How many Expressions of Interest (EOI) submissions did the Defence Department receive from potential suppliers for the provision of static security, security management and protected mobility security services for the Australian Embassy-Baghdad?**
- (b) What were the conditions for participation for the tender?**
- (c) How was this company selected? What vetting process was used?**
- (d) Why was URG selected over other companies?**
- (e) Why has the contract never been declared?**
- (f) Was Defence aware when it granted URG the Baghdad contract that it was subject to civil proceedings in the US regarding the deaths of two Iraqi civilians, Geneva Antranick and Marou Awanis? If not, when did the Department become aware of these proceedings?**
- (g) Does Defence believe that URG complies with the criteria of the Montreux Document?**

Response:

- (a) On 2 October 2009 a confined Request for Tender (RFT) was released to seven private security companies for a range of Security Services in Baghdad for Operation KRUGER (Phase 2) to align with the phased drawdown of the ADF Security Detachment (SECDET). The Commonwealth received six responses to the RFT from the nominated private security companies.
- (b) The conditions for participation for the tender involved engaging security providers in a confined tender process on the basis of known ability or performance to satisfy the requirements of the Commonwealth. The Request for Tender was based on the standard Commonwealth Australian Defence Contract contracting template and modified to meet this specific requirement. Tenderers were also required to address a range of issues including whether the tenderer:
 - was listed in the Charter of United Nations (Dealings and Assets) Regulations 2008 (Section 20) which concerns the unauthorised use or dealing with assets owned or controlled by a person or entity proscribed by the Minister for Foreign Affairs for their association with the commission of terrorist acts;
 - was being investigated for, or had ever been convicted of, a criminal offence (including under the Cybercrime Act 2001 (Cth));
 - understood its obligations under the Montreux Document and agreed to comply with those obligations under any resultant contract;
 - understood its obligations under the Geneva Convention and agreed to comply with those relevant obligations in any resultant contract; and
 - complied with the Defence Security Clearance Requirements.
- (c) The Tender Evaluation Team, comprising of Defence and Department of Foreign Affairs and Trade (DFAT) representatives, evaluated the tenders in accordance with an approved Tender Evaluation Plan. The Project was also overseen by a Governance Board co-chaired by senior Defence and DFAT officials. The evaluation included an assessment of:

- The tenderers overall compliance with the Request for Tender;
- The extent to which the tenderer was compliant with the draft conditions of contract and assessed level of risk relating to the negotiation of a contract acceptable to the Commonwealths terms and conditions;
- Suitability of tenderers operational solution including their proposed transition plans;
- Overall risk associated with tenderers operational solution; and
- The tendered prices and pricing structure.

The Tender Evaluation Team also undertook background research of three shortlisted tenders to establish if there were any publicly available records or evidence which would indicate if the tenderers or their key personnel had any history of serious crime, violations of international law or behaviour otherwise inconsistent with the Montreux Document.

Research highlighted all shortlisted tenderers had been the subject of violent incidents in Iraq. The Tender Evaluation Team subsequently approached the three shortlisted companies to seek comment on specific incidents. Following review of the responses the Tender Evaluation Team judged that the ranking of the preferred tenders should not be changed - an assessment that was subsequently approved by the Tender Evaluation Plan. Specifically, Unity Resources Group (URG) advised in a detailed response that they had been found by authorities to have acted properly and lawfully in regard to the reported incidents.

The seven companies identified to receive the Request for Tender were selected on the basis of their capability and capacity to deliver the services and on the basis of their suitability to provide the services to the Commonwealth. Due to the short timeframe to establish this commercial arrangement, no further security or financial checks were undertaken.

- (d) URG's proposal was assessed as superior to other tenderers following assessment by the joint Defence and the Department of Foreign Affairs and Trade Tender Evaluation Team. Specifically, URG's operational solution and transition plans were more appropriate and responsive to the Commonwealths requirements when compared with all other tenderers.
- (e) Defence is in certain circumstances able to withhold publication of contract details if certain criteria are established. The Financial Management Guidance No.15 (at paragraph 5.8) provides that a Chief Executive may direct in writing that contract details are not to be reported on AusTender if they would be subject to an exemption under the *Freedom of Information Act 1982* (FOI Act) and the Chief Executive considers that the information is genuinely sensitive and harm is likely to be caused by its disclosure. The relevant considerations under the FOI Act are whether the disclosure of the document could reasonably be expected to cause damage to the security of the Commonwealth. The Defence Financial delegations FINMAN 2 has delegated this power to exempt to various positions.

In this particular case the delegated decision maker sought advice from the relevant operational area, and based on that advice, formed the view that the publication of these details would cause operational security issues in terms of the withdrawal of ADF personnel and assets and had the potential to increase the security threat to personnel working at the embassy.

- (f) The Commonwealth was aware of two incidents (the shooting of Professor Kays Juma in March 2006 and Ms Marou Awanis and Ms Geneva Jalal in October 2007) and of civil proceedings in the USA arising from one of those incidents (Ms Marou Awanis) when the

contract was signed. URG provided a comprehensive response to the Tender Evaluation Team affirming they were cleared by Iraqi authorities. Defence was not aware of any charges being laid and noted that both incidents were referred to the Iraqi government by the UN Working Group reviewing the use of mercenaries (A/HRC/10/14/Add.1 dated 27 February 2009). Extracts from Iraqi Government documents contained in the United Nations Working Group addendum made no adverse reference details in regard to URG.

- (g) The tender process included a requirement that the principles, rules and good practices as described in the Montreux Document be observed and complied with. URG were assessed as being compliant with the Montreux Document and provided sufficient evidence to support their claim. While under contract with Defence, URG were under the strict control and management of the local Australian Commander. URG has operated professionally in Baghdad to the satisfaction of the ADF Commander.

W31

Old Chemical Weapons in Queensland

Senator Trood

According to incoming brief for Secretary of DFAT Dennis Richardson in 2010 from the Australian Safeguards and Non-Proliferation Office, "Following recent finds of old chemical weapons in Queensland, ASNO is working with Defence to ensure Australia's Chemical Weapons Convention commitments are met."

- (a) What are the old chemical weapons referred to in the report?**
- (b) Where were they located?**
- (c) How were they located?**
- (d) What types of weapons were uncovered?**
- (e) Have these weapons been disposed of? How? By whom?**
- (f) How have Defence and ASNO worked together?**

Response:

- (a) Defence has confirmed the discovery of 144 old chemical weapons from World War II containing the chemical warfare agent mustard. The weapons are of United States of America origin. In their current state, specialist advice is that these items do not pose a risk to the public.
- (b) The old chemical weapons were uncovered in a remote area, on a former World War II United States of America Ammunition Depot located between the towns of Miles and Chinchilla, Queensland. The property is privately owned.
- (c) The old chemical weapons were excavated by the landowner.
- (d) Three different calibres of Howitzer artillery ordnance (75mm, 105mm and 155mm).
- (e) Defence is managing the destruction of the old chemical weapons which is scheduled to occur within the next 12 months. This work will occur with the assistance of the US Army and expert contractors from the US and Australia, in consultation with the relevant Queensland authorities and agencies. The weapons are located on site and will be until they are destroyed.
- (f) Defence and ASNO have worked closely together to ensure Australia's compliance with the *Chemical Weapons Convention*. This includes providing reports and facilitating the Organisation for the Prohibition of Chemical Weapons inspection of the old chemical weapons finds.

W32

Electorate Briefs

Senator Trood

- (a) Was the Defence Department asked to produce electorate briefs prior to the 2010 election?**
- (b) Who authorised the production of these briefs?**
- (c) When were the briefs compiled?**
- (d) What information is contained within the briefs?**
- (e) Who was given access to the briefs?**
- (f) Under the Labor Government's new freedom of information laws, does the Department intend to publish the content of the briefs? If not, why not?**

Response:

- (a) The department regularly updates Electorate briefs. The last update was completed in June/July and incorporated end of financial year data.
- (b) The First Assistant Secretary Ministerial and Executive Coordination and Communication.
- (c) The current suite of electorate briefs was updated prior to the 2010 Federal election campaign and again in October 2010. Electorate briefs are updated throughout the year.
- (d) Data contained within the briefs includes: publicly available electoral information from the Australian Electoral Commission; relevant Defence financial, personnel, scientific and industry data; and information on major Defence-owned establishments.
- (e) Updated electorate briefs are available on the Defence Restricted Network.
- (f) While many elements of the Government's Freedom of Information (FOI) reforms came into effect on 1 November 2010, the new Information Publication Scheme does not commence until 1 May 2011. Defence is currently considering which documents, including electorate briefs, it will be publishing in relation to this scheme.

