



COMMONWEALTH OF AUSTRALIA

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE
LEGISLATION COMMITTEE

Reference: Consideration of Budget Estimates

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE

Tuesday, 4 June 2002

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

Senators in attendance: Senators Bartlett, Bishop, Calvert, Cooney, Evans, Faulkner, Ferguson, Hogg, Macdonald, McKiernan, Payne and West

Committee met at 9.02 a.m.

DEFENCE PORTFOLIO

Consideration resumed from 3 June 2002.

In Attendance

Senator Hill, Minister for Defence

Department of Defence

Portfolio overview and major corporate issues

Portfolio overview (including implementation of White Paper)

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

Budget summary and financial statements

Improvement initiatives (efficiencies, Commercial Support Program, customer–supplier arrangements)

Mr Lloyd Bennett, Chief Finance Officer
Mr Rick Martin, Acting First Assistant Secretary Financial Services Division
Mr Joe Roach, Acting First Assistant Secretary Business Strategy Division

Capital budget: major capital equipment and major capital facilities projects (questions on Defence Materiel, including on materiel reform, and infrastructure projects)

Mr Mick Roche, Under Secretary Defence Materiel
Mr Shane Carmody, Deputy Secretary Corporate Services
Major General Peter Haddad, AM, Commander Joint Logistics
Rear Admiral Kevin Scarce, CSC, RAN, Head Maritime Systems
Dr Ian Williams, Head Land Systems
Air Vice Marshal Ray Conroy, AM, Head Aerospace Systems
Mr David Learmonth, Head Industry Division
Ms Shireane McKinnie, Head Electronic Systems
Air Vice Marshal Norman Gray, AM, Head Airborne Surveillance and Control
Ms Ann Thorpe, Head Materiel Finance
Mr Michael Pezzullo, Acting Head Infrastructure

Responses to questions on notice from 2001–02 additional estimates hearing.**Defence outputs****Output 1—Defence operations**

Rear Admiral Chris Ritchie, AO, Commander Australian Theatre

Mr Kevin Pippard, Director Business Management Headquarters Australian Theatre

Output 2—Navy capabilities (Navy Group issues)

Rear Admiral Brian Adams, AM, RAN, Deputy Chief of Navy

Mr Les Wallace, Director General, Navy Business Management

Rear Admiral Kevin Scarce, CSC, RAN, Head Maritime Systems, Defence Materiel Organisation

Mr Mark Gairey, Director General Submarines

Output 3—Army capabilities (Army Group issues)

Lieutenant General Peter Cosgrove, AC MC, Chief of Army

Mr Lance Williamson, Director General Corporate Management and Planning—Army

Output 4—Air Force capabilities (Air Force Group issues)

Air Marshal Angus Houston, AM, Chief of Air Force

Mr George Veitch, Assistant Secretary Resources Planning Air Force

Air Vice Marshal Ray Conroy, AM, Head Aerospace Systems

Output 5—Strategic policy (including Defence Cooperation Program)

Dr Richard Brabin-Smith, AO, Deputy Secretary Strategic Policy

Air Vice Marshal Alan Titheridge, AO, Head Strategic Command

Ms Myra Rowling, First Assistant Secretary Strategic International Policy

Output 6—Intelligence (including Defence Security Authority)

Mr Ron Bonighton, Acting Deputy Secretary Intelligence and Security

Mr Stephen Merchant, Acting Director Defence Signals Directorate

Ms Margot McCarthy, Head Defence Security Authority

Business processes**Defence Science**

Dr Roger Lough, Acting Chief Defence Scientist

Dr Tim McKenna, CSM, First Assistant Secretary Science Policy

Ms Chris Bee, Assistant Secretary Science Corporate Management

Inspector General (including portfolio evaluations)

Mr Claude Neumann, Inspector General

Public Affairs

Ms Jennifer McKenry, Head Public Affairs and Corporate Communication

Mr David Spouse, Acting Director-General Communication and Public Affairs

Corporate Services (including management decision support (information systems))

Mr Shane Carmody, Deputy Secretary Corporate Services

Mr David Kenny, Head Information Systems Division

Mr Ken Moore, Head Service Delivery Division

Mr Michael Pezzullo, Acting Head Infrastructure

Mr Ian Clarke, General Council Defence Legal Service

Mr Patrick Hannan, Chief Information Officer

People**Defence Personnel (recruitment and retention, recruiting advertising)**

Rear Admiral Russ Shalders, Head Defence Personnel Executive
Mr Felix Bleeser, Deputy Head Defence Personnel Executive
Commodore Louis Rago, Director-General Personnel Plans
Ms Bronwen Grey, CSM, Director Equity Organisation

Defence Housing Authority

Mr Bear, General Manager, Development and Sales
Mr Jon Brocklehurst, Manager Resources and Financial Policy

Department of Veterans' Affairs**Portfolio overview****Corporate and general matters****Outcome 1: Eligible veterans, their war widows and widowers and dependents have access to appropriate compensation and income support in recognition of the effects of war service.**

- 1.1—Means tested income support, pension and allowances
- 1.2—Compensation pensions, allowances etc
- 1.3—Veterans' Review Board
- 1.4—Defence Home Loans Scheme.

Mr Bill Maxwell, Division Head, Compensation and Support
Mr Geoff Stonehouse, Division Head, Health
Mr Mike O'Meara, Branch Head, Defence Liaison, Compensation and Support
Ms Helen Devlin, Director, Medical and Allied Health Policy
Dr Keith Horsley, Senior Medical Adviser
Mr Mark Johnson, Branch Head, Disability Compensation, Compensation and Support
Mr Roger Winzenberg, Branch Head, Income Support, Compensation and Support
Mr Bruce Topperwien, Executive Officer, Veterans' Review Board

Outcome 2: Eligible veterans, their war widows and widowers and dependents have access to health and other care services that promote and maintain self-sufficiency, wellbeing and quality of life.

- 2.1—Arrangement for delivery of services
 - 2.2—Counselling and referral services.
- Mr Geoff Stonehouse, Division Head, Health
Ms Narelle Hohnke, Branch Head, Health Services, Health
Mr Wes Kilham, Branch Head, Younger Veterans and VVCS, Health
Mr Chris Harding, Specialist Business Adviser, Business Analysis and Development Unit, Health
Dr Graeme Killer, AO, Principal Medical Adviser
Ms Josephine Schumann, Branch Head, Health e-business, Health
Mr Barry Telford, Branch Head, Housing and Aged Care, Health
Mrs Olivia Witkowski, Acting Branch Head, Housing and Aged Care, Health

Outcome 3: The achievements and sacrifice of those men and women who served Australia and its allies in war, defence and peacekeeping services are acknowledged and commemorated.

3.1—Commemorative activities

3.2—War cemeteries, memorials and post-war commemorations

Output group 6—Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcome 3.

Air Vice Marshal (Rt'd) Gary Beck, AO, Director, Office of Australian War Graves

Ms Kerry Blackburn, Branch Head, Commemorations, Corporate Development

Ms Katherine Upton, Assistant Director (Administration), Office of Australian War Graves.

Outcome 4: The needs of the veteran community are identified, they are well informed of community and specific services and they are able to access such services.

4.1—Communication and community support to the provider and veteran community.

Mr Geoff Stonehouse, Division Head, Health

Ms Carolyn Spiers, Branch Head, Employee Relations Development

Ms Carol Bates, Branch Head, Parliamentary and Corporate Affairs, Corporate Development

Mr Bob Hay, Branch Head Strategic support Branch, Corporate Development

Mr Barry Telford, Branch Head, Housing and Aged Care, Health

Mrs Olivia Witkowski, Acting Branch Head, Housing and Aged Care, Health

Mr Mark Le Dieu, Director, Workplace Relations and Policy

Outcome 5: Current and former members of the Australian Defence Force who suffer an injury or disease which is causally related to employment in the ADF are provided with compensation and rehabilitation benefits and services.

5.1—Incapacity payments, non-economic lump sums

5.2—Medical, rehabilitation and other related services

5.3—Individual Merits Review

5.4—Advisory and information services.

Mr Bill Maxwell, Division Head, Compensation and Support

Mr Mark Johnson, Branch Head, Disability Compensation, Compensation and Support

Output group 6—Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcomes 1—4.

Dr Neil Johnston, Secretary

Dr Graeme Killer, AO, Principal Medical Adviser

Ms Felicity Barr, Division Head, Corporate Development

Mr Murray Harrison, Manager, Information Management, Compensation and Support

Mr Sean Farrelly, Branch Head, Resources Branch, Corporate Development

Ms Karin Malmberg, Director, Budgets, Resources Branch, Corporate Development

Australian War Memorial

Outcome 1: Australians remember, interpret and understand the Australian experience of war and its enduring impact on Australian society ...

General questions

Major General Steve Gower (Rt'd), Director

Mr Mark Dawes, Assistant Director, Corporate Services

Mr Mark Whitmore, Assistant Director, National Collection

Ms Helen Withnell, Assistant Director Public Programs

Dr Peter Stanley, Principal Historian

Ms Rhonda Adler, Manager Finance section.

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I will shortly welcome back Senator Robert Hill. I do welcome back Dr Hawke and officers of the Defence organisation. Today the committee will hear the Defence Housing Authority before the dinner break and the Department of Veterans' Affairs from the resumption until 11 p.m. this evening. Last night the committee adjourned on the consideration of the capital budget, which was partially heard, and today the committee will continue its consideration and will move through the outputs when we get to them.

The committee has resolved that the deadline for provision of answers to questions taken on notice at these hearings is Thursday, 11 July 2002. I may have said 11 June 2002 yesterday, and I now correct the record.

Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege and I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy; however, they may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given every opportunity to refer questions asked of that officer to a superior officer or to a minister.

I might just give a further explanation of the agreed program for today. It has been agreed that we shall have questions on Defence all day until approximately 5 p.m. Defence will resume on Wednesday morning. This evening before dinner for approximately an hour we will have some questions Senator Evans has indicated he has on the DHA. After dinner we have the Department of Veterans' Affairs from after the dinner break until 11 p.m.

[9.05 a.m.]

Department of Defence

Senator CHRIS EVANS—I thought it might be useful if we started with a discussion about the war on terrorism and an update. I do not know whether officers would prefer us to just ask questions or whether someone would like to give us a five-minute overview of where we are at. That might be a better way of handling things. If it is going to be you, Admiral Ritchie, you might want to introduce some stuff that we might not otherwise ask you about.

Rear Adm. Ritchie—The war on terrorism at the moment continues pretty much as it has, in terms of the forces assigned for the last couple of months. There are three ships operating in the north Arabian Gulf under the tactical command of an Australian officer and staff. They are enforcing UN sanctions against Iraq. They are doing that very successfully and that end of the gulf is fairly tightly sewn up by the forces that are there—three Australian ships, a couple of American ships and a British ship are involved in that activity.

In Kyrgyzstan, in a place called Bishkek, there is a civilian airfield which is hosting fighter aircraft. Those fighter aircraft provide strike support into Afghanistan. The Royal Australian

Air Force has two Boeing B707 tankers operating out of that airfield. Again, that is a successful operation and proceeds well. In Afghanistan we have elements of the Special Air Service Squadron who are operating in the eastern provinces of Afghanistan, mostly engaged in reconnaissance. They are supported by the Australian National Command Element which is headquartered in Kuwait but floats between Kuwait and Afghanistan in terms of the commander of that organisation. A logistic support element also exists in Kuwait and a naval logistic support element exists in Bahrain to support the forces in the north Arabian Gulf.

The Navy and the SAS are into their second rotation. This is the second group of people that have been engaged. The Air Force is in its first rotation. Decisions as to further rotations are a matter for government consideration. As you would know, the F18s that had been based in Diego Garcia have been withdrawn and are back in Australia. That was a matter of the task coming to an end.

Senator CHRIS EVANS—Reports of their role have been clarified?

Rear Adm. Ritchie—Reports of their role were greatly exaggerated in certain parts of the press.

Senator CHRIS EVANS—Thank you, Admiral. I take it there has been no decision on a third rotation of SAS troops into Afghanistan—is that right?

Rear Adm. Ritchie—No decision has been taken by the government.

Senator CHRIS EVANS—When are the second rotation due to end their tour of duty?

Rear Adm. Ritchie—That rotation will go on until late August.

Senator CHRIS EVANS—But it would be considered operationally necessary to pull them out about then? They could go a bit longer but not necessarily too much longer?

Rear Adm. Ritchie—That is about right.

Senator CHRIS EVANS—Is the same true for the Air Force rotation?

Rear Adm. Ritchie—The Air Force rotation at the moment is limited to one six-month stint. That is to do with the maintenance of those particular aircraft. The people within that organisation will rotate, though, very shortly.

Senator CHRIS EVANS—Who are they actually refuelling in Kyrgyzstan? I gather there is a compatibility issue between our tankers and some of the US aircraft.

Rear Adm. Ritchie—No, there are two nationalities of aircraft and they fuel both. There is no issue with that.

Senator CHRIS EVANS—They are American and French?

Rear Adm. Ritchie—Yes.

Senator CHRIS EVANS—Are they doing that refueling as a regular thing or is it a stand-by thing?

Rear Adm. Ritchie—They are flying every day.

Dr Hawke—The government will, as the Prime Minister said recently, consider whether there is a further rotation before the August time frame when the present group comes out of Afghanistan. The Prime Minister has already indicated that they will give it consideration and make a decision before that time.

Senator CHRIS EVANS—No doubt the SAS are having to prepare on the basis that they might have to—

Dr Hawke—They would not be preparing now because they would be awaiting the government's decision as to whether there will be a further rotation or an extension of the present group.

Senator CHRIS EVANS—We have seen the briefings on the SAS involvement. They have obviously been involved in some pretty nasty incidents and there is some suggestion that they are doing a bit more than reconnaissance. Primarily that is supposed to be their role, isn't it? Is it just bad luck, if you like, that they have been involved in what seem to have been fairly serious battles? Or has there been a change in the nature of their role?

Rear Adm. Ritchie—It is not a change in the nature of their role. Where they have been involved it stems directly from that particular role. Operation Anaconda, which is probably the one you refer to, was the last really major action in Afghanistan. Their part in that was reconnaissance and it was as a result of the reconnaissance that they were able to bring down other forces to engage the enemy.

Senator CHRIS EVANS—But in theory they are not supposed to be involved in pitched battles or efforts to root out enemy troops.

Rear Adm. Ritchie—They are engaged in reconnaissance and at times that reconnaissance turns into a contact and they have to do what they have to do to get out of that.

Senator CHRIS EVANS—Illness issues have affected the British troops. Is there any suggestion or sign of our troops being exposed?

Rear Adm. Ritchie—None at all among our people.

Senator CHRIS EVANS—Does the funding provided in the budget sustain the deployment of the SAS for the full 2002-03 year? Or is it only until the end of this rotation?

Rear Adm. Ritchie—It is my belief that the budget estimate is based on the fact that people might be there for the whole 12 months, although that decision, as the secretary said, has not been made.

Dr Hawke—I am not sure that is entirely correct.

Mr Bennett—The funding covers the period until the end of the calendar year.

Senator CHRIS EVANS—Why have we chosen the end of the calendar year?

Dr Hawke—That is because the government has not made a decision yet about a further rotation. As part of the budget framework they decided that they would provide a sum of money to maintain likely operations until the end of December. In the event that the government decides it will continue its efforts, then the funding would flow through the additional estimates process.

Senator CHRIS EVANS—We have formally committed to August and the budget has provided enough funding to support the deployment until December. But if we were to extend we would effectively have a third rotation. We are going to need extra money in the additional estimates to fund it.

Dr Hawke—If additional money is required then that would be dealt with in the additional estimates process.

Senator CHRIS EVANS—Is that true for the other deployments as well?

Dr Hawke—No, and my recollection is that it applies only to the war on terrorism.

Senator CHRIS EVANS—I meant in terms of the Air Force.

Dr Hawke—We have a monetary provision to cover the cost of present and likely operations until the end of December.

Senator CHRIS EVANS—That would cover the Air Force and SAS but not the Navy involvement?

Dr Hawke—It covers the Navy involvement. If it actually costs less money than what has been provided for we would return that to consolidated revenue as part of the additional estimates process. If it costs more, that would be considered as part of the additional estimates process.

Senator CHRIS EVANS—It is the principle of reimbursement, which you seek to reinforce at every occasion, Dr Hawke. I sometimes get confused here because the Navy contribution to the blockade on Iraq preceded the war on terrorism and the two seem to get rolled in together now, for understandable reasons. Are you saying that we are funding the blockade in the same way?

Dr Hawke—It is all covered under the same financial head, yes.

Senator CHRIS EVANS—There is little likelihood, I would have thought, of that ending. It is a separate decision making process, isn't it, to the effort in Afghanistan?

Rear Adm. Ritchie—It is associated with the effort in Afghanistan. What Australia was doing prior to the war against terrorism was making an occasional contribution to that blockade so we were going once every two years for six months, or something like that. It just happened to be that we were there when the war on terrorism commenced. That is no guarantee that the government will continue that post the war on terrorism. That is a decision for the government to make.

Senator CHRIS EVANS—Our contribution to that effort was increased substantially as part of the broader effort to allow the United States to deploy elsewhere. So you now tend to treat them as the one item for budgetary purposes?

Dr Hawke—Yes.

Senator CHRIS EVANS—There is no separate budget allocation for the Navy operations in Iraq, apart from the war on terrorism funding?

Dr Hawke—That is my understanding.

Senator HOGG—The funding for that operation runs out at the end of the calendar year as well?

Dr Hawke—That is correct.

Senator CHRIS EVANS—Do we have any other troops or personnel on the ground in Afghanistan apart from the SAS?

Rear Adm. Ritchie—Not really. As I said, we will have a forward element of the Australian National Command Element, which is based in Kuwait. Some three or four of those people will go forward into Afghanistan. That is really in line with a change in command and control that the Americans have put forward in Afghanistan and our need to stay close to that command and control mechanism.

Senator CHRIS EVANS—They could be from any of the services?

Rear Adm. Ritchie—They will not be SAS; they will mostly be Army.

Senator CHRIS EVANS—Are they likely to be permanently stationed in Afghanistan now or are they likely to flip between Kuwait and Afghanistan?

Rear Adm. Ritchie—They will go forward and they will stay there as long as we have the forces committed to Afghanistan. If that commitment were to withdraw there would be no point in us being there.

Senator CHRIS EVANS—Where will they be based?

Rear Adm. Ritchie—They will be based in Bagram.

Senator CHRIS EVANS—How many personnel have we got in Kyrgyzstan supporting the air refuelling operations?

Rear Adm. Ritchie—We have 68.

Senator CHRIS EVANS—Is that largely aircrew or maintenance?

Rear Adm. Ritchie—It is mostly the maintenance staff—the support people for running those two aircraft.

Senator CHRIS EVANS—That is quite a big commitment. What sort of protection capability is there around the 707s when they are flying operations?

Rear Adm. Ritchie—I know the answer to the question; I am just not sure what I might say publicly. I can assure you that the way in which the 707 operations are carried out is done to minimise the risk to the 707.

Senator CHRIS EVANS—I presume the protection is provided by Allied airforces—not by Australia?

Rear Adm. Ritchie—The threat to aircraft in Afghanistan is only from the ground. There is no air threat, so the sorts of things that you might do are to protect yourself against things fired at you from the ground.

Senator CHRIS EVANS—What is the expectation about the need for the 707s and remaining in the region? I know this is a decision for government but, in terms of operational need, is the amount of activity by the fighters they are refuelling decreasing?

Rear Adm. Ritchie—It is pretty constant at the moment, but it clearly depends on the ground war in Afghanistan. As the ground war waxes and wanes, so does the demand for aircraft to support it. That is what they are doing: supporting the ground war, as I said; there is no air-to-air war or anything like that. As long as there are ground forces in Afghanistan, as long as Afghanistan is considered a dangerous place to be, there will be a requirement for air support.

Senator CHRIS EVANS—Are we able to get a breakdown of the \$199 million for the war on terrorism as to what that is funding among the various operations?

Rear Adm. Ritchie—I would refer again to the CFO.

Mr Roach—I can give you a basic breakdown by group in terms of what is being funded. For Army there are essentially allowances for the personnel involved in Operation Slipper. For Navy there are allowances and provision for fuel, logistics and depreciation. For the RAAF, again, there are allowances for the personnel deployed, amounts for maintenance—some of which has been brought forward—items for language instruction, and some capital costs associated with the provision of equipment specific for the operation. In the Defence Materiel Organisation, there is money for additional maintenance. For COMAST, there is

additional money for the additional charter flights required to support the operations and for communications and satellite links. In the Defence Personnel Executive there is additional money for the additional health checks and medical costs associated with the operation. There is a small amount in the Strategy group for supporting attaché involvement in Operation Slipper.

Senator CHRIS EVANS—Are you able to provide a breakdown between Army, Navy and RAAF in terms of cost?

Mr Roach—I could take it on notice and give you a detailed breakdown.

Senator CHRIS EVANS—I would appreciate it if you would take that on notice. I would like to get a sense of what is driving the costs in general terms: is it the SAS deployment or the RAAF deployment?

Mr Roach—In general terms, the most significant costs out of the \$199 million are the naval costs, including the maintenance support for the ships.

Senator CHRIS EVANS—That is the cost of keeping those ships at sea on duty?

Mr Roach—Yes. Of course, the allowances are a significant part and, for example, there is a significant component for additional fuel.

Senator CHRIS EVANS—I would appreciate it if you would take that on notice. While we are on the question of the allowances: I know the SAS are on the war-like service allowance. Is that what it is called—war-like service? Is it \$200 a day? Are the Air Force in Kyrgyzstan, for instance, on that same allowance or is there a separate rate?

Rear Adm. Ritchie—There is a separate rate for anybody not on the ground in Afghanistan but inside the theatre, and that is \$125 a day.

Senator CHRIS EVANS—Is it the same as the Timor rate was?

Rear Adm. Ritchie—Yes.

Senator CHRIS EVANS—Does the \$125 rate apply to the people in Kyrgyzstan?

Rear Adm. Ritchie—Yes; people in the gulf.

Senator CHRIS EVANS—Is that the same across all the services?

Rear Adm. Ritchie—Yes.

Senator CHRIS EVANS—There is \$30 million to be spent on equipment as part of that \$199 million. Is that right, Mr Roach?

Mr Roach—Do you want a breakdown of that \$30 million?

Senator CHRIS EVANS—Yes. I just wondered what that is going on, basically.

Mr Roach—I will take that on notice. I do know that, for example, there are night vision goggles for the Air Force but, in terms of the other specific items, I will take it on notice and get back to you.

Senator CHRIS EVANS—Thanks for that. Have we got a total cost for this operation since September 2001? Is there a ballpark figure of what the war on terrorism has cost us so far, say, for the financial year? I am interested in a total cost. Because of all these offset questions I am just trying to get a feel for what the war on terrorism has cost us so far.

Senator Hill—It depends on how you want it defined. It is an easy question to ask but it is not a straightforward question to answer, because obviously the forces are being paid for as

part of our national security investment. In any event, a number of exercises have been cancelled or postponed to help contribute to the cost. Other internal efficiencies have enabled us to keep a minimum pressure on the need for additional funds from government, and what we genuinely do need as supplementation we have been able to receive. So I would need you to inform us of how you want us to make the calculation. Do you want us to include a depreciation of the ships that are involved? Do you want us to include anticipated future additional maintenance?

Senator CHRIS EVANS—You have actually refused to provide us with that information so far, Minister.

Senator Hill—It is not that I have refused to provide it; if you tell us exactly what you want—

Senator CHRIS EVANS—I did that last time and you refused to provide it.

Senator Hill—You could say ‘refuse’ if you like. It is not that I do not want to be helpful, but the answer has to be meaningful. I have seen a range of different answers on the costs of the ships in the gulf, depending on how you want to define the input. We possess the ships in the first instance, but in some of your questions you seemingly want us to include the capital costs of the ships as a contribution to the multilateral interception force.

Senator CHRIS EVANS—How you frame the answer is up to you, but I think the threshold question is whether you are going to provide that information to the committee and to the Australian public. At the moment, you have refused to. In the last answer I got for the question you took on notice, when you would see what you could provide, you gave—if I could use the term—a smart alec response, by saying that full figures for the year were not yet available. Therefore you declined to answer the question. That clearly was not the tenor of the understanding of the discussion we had at the previous estimates. It really comes down to the question: are you going to provide the information or aren’t you? You obviously have the ability to frame the answer in terms of which costs you think are relevant and which caveats need to be put in et cetera. That is within your power. I cannot frame the answer for you. But the key question—

Senator Hill—What I have tended to do is to frame the answer in terms of the additional costs, but that has not been satisfactory to you.

Senator CHRIS EVANS—Because it gives us no indication of what the real costs are.

Senator Hill—It is not a question of being smart alec. I have provided hundreds of pages of answers to you and to your colleagues. We write volumes to assist you in the fulfilment of your obligations.

Senator CHRIS EVANS—You have been very helpful, and that is why the contrast between that answer and the others was so stark.

Senator Hill—Then I would answer it in terms of the additional costs. But you are dissatisfied with my answer. If you are inviting me to frame the answer in the terms that I think are most meaningful, I will answer it in terms of additional costs, and I have provided that.

Senator CHRIS EVANS—To say that the war on terrorism cost us a net \$90 million doesn’t tell us anything, does it?

Senator Hill—Well, it does. It tells you the additional burden to the taxpayer of the commitment that has been made by government over and above the burden to the taxpayer of maintaining the Defence Force for the security of Australia.

Senator CHRIS EVANS—You can hardly take offence at people coming up with what you consider to be unrealistic responses at costs of operations when you refuse to supply the information.

Senator Hill—I am not refusing to supply anything. You tell me exactly what you want and I will seek to get you an answer.

Senator CHRIS EVANS—I put the questions on notice last time, Minister. Your last reply was that the information was not available for the full year. Do I take it then that once that information is available for the full finance year, you are going to make it available to the committee?

Senator Hill—I will answer any question that I interpret to be meaningful but not misleading. You and I think somebody else asked for a figure on the utilisation of ships and they asked specifically for the full costs, which takes into account the capital costs of the ship, and if that is what you want to know you will get an answer in those terms. But until I am requested in that way, what I will provide is the additional costs, because I actually think that, in terms of the public interest, that is the figure that is most useful.

Senator CHRIS EVANS—Minister, I did ask you those detailed questions following the last hearing. We had this discussion. I asked you those questions. The answer given to me was, to use another term, a fairly cute answer, which was to say that those figures weren't available. What I am asking you—putting aside the bulldust—is: will you or will you not be providing those answers to the specific questions? It seems to me quite unreasonable to include the capital costs of ships we have purchased in any assessment of operational costs.

Senator Hill—You think they should be included?

Senator CHRIS EVANS—I said that it seems to me to be reasonable for that to be discounted, in the sense that—

Senator Hill—That is helpful to me.

Senator CHRIS EVANS—But because we paid for those ships, the capital cost is being met by us anyway. What we are talking about is the operational costs—

Senator Hill—With the SAS, should all the support that they receive from their headquarters in Australia and so forth be included—the infrastructure, their training?

Senator CHRIS EVANS—Well—

Senator Hill—This is the problem. That is why it is much more constructive if you talk about the additional costs of the deployment.

Senator CHRIS EVANS—I think it is if you actually say—

Senator Hill—Unless you are wanting to mislead people.

Senator CHRIS EVANS—No, I want to understand how much this is costing us. That is a reasonable thing to do. I do not think one should have one's motive impugned if one wants to know how much military commitments, which you say cost a lot of money and which obviously do cost a lot of money, actually cost the Australian taxpayer. All I want is a reasonable and rational explanation of how much those cost. This is the place to ask for that.

At the moment you are refusing to provide it. I want to know why, and why the community cannot have access to that information.

Senator Hill—It is a semantic argument. I think the committee is entitled to full information that will enable the Australian people to adequately understand what is the cost of our deployments.

Senator CHRIS EVANS—Why won't you provide it?

Senator Hill—You introduced a helpful element this morning by saying that you are not wanting the cost of the capital that has already been invested included within the cost of the operation.

Senator CHRIS EVANS—I want to have a realistic understanding of what the deployments cost us. Clearly, in global terms, that includes all of the infrastructure and all of the investment in it, but really all you have given us is what you say the net cost to the Australian taxpayer is and 'don't you worry your simple heads about the details'.

Senator Hill—No, what I have given you is the additional cost to Defence for which we have sought and received supplementation. I have said that I do not believe that covers all of the additional costs and that to some extent we have had to absorb additional costs from within. We talked yesterday about various further efficiency cuts and the like that are being required to help us to do that. We have had some discussion about what exercises have been cancelled or postponed, also, to help us to do that. I am quite happy to seek an answer that looks in greater depth at what are the additional costs for which we have not received supplementation.

Senator CHRIS EVANS—With respect, Minister, that is the assurance you gave me on 21 February.

Senator Hill—If I gave that assurance and I have not delivered I will try again, now that I am more confident that that is what you are seeking.

Senator CHRIS EVANS—I gave you the questions in writing so that you were clear about what I was seeking, and you chose not to answer them. I do not want you to redefine my question for me, and I will not redefine your answer. What I am seeking is the cost of the operations—the full cost. If you want to make an argument about some of those costs that are already being borne in terms of the capital costs, the ships et cetera, that is perfectly reasonable to do; no-one is looking to mislead on those issues. Equally, to say to us and to the Australian taxpayers, 'Oh well, it is just a couple of hundred million dollars and don't you worry about the detail,' is just not satisfactory. We do have the right to ask for a proper explanation.

Senator Hill—We are not trying to be unhelpful; we are, despite what you say, trying to be helpful. If, for example, we bring forward the purchase of equipment that is designed to register the presence of chemical, biological or radiological weapons and affix the equipment to our ships—equipment that would have been ultimately purchased but we have brought it forward because we think it is a necessary tool for the security of the ships in the circumstances of the war—is that part of the cost of the war or is it just part of our ongoing capital program?

Senator CHRIS EVANS—I would have thought the Australian community, and even perhaps the senators present, would have had enough intelligence to be able to digest a footnote that explained that—in the same way you generally do in budget papers. If you explain that

this is part of the program for the next couple of years—expenditure that has been brought forward—I think people would understand that. The Australian community is sophisticated enough to deal with that sort of information. Why could you not explain it in the same way as you are explaining the other budget measures?

Senator Hill—On that basis, I will make another attempt to answer the question, but I will be answering it in terms of what I believe are the additional costs that have been incurred in fighting the war. I therefore will not be including embedded capital and embedded training. I will try to give you a reasonable calculation of what would be the transport costs that would be incurred by the various forces et cetera—the logistical costs if they were not engaged in war. I will try to distinguish. It is not straightforward—and that is what you are not prepared to acknowledge—to determine the additional costs of an operation or deployment over and above an exercise. But we will make another attempt to do it. As I have said, in the same way in which we have provided hundreds of pages of answers to very, very detailed questions to assist you in your task, we will make another attempt in this instance.

Senator CHRIS EVANS—I appreciate that, Minister. I think it is important. As I say, I make the point that I do appreciate the work that has been done in answering questions on notice, and that is why the contrast between that answer and the others was so stark. I do not think there was genuine information to help the committee and to provide answers. But I do think, as I say, that it is important in a public debate that we have an understanding of the cost of the war on terrorism. That requires you to provide fuller information than some net cost to Defence, which does not reveal what it is really costing us, particularly if the effort is to be ongoing and/or expanded. People need to understand what that means—and what that means for decisions inside the Australian community in terms of the total budget. So I would appreciate it if you could have another look at that question. To assist you in your research, I will submit some questions on notice with the sort of detail that we are after.

Senator HOGG—I turn to page 29 of the PBS. There is a statement there on which I would like further elaboration. It is about the loss of skills and interoperability with regional partners. In particular, the statement says:

... the loss of structured training activities with allies and regional partners risks the degradation of some operational skills and loss of interoperability.

That is a concern, and I want to know what the risks are. What are the skills and the interoperability that are being lost, and how do we overcome it?

Rear Adm. Ritchie—It is referring to the fact, as has just been mentioned, that some things have been cancelled in order to be able to conduct the business of the war on terrorism and other operations that are all concurrent. We have a problem of concurrency. We have lots of things to do and we are starting to run out of people and assets to do it. To give you an example, Exercise RIMPAC, which has been a major commitment for the Navy, is run out of Hawaii by the Pacific Command every two years. It has normally involved a considerable contribution of Australian ships, aircraft and that sort of thing.

Exercise RIMPAC is to be held this year. The American contribution to Exercise RIMPAC is smaller, but the Australian contribution is very small. The reason is that the Navy is engaged in other places. Therefore, the war-fighting experience that is gained through major exercises such as RIMPAC will not be with us in this two-year period. We are going to miss it because we are off doing other things. What we have to do, to make sure that that does not become detrimental to the overall effectiveness of the force, is take every opportunity that we can to supplement, perhaps by smaller efforts, so that we do not lose those core war-fighting

skills. There was a great discussion here last night about antisubmarine warfare which almost caused me to either walk out or come to the front. I am not sure which.

Senator HOGG—You are always welcome.

Rear Adm. Ritchie—It is not a place you volunteer too often.

Senator CHRIS EVANS—The minister does not like volunteers.

Rear Adm. Ritchie—Antisubmarine warfare, for example, is something which there is not much of in the Persian Gulf. There would be in RIMPAC. That is the sort of skill that we have to husband and find other ways to do. That is what the PBS is referring to. Over the page there is something about how we are going to mitigate that risk. It says ‘Defence has instigated more rigorous capability reporting’. That means that we have to be really careful about watching those particular skills. If we detect that they are deteriorating to a point where we would need to do something about it, then we would need to put our hands up and come back to CDF and say, ‘We really must do some of these things.’

Senator HOGG—I did read the response. That is why I raised the matter—because I did not get much comfort out of it. I am not inferring for one moment that you would not look at that.

Rear Adm. Ritchie—It is something we are acutely aware of and we will keep a very keen eye on those sorts of things.

Senator HOGG—Given that the rate of tempo has been lifted in places like the Persian Gulf, how will you be able to address the issue of operational skills and the loss of interoperability when you have the critical issue of platforms elsewhere and the crewing of those platforms?

Rear Adm. Ritchie—I have just been to the Persian Gulf. One of the things I asked the people there to do is to get together with the other ships and try to devote some time to maintaining the war-fighting skills. You can do that in that sort of environment. It is not the same as going to Exercise RIMPAC, but it is something you can do. There are smaller exercises in our program that, in the normal course of events, might get overlooked for certain reasons. It is important that they do not get overlooked when we are in this sort of situation because we are not doing the big exercises.

Senator HOGG—You have referred to the big exercises. What about the other part of the issue that is raised at page 29—that is, our regional partners and our interaction with them? How is that suffering as a result?

Rear Adm. Ritchie—Again, it is primarily affecting the Navy and those regional exercises that we might normally have been engaged in. A good example is the Five Power Defence Arrangement and exercises that are run from Malaysia and Singapore under the auspices of that organisation. Our contribution to those since the commencement of the war on terrorism has been smaller than it normally would be and therefore our interaction with the navies of Singapore and Malaysia is less than it was prior to the commencement of the war on terrorism. It is something that needs to be managed quite carefully. People need to be acutely aware that those sorts of things are falling by the wayside. Where opportunities present, we have to be able to go back and do something. We recently had the opportunity to send a ship to Singapore and Malaysia and that was done, in order to keep that contact.

Senator HOGG—So it is not necessarily a funding or budgetary issue?

Rear Adm. Ritchie—It is concurrency.

Senator HOGG—I thought that was the case, but I thought it was worth pursuing. The other question I want to raise concerns not a large exercise that you are involved in but one that has appeared over a period of time—Operation Coracle, which was the de-mining program in Mozambique. It has always been subject to review. It has been there since 1994. It was in last year's PBS and last year's annual report, always under review. I am just wondering what happened. Has the de-mining finished?

Rear Adm. Ritchie—It was finally reviewed, and the government decided to withdraw from that operation. It is finished.

Senator HOGG—Does that mean that the de-mining has finished?

Rear Adm. Ritchie—No, it means that Australian participation in that operation has finished.

Senator HOGG—What was the cost of our role in that particular operation each year? It could not have been a terribly significant cost.

Rear Adm. Ritchie—I would have to take that on notice. I have no idea at all.

Senator HOGG—But it could not have been a terribly significant cost.

Rear Adm. Ritchie—A handful of people were there over all those years and they rotated in and out, so it would not have been a significant cost. We can provide that on notice.

Senator HOGG—If the de-mining has not finished, was there a reason for ceasing the operation? Were personnel placed elsewhere, or was it just a government decision?

Rear Adm. Ritchie—Again, I really cannot answer the question off the top of my head, but I think it was deemed that the effectiveness of the operation and our particular contribution to it had come to an end.

Senator HOGG—Could you take that on notice for me and seek a reason for this?

Rear Adm. Ritchie—Certainly.

Senator HOGG—Because I think that is a worthwhile sort of operation to be involved in.

Senator WEST—Just on how you came to a decision to withdraw: what is the level of the incidence of mines still in Mozambique? My understanding is that it is still pretty high. Just how much reduction did take place with our assistance? Who is left there to continue this de-mining?

Rear Adm. Ritchie—All of those points can be covered in the answer to Senator Hogg's question, but I do not have them off the top of my head.

Senator WEST—I am interested to know because, having been there, it is still an issue. How well were the Mozambique defence people trained up so that they could continue this role, or were they not trained up at all so that they are still dependent upon international assistance to complete the clearing? What is the time frame in which the United Nations or whoever is responsible expects to have the bulk of the clearing completed?

Rear Adm. Ritchie—We will put together an answer on those questions.

Senator BARTLETT—I missed some of yesterday's evidence, having to go backwards and forwards between different committees, so if I ask questions that were raised yesterday just tell me to go read the *Hansard*. Was the issue of the new detention facility in south-east Queensland that is detailed in the PBS covered yesterday at all?

Rear Adm. Ritchie—No.

Senator HOGG—I raised that yesterday, but it was more in terms of the asset sale and the line in the budget that said ‘not for publication’. Yes, I did raise it.

Senator BARTLETT—The PBS says:

A final decision on the location will be taken following the completion of community consultation processes.

But it also says you have selected 22 hectares of land at Pinkenba in Brisbane. Does that mean that that is where it is going to go? You say the final decision is still to be taken.

Dr Hawke—I think that is more a matter for Immigration than for us, but when we come to the corporate part of the program we would be happy to tell you what we know about that.

Senator CHRIS EVANS—Some of the evidence yesterday was that the decision lay with the minister for immigration, Mr Ruddock, and they had not advised.

Senator BARTLETT—I did ask some questions of Immigration last week, but I wanted it from your angle as well. The additional funding for increased coastal surveillance is \$22 million-odd this year on top of around \$19 million last year. Would the activities of Operation Relex come under that pool of money?

Rear Adm. Ritchie—Yes, they would.

Senator BARTLETT—Can that amount be broken down any further as to where it goes in the additional deployment? Is it all for Navy and the air surveillance in the north-west, or is it for other activities as well?

Rear Adm. Ritchie—We will defer to Mr Roach.

Mr Roach—Yes, that money is for Operation Relex and Operation Gaberdine; we consider the two together. I can give you a basic breakdown, and if you would like something more than that we may be able to do that. Essentially, there is money for Air Force for additional effort to do with the surveillance flights. There is money associated with particular bits of equipment for Navy ships to permit them to undertake these sorts of operations, which are out of their normal ship role. There are some costs associated with the personnel executive to do with health and casualty treatment.

Senator BARTLETT—The amounts are only for the upcoming financial year. How does that impact on long-term planning when you do not have any idea of how much money will be made available beyond the next 12 months? Is there an assumption that that range of activities may be discontinued in 12 months time?

Mr Roach—Current planning and funding assumes the operation will go in the 2002-03 financial year, and it will be reviewed in terms of any requirement after that.

Senator CHRIS EVANS—So that makes it up to the last whole financial year for these operations?

Mr Roach—Correct.

Senator BARTLETT—There are extra resources being provided, which is obviously handy. This might be a question more for the Navy outputs, except that we do not seem to be getting to them, so I thought I would ask it now: has the use of Navy resources in this type of activity meant that you need to reshape your planning for the activities of Navy as a whole, having to have vessels dedicated to surveillance.

Rear Adm. Ritchie—The answer to that has already been covered in reply to the question Senator Hogg asked about exercises and those sorts of things; it is a matter of concurrence. It is a matter of you have to do this and you have to do Operation Slipper, and you have to balance enough exercises in there to make sure that you do not lose effectiveness as a naval force. The Navy is quite capable, within the constraints I spoke of earlier, of doing that, and it is doing that.

Senator BARTLETT—If you were not doing Relex, what else would you be doing?

Rear Adm. Ritchie—You would be doing other exercises. You would be doing regional visits into South-East Asia. You would be spending more time at home with mum and the kids.

Senator CHRIS EVANS—While we are on Relex, I would like to follow up a couple of questions that Senator Bartlett asked. Mr Roach, on notice, can we get a breakdown of those figures you were providing on the \$20 million?

Mr Roach—Yes, I think so.

Senator CHRIS EVANS—Why is it now Relex II? Is it the sequel?

Rear Adm. Ritchie—Because Relex I, which had a certain classification to it, was declassified for the purposes of the Senate inquiry.

Senator CHRIS EVANS—I am sorry; I do not understand that, Admiral Ritchie.

Rear Adm. Ritchie—Operation Relex I had a security classification put on it. A lot of the information contained in that compartment was declassified in order to make it available to the Senate inquiry; therefore, the rules and things that pertained to Relex I no longer apply because we have changed them. So it is now Relex II.

Senator WEST—So there is a lot of classified stuff again but back in Relex II?

Rear Adm. Ritchie—That is a fair summation.

Senator CHRIS EVANS—You are telling me that Relex II has the same security classification—

Rear Adm. Ritchie—Exactly the same concept of operations and security classification. It is just that we made a lot of stuff available that we somehow had to separate from current operations.

Senator CHRIS EVANS—In my view, the sequel is never as good as the original, Admiral Ritchie, but we will see.

Rear Adm. Ritchie—We can hope that that is the case.

Senator CHRIS EVANS—Relex II is effective from 14 March?

Rear Adm. Ritchie—I believe it is around that time. But it does not signify any significant difference in what we are doing.

Senator CHRIS EVANS—I get the point. What resources are currently deployed on this operation?

Rear Adm. Ritchie—For Relex? The Air Force rotates two P3s through Darwin and they fly into the area of operations. There is one frigate on task, one amphibious ship, one survey ship that is configured for operations, three RAN patrol boats, and three Army transit security elements. They are groups of 52 people who are used not in the initial boarding of a vessel but

in the securing of the vessel as it transits to wherever it is taken. The Australian Customs Service provides a Coastwatch aerial surveillance effort and three Australian Customs vessels that work in support of Operation Relex.

Senator CHRIS EVANS—So it is still maintaining a fairly high level of operational activity, then?

Rear Adm. Ritchie—Our tempo of operations remains exactly as it was.

Senator CHRIS EVANS—Which regiment are the three Army transit security elements—no doubt they will be referred to as TSEs within weeks, and I like to understand these acronyms—drawn from?

Rear Adm. Ritchie—They have been drawn mostly from Army units in the north, but increasingly they will be drawn from other Army units around the country. We might even get to the point where we draw one from the RAAF Airfield Defence Organisation.

Senator CHRIS EVANS—Are they permanent units now?

Rear Adm. Ritchie—No. It is a rotational duty. People are selected and then trained for about 12 days, and then they do three months. I could be corrected on the time, but it is that sort of thing.

Senator CHRIS EVANS—And then they go back to their own unit. So you are in running three, with a strength of 52 in each of them?

Rear Adm. Ritchie—Yes. There are two at sea and one on stand-by in Darwin.

Senator CHRIS EVANS—They are at sea on the patrol boats?

Rear Adm. Ritchie—No, they are at sea on the frigate and the survey ship.

Senator CHRIS EVANS—You had two survey ships out before, didn't you? Has one of them returned survey work?

Rear Adm. Ritchie—No. There are two survey ships of the particular class we are talking about, and those ships have since about last Christmas been rotating through this particular duty; and so there is only one on the task at any one time.

Senator CHRIS EVANS—Has the other gone back to survey work?

Rear Adm. Ritchie—The other has not yet gone back to survey work. It would be preparing for, or resting from, its tour of duty.

Senator CHRIS EVANS—Is it likely to return to survey work or has the survey work been postponed?

Rear Adm. Ritchie—It is a matter for the Navy to decide how they are going to contribute to this, but it would be fair to say that we would like to get one back to survey work, yes.

Senator CHRIS EVANS—But if you have got one at sea all the time on this operation, you are unlikely to get the other one back—

Rear Adm. Ritchie—Currently there are one or two—

Senator CHRIS EVANS—with rotation, repairs and so on. How long have the survey ships been on this task?

Rear Adm. Ritchie—Since Christmas, I think. I could stand corrected, and I could tell you that on notice.

Senator CHRIS EVANS—Thanks for that. You say that you have done some alterations to the configuration of the ship, to make it more suitable for this work.

Rear Adm. Ritchie—Yes. The sorts of things that are meant by that, particularly in the case of the survey vessels, is that they needed to have fitted the sort of boat that could be used for boarding operations. These are rigid, inflatable boats and they needed different launching arrangements to be able to do that. So those changes were made. I have something here which might give you the answer as to when they were employed—but it does not. I will get back to you on that.

Senator HOGG—Was the tempo of this operation run down over the cyclone season in the north?

Rear Adm. Ritchie—No, it was not. There is a lot of mythology about the cyclone season; a lot of it has appeared in the press. If there are two routes in this operation and one is down in the western edge of the AOs down through Christmas Island and the other is in the eastern edge down through Ashmore, historically the pattern in Ashmore has never changed in the cyclone season. In fact, in some years it has gone up. The reason for that is that it does change in the western side and so people are less likely to come out of the Sunda Strait, out of the western end of Java and Sumatra and down into the open Indian Ocean in the cyclone season and, therefore, it has all tended to move across to the eastern part of the area. So there was no change in the tempo of the assets committed to the operation. We may have changed the way in which we employed the assets inside that AO in order to cope with the expected difference in the way that people arrived, but traditionally—not this year of course, but traditionally—people continue to arrive during the cyclone season.

Senator CHRIS EVANS—What allowances are being paid to personnel involved in Relex II?

Rear Adm. Ritchie—There are no allowances other than those that are normally paid to seagoing personnel in non-warlike operations. There is no specific allowance struck for Relex II.

Senator CHRIS EVANS—Are the Army getting a seagoing allowance as well?

Rear Adm. Ritchie—They are probably getting some sort of allowance for the benefit of being able to live on one of Her Majesty's Australian ships, yes. It used to be called hard-lying allowance; I am not sure what it is called anymore.

Dr Hawke—I understand that they do get an allowance.

Senator CHRIS EVANS—Can somebody tell me what that is?

Rear Adm. Ritchie—Rear Admiral Russ Shalders may be able to help us on this.

Senator CHRIS EVANS—He is not looking all that confident.

Rear Adm. Ritchie—It is something called hard-lying allowance, and that is for the living conditions which are not the norm. I could not tell you what the rate is, but again we can find that out.

Senator CHRIS EVANS—If you would not mind taking that on notice, I would appreciate that. So the sailors themselves are not in receipt of any warlike or other type of zonal allowance?

Rear Adm. Ritchie—No.

Senator CHRIS EVANS—I gather there was a proposition that they get an allowance. Did that not proceed?

Rear Adm. Ritchie—Clearly the sailors who are employed there would like to have an allowance, but that proposition has not succeeded in gaining any credibility and, indeed, it is not allowed for under the current regulations.

Senator CHRIS EVANS—It is not allowed for?

Rear Adm. Ritchie—Because the service is neither warlike nor operational but non-warlike.

Senator CHRIS EVANS—I am glad that Senator Hill has returned to the room. I read a press report that Senator Hill was to take a proposition to cabinet to include the payment of allowances for those involved in Relex. You say that you have received some sort of legal advice that it is outside the guidelines.

Rear Adm. Ritchie—I am not saying that I have particular legal advice; I am saying that it is outside the guidelines. I am not sure what Senator Hill has.

Senator CHRIS EVANS—We were discussing the question of whether allowances were paid in Relex at all, Minister.

Senator Hill—There is a definitional issue here as to whether forces deployed on various missions are being treated equitably in terms of allowances. I stressed at the time that I was not quarrelling about those who were receiving allowances associated with warlike conditions. But I made specific mention of certain other missions which I believed, either because of the dangers involved in them or because of particularly difficult or unpleasant work, were not being adequately encompassed within the existing definitions, and a process of investigation has been instituted. Coincidentally, it started within Defence before I had made those comments, I was pleased in a way to learn. That process is being progressed at the moment through development of a discussion paper and there will be a wide input into it. Out of that will be consideration as to whether the various definitions associated with allowance should be modified.

Senator CHRIS EVANS—Is that discussion process going to be a public process in the sense of the various interest groups in defence areas being involved or are you talking about just inside the department?

Senator Hill—I am talking about inside the defence community, which in effect is a public process.

Senator CHRIS EVANS—So the various defence organisations will be involved in that discussion?

Senator Hill—Yes. Like all these things, it is not straightforward and would benefit from input from all of those who have particular experience or an interest in the subject.

Senator CHRIS EVANS—I have certainly run into two views: a very strong view about payment of allowances and, from others, a very strong view that no allowances should ever be paid, on the basis that that is what they are trained and employed to do and it ought to be recognised as part of the salary package more generally. Obviously, they are two quite conflicting views. I share a similar view to you, Senator Hill. The issues of Relex and a few other anomalies that seem to be around the place have been raised with me on a number of occasions, and there does not necessarily seem to be a sustainable logic about some of the decisions. So I take it that the whole thing is under review?

Senator Hill—Obviously the categories were determined before various missions. Thereafter there is an effort to fit the mission within the categories, and you find that the categories are not necessarily well defined in terms of our new and emerging experiences.

Senator CHRIS EVANS—Is that true of Afghanistan? It was a cabinet decision, wasn't it, on the Afghanistan allowance?

Senator Hill—The allowances that get paid is a separate process again. They are two different processes. One is determining the various categories and the other is determining the allowance that will apply to any particular mission within a category. As I understand it, Afghanistan is warlike conditions, but the allowance that is going to be paid is not necessarily the same for all warlike conditions; it is determined according to the particular operation.

Senator CHRIS EVANS—So you could be at two different wars, as it were, but be paid a different rate?

Senator Hill—That is as I understand it.

Senator CHRIS EVANS—How is the rate struck on each occasion—by cabinet decision?

Senator Hill—The process has been a recommendation to the minister responsible for personnel issues. I cannot remember whether it is done by regulation. I think it is set by the government through the minister who has the responsibility for that task.

Senator CHRIS EVANS—So Defence recommends that service in Afghanistan, for instance, will be category 1 but the minister then has to make a determination at what rate that is paid? Is there a band or is it just arbitrary? I do not mean 'arbitrary' in a critical sense.

Senator Hill—I do not think there is a band, but it is basically taken from previous experience. Defence may recommend that service in Afghanistan is so arduous or so dangerous that there should be a higher figure than might have applied to a previous conflict. It is a decision taken by government.

Senator CHRIS EVANS—One of the issues in Relex is the fact that that it does not meet the definitional requirements of a form of warlike service. Is that fair?

Rear Adm. Ritchie—That is exactly the point.

Senator CHRIS EVANS—What is below warlike service?

Senator Hill—There is a non-warlike condition. There is a series.

Rear Adm. Ritchie—There are two types of operational service. One is warlike and one is non-warlike.

Senator Hill—I think there are more than two actually; there are a few of them. So out of this process there may be definitional change, but there also might be a look at the second stream, whether it can be fixed through the allowances. In other words, non-warlike in Bougainville might be, in terms of the remuneration, treated differently, more akin to what is being paid under a separate determination for warlike. It seems to me there are a number of ways to approach the matter. All I have said is that it should be approached because I think there are anomalies that need to be addressed, and that examination is now taking place.

Senator Hill—Air Marshall Houston, were you wanting to help us?

Air Marshal Houston—Just to confirm that there are three categories: there is warlike, non-warlike, and if you do not meet either of those categories it is peacetime. You can get the situation, as we have—

Senator CHRIS EVANS—Non-warlike is not peacetime, is it?

Air Marshal Houston—Non-warlike is not peacetime. I have not got the exact—

Senator CHRIS EVANS—It is like a gradient between the two, is it?

Air Marshal Houston—It is hazardous service, but it is not war-fighting conditions.

Senator HOGG—Is it more peacekeeping?

Air Marshal Houston—No. It depends. For example, in Timor we have three categories. There are people who are up on the border under warlike conditions and there are people who are on specific tasks, government assistance tasks, who are on peacetime conditions. So it all depends on the task that you are doing. It is not related to the area; it is related to the tasks that you are performing. At the moment, the only people on warlike conditions are in Afghanistan, in the war on terror, and in Timor on the border. And anybody who is in the peacekeeping game, like Bougainville, is on non-warlike. But there are other people who are providing assistance to governments, like the government of East Timor, who would be on peacetime conditions because of the tasks that they are performing.

Rear Adm. Ritchie—The other point is that those definitions decide on what term of recognition people qualify for—either the Australian Active Service Medal or the Australian Service Medal—and therefore the differences in veterans' entitlements and things that go on for the rest of your life. So it is not something I think you approach lightly.

Senator CHRIS EVANS—No. I make the point I have had a range of approaches about these issues which I thought were serious and did seem to throw up some anomalies. I have had a number of members of the House of Representatives speak to me about it as well who have constituents who have raised Bougainville, for one. Obviously with any system like that there is going to be a range of anomalies. So basically is it fair to say the whole thing is under review, Minister? Is that a reasonable summation?

Senator Hill—Yes.

Senator CHRIS EVANS—Is there a time frame for that?

Senator Hill—No, but we are wanting to move it along, and the goal is to see whether the existing system can be improved.

Senator CHRIS EVANS—What is happening with the definition of operations in East Timor? I gather when the UN mandate was to change the allowances were to change. That has not happened, I gather. Can someone give me an update?

Senator Hill—There is a new mandate. The basis of the mandate is still chapter 7—that has not changed. It is designed to operate for two years, but within the existing rules of engagement for one year. We have not at the moment changed the conditions that apply to our forces and we review it from time to time.

Senator CHRIS EVANS—Will that change come when there is a change in the rules of engagement or a change in the UN mandate?

Senator Hill—The UN mandate is taken into account in the decision that we make on whether war-like conditions pertain.

Senator CHRIS EVANS—You have made a decision to continue the payment of the war-like allowance since independence?

Senator Hill—We have on an interim basis. We have not yet considered the full consequences of the new mandate and the like. We will do that in the next few months. It is fair to say that the UN is obviously of the belief that, notwithstanding independence, robust powers for the peacekeeping force are still wise. That gives us some guidance, but we will take into account the advice from Defence also as to how they assess current conditions.

Senator CHRIS EVANS—From what I saw of our operations on the border, they are still working in very trying conditions. It certainly does not look like just a peacekeeping role in the sense of how they live and what they do. Those rules of engagement have not changed?

Senator Hill—There is no argument about trying conditions. That is not really the question, because you could still have trying conditions that do not attach the level of threat that you would normally associate with war-like conditions.

Senator CHRIS EVANS—I can see that. Effectively, our rules of engagement in Timor have not changed since the declaration of independence. I was up there before. Those rules of engagement and the way they are operating have been maintained, have they?

Senator Hill—Yes. Our rules of engagement are unlikely to change because the new mandate has been maintained pretty much in the same terms as the old one.

Senator CHRIS EVANS—That was contrary to expectations, wasn't it?

Senator Hill—Yes, most thought that with independence the UN would be looking for the force to assume more of a traditional peacekeeping role rather than a peace enforcement role.

Senator WEST—Are they looking at an exit date?

Senator Hill—Most people are hoping that the UN military presence will be concluded in this two-year period. Basically, it will be phased down over the course of the next two years. It is already being reduced. The UN force is coming down from about 6,500 to about 5,000 and the plan is for a steady reduction over the course of the next two years. If that could be achieved, it would be a very orderly way for the United Nations, at least in the peacekeeping role, to disengage. In relation to us, we will be reducing roughly in parallel with that UN guidance. As a rule of thumb, we are looking to the Australian force continuing at about one-quarter of the total force. Sometimes it will be over that, but basically that is what we are seeking to achieve.

Senator WEST—Where are we now?

Senator Hill—By the end of this month we should be down to 1,250.

Senator WEST—That is one-quarter of 5,000. So we have actually got to our one-quarter?

Senator Hill—Yes, but with the next UN reduction we may turn out to be over the one-quarter simply because of our preferred force structure in terms of self-protection and the like.

Senator CHRIS EVANS—Is that argument about how we might configure our troops continuing? There was talk about a joint battalion. I gather there was some reluctance on our part to that.

Senator Hill—Discussions with the UN are continuing. We have made decisions to continue our four-company battalion. The UN is still urging that we reduce that, and we are continuing a constructive dialogue with them.

Senator WEST—I think I heard the Prime Minister announcing that we would be sending reserve units. Is that correct?

Senator Hill—Yes, we have decided that the fourth company will be a reserve company. I think that is the first fully deployed reservist infantry company. They are very excited about that. I think it is a good thing for the reservists to be given an opportunity such as this. It is actually costing the government more, but we think there are considerable benefits flowing from that.

Senator WEST—Where are they likely to be deployed?

Senator Hill—They will be in the October rotation. They are coming into training now.

Senator WEST—What is the cost of that training in terms of payments to employers and things like that?

Senator Hill—There are various programs. We can try to get you a breakdown. It will differ from employer to employer. There is no doubt that there are additional costs to the taxpayer and to employers through this decision, but we think it is a good one in the national interest. It is certainly very widely supported within the reservist community.

Senator WEST—How many people will be in the reserve company that goes?

Senator Hill—About 120 to 130.

Senator WEST—I presume you are not going to be able to just walk up to one unit and say, 'Right, you are going.' How are you going about selecting these people?

Rear Adm. Ritchie—They are coming from a variety of units. I think it would be a better question for Army when General Cosgrove comes.

Senator Hill—The difficulty is in the choice because a large number of reservists would jump at this opportunity.

Senator CHRIS EVANS—It is also true to say that a large number of reservists have actually entered full-time service in the last couple of years and gone to East Timor.

Senator Hill—There are a considerable number of reservists working as individuals integrated within the force in East Timor. They have done an excellent job. They are not just in the specialisations that we naturally think of such as the medical area but across the force. As an outsider, the way they have integrated is very encouraging on both sides of the equation.

Lt Gen. Mueller—With regard to the comment the minister just made, it is perhaps salutary to remind ourselves that there have been some varying degrees of tension between permanent force and part-time force members since Federation. That would have applied from not long after Federation until the end of the Second World War—the militia—although many served commendably on active service in the south-west Pacific.

Those sorts of tensions probably arose from time to time during the era of the Citizen Military Forces. Part of the reason for that was that part-time forces have long been viewed as an expansion base for a much larger force, which we may need if there were a fairly significant threat to the integrity of our sovereignty. Clearly the white paper indicates that a major invasion of Australia is not a critical contingency. A major attack on Australia is a very remote contingency, and even minor attacks on Australia in the form of harassment and raids would only be credible in the event of a significant dispute between ourselves and a regional neighbour. No such dispute exists and one is not in prospect.

But the 2000 white paper changed the perspective as far as the deployment of the Reserve is concerned, in that its role now is to support the sorts of operations that the Australian

Defence Force is increasingly involved in. Currently, we are involved in three major operations and about 11 minor operations. As the minister indicated, we have previously deployed substantial numbers of reservists, specialists and, of course, a significant number in units like the 6th Battalion of the Royal Australian Regiment in Timor. This has inevitably led to much tighter integration of the permanent and part-time forces. I think that, certainly for the first time in my 41½ years service, we can now generally view ourselves as a total force. The level of mutual respect between permanent force members and reservists is now very significant; in fact, when Major General Peter Abigail, the Land Commander, visited 6RAR in Timor he made the comment that it was not possible to distinguish between a permanent force infantryman and a reserve force infantryman. It has done a great deal for the status and esteem of the Reserve itself, and I would say that perhaps the bottom line is that there are young men and women in the Reserve who today wear the same ribbons as permanent force members.

Mr Williamson—On the question of the employer support payment, we have estimated that for each month of service it will cost just over \$100,000. So a yearly cost will be just over \$1.1 million to \$1.2 million in employer support payments.

Senator CHRIS EVANS—That is the employer support payments for this company?

Mr Williamson—Yes, for this deployment.

Senator CHRIS EVANS—And is that done on the basis of the people you have recruited, or just on average costs?

Mr Williamson—We have taken an estimate of the number of people we think will deploy who will be subject to some form of employer support payment. So we are not suggesting that the whole company will be fully deployed and, therefore, employer support payments would flow to everyone. We think those who would be subject to some form of payment would number around 80.

Senator CHRIS EVANS—The others may have been students or unemployed?

Mr Williamson—The others could have been unemployed at the time or come straight in, yes—all sorts of things.

CHAIR—So you have taken the 80 and multiplied it by the formula for the average weekly earnings?

Mr Williamson—Yes.

CHAIR—And the period of the engagement is likely to be for how many months?

Mr Williamson—We have worked on running this through to May next year because we have not only the deployment but also at the other end the run-down when they come back—when they go on leave and those sorts of things. So there is a training period, deployment period and post-deployment period cost.

CHAIR—Do you have any projected resettlement or ongoing costs that reflect the conditions that have applied to these Army Reserve soldiers since they have been on active duty?

Mr Williamson—I am not sure of your question.

CHAIR—I am asking in relation to an ongoing education commitment or the triggering of certain obligations that regular soldiers have that the Reserve do not normally qualify for.

Mr Williamson—While they are over there, they will be on full-time service; therefore, they would be subject to a range of conditions that are available to regular force personnel. As to the specifics of their resettlement, I do not have that information with me.

CHAIR—No ongoing benefits once they leave their full-time service?

Mr Williamson—Once they have resettled, no.

Senator WEST—Will they be out of pocket in any way, shape or form? There have been occasions before when we have sent reservists with regulars and the reservists have come out financially worse off because of the impact of superannuation and other payments, as well as the taxation issue.

Mr Williamson—I would not expect so, mainly because with superannuation, for example, once they come back the superannuation would then roll over, as superannuation does when you change employer. There should not be a detriment in that sense.

Senator WEST—I have not had a definitive commitment. Could somebody take that on notice?

Senator Hill—I do not know that you can get a totally definitive commitment, because every individual circumstance differs.

Senator WEST—But the salary, the conditions and the terms of their engagement now and on this deployment are such that they will be treated exactly the same as the regulars, the permanent force that is going?

Senator Hill—I do not know whether that is straightforward either. There are probably all sorts of costs and benefits in being a regular.

Senator CHRIS EVANS—I am sure it is not straightforward.

Senator WEST—That is why I am not getting an answer.

Rear Adm. Shalders—While serving in East Timor, they will accrue the same benefits as full-time soldiers. That will include war service leave. They will have access to the military compensation scheme in the same way that full-time members accrue those benefits.

Senator WEST—Will those soldiers who are sent to the border get the maximum allowances and become eligible for the DVA entitlements?

Rear Adm. Shalders—That is correct. They will be treated in exactly the same way as full-time members.

Senator WEST—So none of us should get any complaints from anybody saying, ‘This is actually costing me money’?

Senator Hill—What we should or should not get is in the realm of uncertainty.

Senator WEST—Not what they would have got from their private employer or their business but when they take into account what they get in reserve pay as opposed to permanent pay.

Rear Adm. Shalders—They will be paid at full-time rates whilst serving. They will also receive the \$125 a day East Timor peace enforcement allowance. They will be treated exactly the same way as full-time members.

Senator WEST—I had complaints from some people in Bougainville, who went up as reservists, that they were getting different rates at some stage. I do not want that to be

happening. It was resolved, but I want to make sure that it does not happen here. You assure me it is not.

Senator CHRIS EVANS—Minister, I presume Defence would have thought of this, but as this is the first time we have done this for a while it would be very useful to have at the end of the process a summary report of the experience and some idea of the debrief of the experiences of the reservists involved. I am interested in a report on how it went, what the problems were, what the reservists' experiences were, what issues Defence took from it and what issues the reservists took from it. General Mueller made a very useful contribution about the importance of the change in the approach. It would be useful if, at the end of the process, we had a proper assessment not only of the successes or failures but also of the implications for Defence and for reservists. I throw that in as a suggestion. I am sure others have come up with it.

Senator WEST—It could include things like how you maintain the corporate knowledge that those reservists have, because they move back out into civvy street for most of the time after they come back.

CHAIR—If your statements are framed as questions, I am sure that will be done. If there are no further questions on that, we will take a short break.

Proceedings suspended from 10.40 a.m. to 10.57 a.m.

CHAIR—Do you want to say something, Admiral Ritchie?

Rear Adm. Ritchie—I now have the answers to two of the questions on notice.

CHAIR—Please give them now.

Rear Adm. Ritchie—The first question was: what is the rate of hard lying allowance that is paid to members of the transit security elements in Operation Relax? The answer to that is \$21.98 per day. The second question is: when did hydrographic ships first take part in Operation Relax? The first ship was HMAS *Leeuwin*, which commenced operations on 14 November last year.

CHAIR—Thank you.

Senator WEST—Can I continue with the UN, East Timor and so on. There was a recent Audit Office report into the deployment which found that Australia is not claiming its full entitlement from the UN. Can Defence confirm how much we were entitled to claim from the UN in 1999-2000, 2000-01 and this financial year?

Dr Hawke—We will have to take that one on notice. We will get an answer for you on that.

Senator WEST—What did we actually claim in each of those years?

Dr Hawke—I do not know—

Senator WEST—You do not know that either?

Dr Hawke—I do not have the person here who could answer that. It is quite technical and detailed information, but we will get you an answer.

Senator CHRIS EVANS—There is a more general question—

Senator WEST—As to why?

Senator CHRIS EVANS—Sorry, just in relation to that, I have noticed this. Do I have it wrong or is there not separate identified funding for East Timor in this budget like there was in the last ones?

Senator Hill—For Senator West's benefit, I can say that I have now been assured that we are making full claim—that we are now fully claimant upon our entitlements. I took her question to be historical, and we will see what information we can get on what may not have been claimed.

Senator WEST—And why not.

Senator CHRIS EVANS—We are all interested to see what proportion of our costs are actually reclaimable. I know we are not able to claim it all. There are set rates from the UN et cetera.

Senator Hill—We are into the forward costs of deployment argument again, aren't we?

Senator CHRIS EVANS—No, we are not, actually.

Senator Hill—It is easier for us to say what we are entitled to claim and whether we have claimed it. On the historical question of why we did not, I suspect the answer will be that it was overlooked but I will ask the relevant officials and see what response we get.

Senator WEST—Whose head rolled for it being overlooked? Does this money that is claimed go back to Defence or does it go into consolidated revenue?

Mr Roach—It goes back to the central budget. It is not retained by Defence.

Senator CHRIS EVANS—Is that why there was not such a keenness to get it back?

Senator WEST—It did not really make any difference to you people.

Dr Hawke—It does because it affects our credibility with the central agencies. We do go to some lengths to make all of this material quite transparent to them so that they can be reassured that we are not pocketing any of this or siphoning off any of the money ourselves.

Senator WEST—While you are getting me the figures for the previous years, can you also give us some indication, on notice, of the amount we will be entitled to claim for 2002-03?

Dr Hawke—We will not know that until after we have done it. That is the problem.

Senator WEST—It is all post facto.

Dr Hawke—Yes, it is all post facto. It is fair to say there have been delays between when we submit the claim and when the UN reimburses us. The Australian government and the taxpayer have to pick up that difference, of course.

Senator Hill—There also may be an issue as to what the difference would be if, for our own internal reasons, we decide to keep a force other than in the structure and of the size recommended by the UN.

Senator CHRIS EVANS—Might they play hardball over that?

Senator Hill—I am expecting that if we keep a force over the size they recommend, we will not get the benefits for the additional persons. If that is what the rules are, we will cop that. Keeping the force that we think is necessary for our own protection in our view outweighs that loss of revenue from the UN. I am only saying that in the context of predicting that the money for next year is not straightforward.

Senator WEST—What sort of delays are we talking about, Dr Hawke?

Dr Hawke—It varies with each of the individual claims. It depends a bit on the verification measures that the UN goes through to ensure that what we are providing to them is correct weight.

Senator WEST—Are we talking days, weeks, months or years?

Dr Hawke—Sometimes it can be months.

Senator WEST—So we do not just put in one claim?

Dr Hawke—My understanding is that we put them in in a series. What we will do is get the person who is involved in this to come across with the answers to your questions and to any further issues.

Senator WEST—I am happy for it to go on notice, but that is the sort of issue I am trying to flesh out.

Senator Hill—We will get you an answer.

Senator CHRIS EVANS—I wanted to follow up a related issue. In trying to get to the cost of Timor, Senator West raised one of those issues about UN reimbursement. In previous budget papers we had separate identification for funding for East Timor. Is it still there and I cannot find it, or is it not there?

Mr Roach—No, it is not there. You will recall that the East Timor funding was really in two buckets, if you like: one associated with the deployment costs and the second one associated with the additional forces that we generated in Army and in Air Force to be able to sustain the operation.

As part of the white paper, we were able to keep that money because government wanted us to maintain those forces, irrespective of whether they were in East Timor or not. The force generation costs are now simply part of our normal budget and we do not distinguish between the additional battalions and the increase in Air Force's operational support group from the rest of Air Force or from the rest of Army. They are simply part of our base.

Senator CHRIS EVANS—I understand that about the force generation argument, but that does not apply to the costs of the deployment to East Timor, surely?

Mr Roach—No.

Senator CHRIS EVANS—Where do I find them in the budget?

Mr Roach—They are not in the PBS, but we will be required to report on those at the end of the year.

Senator CHRIS EVANS—I understand your argument about the cost of the force generation because the government said you could maintain the forces beyond 2004-05, as I recall, when they were otherwise due to—

Mr Roach—Yes, 2003-04 is the last year that we have budgeted for deployment costs in support of forces in East Timor.

Senator CHRIS EVANS—How do we track the budgeted costs of deployment in East Timor in the PBS now?

Mr Roach—In this PBS you cannot.

Senator CHRIS EVANS—Why not?

Mr Roach—I am not aware of why we did not put in that table on deployment.

Senator CHRIS EVANS—Can you tell us how much the deployment in East Timor is going to cost in this financial year?

Senator Hill—Calculated on what basis—additional costs?

Senator CHRIS EVANS—This is getting beyond a joke. You are not prepared to let us know how much the deployment in East Timor costs?

Senator Hill—I will let you know the additional costs to government.

Senator CHRIS EVANS—This has been in the budget papers for the last two years. This information was provided in the past and now you are not providing it. Why?

Senator Hill—I will let you know our estimate of additional costs in deployment in East Timor—the additional costs associated with the operation.

Senator CHRIS EVANS—Quite frankly, Senator, that is not satisfactory. Why doesn't the PBS include the information about the costs of deployment to East Timor, as has been provided in the last two budget documents?

Senator Hill—I do not know the answer to that. Why did we not include it this year? Is it because it has been absorbed within ongoing costs rather than treated as a separate item?

Mr Roach—We had one table which addressed both deployment and force generation. The force generation is no longer linked to the operation in East Timor; it is simply part of Defence's funding for capability. We can provide the deployment costs on budget estimate.

Senator CHRIS EVANS—So you are telling me that the PBS contains no information at all on the cost of operations in East Timor?

Mr Roach—The net additional costs are included as part of output 1.

Senator CHRIS EVANS—Where do I find them in output 1?

Mr Roach—We do not have that element in the PBS this year. We need to provide it.

Senator CHRIS EVANS—So this year's defence budget provides us with no information at all on the costs of our operation in East Timor?

Mr Roach—Not as a specific line item, no.

Senator CHRIS EVANS—At the risk of repeating myself, why not? It seems like a fairly large oversight.

Senator Hill—From listening to the official, I think it is because it is now a mature responsibility. It is an ongoing commitment and, on the basis of the information that has been previously provided, honourable senators would have a fair indication of the additional costs involved to government. But, always wanting to be helpful, if the committee wants us to attempt to calculate the additional costs for the budget year as a separate item, then we will seek to do that and provide the information.

Senator CHRIS EVANS—I make the point that the other mature ongoing costs of defence are generally included in this budget for the year. We just do not say that, because we spent money on it for the last couple of years, we do not have to put it in the budget anymore. It seems a remarkable omission that East Timor suddenly fits that category.

Dr Hawke—It is in the budget, it is just not identified as a separate line item in the same way as the other items in table 2.1 are not identified as separate line items. The point that Mr Roach was making was that the costs associated with the generation of the forces to go to East

Timor are now actually in the baseline and so they are not separately identified; they are just part of the ongoing force. When the government raised the additional forces for East Timor, they raised them as a temporary measure which, in the white paper context, they turned into a permanent addition to the Australian Defence Force. So that money was then reflected, following the white paper, in the base funding for the ADF.

Senator CHRIS EVANS—I have already indicated that I accept that explanation for those, but we have had a debate about the allowances paid, about all the other commitments. You cannot tell us what we are getting back from the UN—

Dr Hawke—We can, we will be telling you that. The other issue is that it goes to the net additional costs, but since we have not finished this financial year, we will only be able to calculate what those costs are on completion of the financial year. So we will be doing that in the July-August time frame.

Senator CHRIS EVANS—Those were the questions from the last round of estimates.

Dr Hawke—Yes.

Senator CHRIS EVANS—What I was after was, in the portfolio budget statements for 2002-03, what provision has been made for East Timor?

Dr Hawke—And I think the minister indicated that we would get an answer for you on that.

Senator CHRIS EVANS—And for the out years as well?

Dr Hawke—I am not sure that there is anything in the out years. It is just for this—

Mr Roach—And 2003-04.

Senator CHRIS EVANS—It was in there for 2003-04 last year, that is what I am saying. In terms of tracking it, you gave it to us last year, but this year it has disappeared.

Dr Hawke—We will give it to you.

Senator WEST—Is there anything there for 2004-05?

Mr Roach—Not for deployment, no.

Senator WEST—Are there any BAE Systems employees that are deployed to East Timor?

Rear Adm. Ritchie—As in British Aerospace?

Senator WEST—I cannot think of any other BAE.

Senator Hill—Deployed by us?

Senator WEST—Yes, to provide maintenance and repair services. Who is providing your maintenance and repair services in East Timor?

Senator Hill—For what?

Senator WEST—Any of your maintenance and repair services.

Senator Hill—We use a lot of outside contractors.

Senator WEST—Your CSPs and stuff—

Rear Adm. Ritchie—Major General Haddad has an answer to that question.

Major Gen. Haddad—Senator, there is a contract that we have let with British Aerospace in East Timor, so they are resident British Aerospace employees located in East Timor and it is an in-country contract providing maintenance services for vehicles and equipment.

Senator WEST—Does this mean that they are providing skills that are no longer available to the ADF? What is the reason for using them and not using ADF personnel?

Major Gen. Haddad—This is part of our substitution of forces in East Timor. Rather than taking additional ADF assets to East Timor, we sought to establish contracts in-country and British Aerospace had a capability in there. Part of our normal doctrine, where it is sensible to do so, is that we place contracts with local suppliers. In this case it was British Aerospace.

Senator WEST—Are they supplying to any of the other forces there?

Major Gen. Haddad—I could not answer that, Senator.

Senator WEST—It would be interesting if they were only supplying to the Australian forces.

Major Gen. Haddad—I would imagine that they would be providing services to local people as well as to other UN or coalition assets.

Senator CHRIS EVANS—So what is the breadth of the in-country contracts that you have entered into—just to give me an idea of the scope?

Major Gen. Haddad—I could check the figures in a second.

Senator CHRIS EVANS—I did not mean financially; I just mean that there is a range of services—

Senator Hill—What services do they provide for us?

Major Gen. Haddad—The services they are providing for us at the moment are in the maintenance of vehicles and equipment. I can give you the value of that contract.

Senator CHRIS EVANS—That is BAE. You have got other contracts as well in-country?

Major Gen. Haddad—We have contracts in-country for the cleaning of equipment prior to evacuation to Australia and contracts to support formed units departing the country. We have some minor contracts for the repair of refrigeration and calibration of equipment. So there is a range of activities either done through resident in-country contracts or where we bring a contractor in to East Timor to do the work.

Senator WEST—In the situation where you bring contractors in, how many contractors have you brought in?

Senator Hill—It is a confusing question.

Senator WEST—It was a confusing answer for me.

Senator Hill—Can we provide a list of the service contracts that we have entered into? Because we do not bring the contractors in as such; we are letting certain contracts to the private sector. We can give you a list of those contracts—

Senator WEST—And whether they are in-country or—

Senator Hill—and the work that they cover. If you like, we can attach figures to those contracts.

Senator WEST—What I am interested in is the number that are actually in-country, that were indigenous services already in the area, and the number that have had to be relocated into the job.

Senator Hill—Historically I suspect that very little was offered in terms of indigenous services. You are talking about building a new nation here and new capabilities.

Senator WEST—Have we seen over the three years, or however long it has been going on, an increase in the use of indigenous services as well? As you say, Minister, this is a developing country. It is starting itself off basically from nothing. This would be one way of actually extending aid in a different manner to build up a level of resources and a skill base in that country. Or are we—Australia and the UN—still importing all of those resources? Maybe it is a question which should be directed to Foreign Affairs, but it has a Defence implication here.

Senator Hill—Do we have any information on that?

Major Gen. Haddad—I have the details of the contracts, which I can give you now. The British Aerospace one is \$900,000 per annum and that is a contract for services provided in East Timor; we have put the contract with a local provider, in this case British Aerospace. BAE Systems have a separate in-country contract for the servicing of generator equipment, and that is valued at \$28,000. The remainder—of which there is quite a large list—are contracts that have been let in Australia for services provided into East Timor. I can go through those if you wish.

Senator CHRIS EVANS—The BAE servicing of vehicles—are they specialist vehicles? I know you have your own mechanical people supporting your trucks and other vehicles on the border. Are they doing specialist services or are they just general backup?

Major Gen. Haddad—No, it is a substitution. We would have the choice of putting additional ADF assets in there to conduct these repairs, but in the nature of that operation at this stage it was sensible to allow a local contractor to do that work if we found one who was qualified to do it.

Senator CHRIS EVANS—You are doing some of it in-house—I met some of your mechanics and others who were doing it at the time when I was there, so clearly you have people on the ground doing some as well.

Major Gen. Haddad—There is a maintenance capability integral to our force that does some of the maintenance. The overload work we could either off-load to a local contractor, which we have done in this case, or evacuate it to Australia—so we are using British Aerospace instead of evacuating equipment.

Senator WEST—So the only service that is being sourced in-country is the two BAE contracts?

Major Gen. Haddad—That is by the Australian Defence Force, Senator. The United Nations—

Senator WEST—I am not interested in that. I am interested in Australia.

Major Gen. Haddad—That is the only one that we are doing at the moment.

Senator WEST—So all of the other contracts that we are letting we are letting in Australia for people to travel to East Timor?

Major Gen. Haddad—Or to provide equipment into the theatre. For example, there are contracts for floodlighting equipment which is leased out of Darwin. The equipment is placed into Timor and that comes with a support contract.

Senator CHRIS EVANS—Does the Defence Force have a policy about in-country versus Australian contracting? Do you have a sort of statement of policy?

Major Gen. Haddad—Yes, we do.

Senator CHRIS EVANS—What is the general direction of that?

Major Gen. Haddad—It depends on the level of threat, so an assessment is done. If there is the likelihood that you would be placing contractors at risk you do not do it. In the circumstances in East Timor we did not do it in the early days; as the situation stabilised it became a sensible practice.

Senator CHRIS EVANS—And do you have a range of tasks that you have identified as suitable for contractors versus those that you regard as suitable for corps services?

Major Gen. Haddad—The ultimate limit is that everything we do in a logistic support sense is a potential candidate to be done by a contractor if the circumstances allow it. Our doctrine would normally have us use our own organic assets on an initial deployment, and as time passed and the situation changed we would seek to substitute. The organic stuff that you would have seen over there, integral to the operation of the force, would always be done by ADF assets. It is the level below that that we are looking at.

Senator WEST—Is there any consultation and consensus having to be arrived at between Defence and the providers of these services as to the level of risk? Are you having any disagreements about what the level of risk might be and are these contractors therefore wanting to load up the contract with additional risk money?

Major Gen. Haddad—I could not give you any examples of that, but clearly we have done an evaluation and we have informed them of what we believe is the level of risk. I am sure they make their own judgments and they would bid based on their knowledge and what we have advised them.

Senator WEST—Presumably the price at which you are seeking to have a certain service provided takes that into account. Is there any disagreement when you are coming to relet contracts? Are you seeing a price increase because some of them are saying, 'It is riskier than we thought and we want to add in an additional loading'?

Major Gen. Haddad—I have no evidence of that occurring.

Senator CHRIS EVANS—Do you have a policy in terms of local employment? Do you have a policy—obviously, as you say, as things stabilise and you have a big presence there—of encouraging local in-country contracts versus out-of-country contracts? I am trying to find out what is the framework for the operations.

Major Gen. Haddad—Rather than a policy there is a doctrine statement about employing contractors in the area of operations. It is something which was developed based on our initial experience in Timor. The doctrine has always been that if there is a suitable local provider you would go to that suitable local provider rather than bring assets into the country.

Senator CHRIS EVANS—What about if it is a local provider versus a Darwin based provider or what have you? Is there a local content policy?

Major Gen. Haddad—Not that I am aware of, other than that it would be sensible practice—and is in our doctrine as I said—to try and find a suitable source in-country, because that would be potentially a more efficient and effective way of doing business than bringing in someone from outside.

Senator WEST—Do some of these contracts have a training component for the indigenous East Timorese so that you actually build up the skill base in East Timor? Or are we just importing it all in, using it, and at the end of it we will export it all and leave them with no benefit from the skills that they could have acquired by being included in some of these contracts?

Major Gen. Haddad—Once again it is only my judgment, and I would suspect not, other than the British Aerospace one of course; they are providing the trained people to deliver those contracted outcomes. I know that they brought some of the work force in; whether they have a program or not of training local people I could not tell you.

Senator WEST—You cannot tell us?

Major Gen. Haddad—No.

Senator CHRIS EVANS—Can I suggest something that you might give some thought to. It has been raised with me by a couple of people that we are going to have an ongoing large commitment in East Timor and therefore, I suspect, be quite influential in the economy. I know there is this UN argument about our footprint et cetera, but it seems to me that skills development and training and local industry development should be part of the broader responsibility. I suppose it is a Foreign Affairs responsibility at first take, but obviously Defence, being a big contributor in the local economy, is going to be quite important in the coming years to the development of East Timor. It just seems to be worth exploring the issue and what role Defence could play in that. I just put it on the record that we are interested in that issue and we might ask you again about it some time.

Dr Hawke—Thank you, Senator.

Senator WEST—Can I turn to some reported incidents in which it is alleged that Australian soldiers threatened an East Timorese local at gunpoint.

Rear Adm. Ritchie—Do you have a specific question, Senator?

Senator WEST—I am after an update on some of the reported incidents.

Senator Hill—The one where we reported the allegation was being investigated by the military police?

Senator WEST—Yes.

Senator Hill—Are we able to say anything further on that at this time without interfering with the investigation?

Rear Adm. Ritchie—I think we can say that the three soldiers are undergoing disciplinary action.

Senator Hill—It seems we are, so what does that mean?

Senator WEST—The minister is as well briefed as we are!

Senator CHRIS EVANS—I take it from that that there has been an investigation and someone has been disciplined.

Senator Hill—There were incidents in relation to the flags, which was unsatisfactory but which sometimes happens at independence celebrations. The more serious allegation related to threats being made with weapons, and that was being investigated. The flags were returned and the allegation that weapons had been used was being investigated by the military police. That is the last I had heard. Since then the result of the investigation was that, in the assessment of the investigators, the allegation that there had been threats made was not sustained. ‘Baseless’ is the word used in this briefing note.

Senator CHRIS EVANS—I take it that the allegation about the flags was supported?

Senator Hill—The four flags were returned and an apology was offered on behalf of those who were involved. The three soldiers are undergoing disciplinary action—

Senator WEST—There, or have they come back?

Senator Hill—including being charged with theft and prejudicial behaviour.

Senator WEST—Are they still in East Timor or have they been repatriated back to Australia?

Rear Adm. Ritchie—I think they are still in East Timor.

Senator WEST—Were they armed at the time? I am not saying that they threatened with guns, but were they carrying arms at the time?

Senator Hill—They are always carrying arms there. I would expect they would be armed. They are supposed to be armed.

Senator CHRIS EVANS—Was this a report by our military police, Admiral Ritchie?

Rear Adm. Ritchie—It is the military police who investigated the incident.

Senator CHRIS EVANS—This is Australian military police?

Rear Adm. Ritchie—Yes.

Senator CHRIS EVANS—And they found the allegation about threatening a local at gunpoint baseless. Is that the end of the matter or are there proceedings locally?

Rear Adm. Ritchie—That report from the military police will go through the relevant Army chain of command, I am sure, and be reviewed. It looks pretty much from here that, other than the disciplinary action against these people for stealing the flags, that will probably be the end of the matter with respect to the allegation that they pointed weapons.

Senator CHRIS EVANS—I was checking whether there was any local police activity.

Senator Hill—There does not seem to be. It looks as though the local authorities have treated it as an Australian military disciplinary matter.

Senator CHRIS EVANS—Is there any indication whether the person making the allegations is satisfied with the resolution of the matter, or is that not stated?

Rear Adm. Ritchie—I do not have that detail.

Senator WEST—Have there been any incidents along the border in recent times, in the last three months or so?

Senator Hill—What do you mean by incidents? There are incidents every day. It is a challenging environment. Do you mean contact with militias?

Senator WEST—People whose behaviour is less than friendly.

Rear Adm. Ritchie—In the way in which this has traditionally been reported in this committee, no, there have been no contacts since 14 June last year.

Senator CHRIS EVANS—The question goes to the level of threat, I suppose, to Australian personnel. Basically you are saying that there have not been any incidents that would have put them at risk, effectively, other than the general environment of the border.

Rear Adm. Ritchie—The general environment remains very much under control. There have always been exceptions. It was thought that various events in East Timor's history would change that—that the militia would come back or whatever after the election, after independence—but none of that has yet proved to be true.

Senator CHRIS EVANS—I have some questions about a couple of the other operations. I was given, usefully, a breakdown and a list of Australian personnel on other operations around the world, apart from the major ones of Afghanistan, Timor and Bougainville. I must admit that at the time I was quite struck by the range of commitments. There did not seem to be many places in the world where we did not have a couple of people. I wonder whether we could have an update of that, particularly as to whether there have been any major changes. You mentioned earlier the de-mining program, and I wonder whether, as a result of our commitments in the war on terrorism, there have been any major changes to our other activities.

Rear Adm. Ritchie—I will run through all the operations that we have got going. We have talked about East Timor—and you are aware of the reduction down to 1,250 by the end of this month—and we have talked about Operation Slipper. We have talked about Relex II. The tempo in terms of the commitment of forces remains the same. As we have perhaps alluded to, though, we have not seen anybody since December last year. I think 16 December was the last boat. With regard to Operation Belisi, which is the peace monitoring group in Bougainville, 40 ADF personnel remain in that group of 70-odd in total. They are mostly disposed at the moment towards weapons disposal. Since the passing of the second bill on autonomy for Bougainville in the PNG parliament, that has slowed down a bit in the sense that fewer weapons are being handed in. But I think it is fair to say that, in a general sense, Belisi is going well and there is no particular cause for concern. Probably the last time we spoke we talked about an operation in the Solomon Islands, where there was an international peace monitoring team. That team is due to come out of there this month. There is only one ADF person left with that team.

Senator CHRIS EVANS—So we have withdrawn the team from the Solomon Islands?

Rear Adm. Ritchie—No, we have not withdrawn it yet but it will come out in the course of this month.

Senator CHRIS EVANS—When was that decision made?

Senator Hill—A few months ago.

Senator CHRIS EVANS—Was that announced at the time? It seems to have escaped me.

Senator Hill—I am not sure of the answer to that. Basically, it had been drawn down and was seen as having concluded its task.

Senator CHRIS EVANS—I thought the commitment to the Solomon Islands was likely to be ongoing.

Senator Hill—There is a commitment to the Solomon Islands that is ongoing but not through a military mission.

Senator CHRIS EVANS—Can you help me by being a bit more precise about when the decision to withdraw the military mission was made?

Senator Hill—I will get you the date, but from memory it was two to three months ago.

Senator CHRIS EVANS—What does that effectively mean—that you are withdrawing the military personnel from the Solomon Islands?

Rear Adm. Ritchie—We have only one military person other than those attached to the high commission. We have one adviser for the team left in the Solomon Islands.

Senator CHRIS EVANS—How many did you have three months ago?

Rear Adm. Ritchie—Only about four or five.

Senator Hill—I was going to say there were four. It was very small at that stage. Under our Defence Cooperation Program, there will be further work to be done by the ADF in support—Solomon Islands patrol boats and the like. Concerning that specific mission, the decision was made to withdraw the last of the military forces.

Senator CHRIS EVANS—So we had four to five there when the decision was made. What was their role?

Rear Adm. Ritchie—They were embedded in the International Peace Monitoring Team, which is made up of DFAT and police from New Zealand, Australia and some South Pacific nations. They were in there as team leaders of the people who went out and monitored the truce and as technical advisers.

Senator CHRIS EVANS—I suppose this is not really a question for you: has the decision been made to withdraw the police and foreign affairs people as well, or just the ADF people?

Senator Hill—I will get you detail of that through this committee or the foreign affairs one. I have not been as intimately involved in that peace monitoring force because it was concluding its task. I am not sure what civilian element remains, but I will get the detail.

Senator CHRIS EVANS—I appreciate that, but in general terms is it the government's intention to withdraw that whole team or just the ADF component?

Senator Hill—I prefer to get the details, but I think the task of that team was completing and it was a matter of then drawing down that task. There is going to be an ongoing need to support the Solomons through a difficult political, economic and security phase, but the task of that particular element, as I recall it, was completing.

Senator CHRIS EVANS—Is that to say that the rest of the International Peace Monitoring Team are withdrawing as well because the task is finished or merely that the Australians—

Senator Hill—I think it was just us and New Zealand. Why don't I get somebody who is well briefed on that subject to provide a report. If you want it to come to this committee, we will give it to this committee and send a copy to the foreign affairs committee.

Senator CHRIS EVANS—If we get to do it, I would be happy to follow this matter up. Otherwise, I am sure that Senator Faulkner will follow it up on Thursday. When will our last ADF personnel be out of there?

Rear Adm. Ritchie—This month.

Senator Hill—Under the terms of that particular mission. There still may be ADF people in support of our high commission and there may be ADF people under other parts of the Defence Cooperation Program.

Senator CHRIS EVANS—The last ADF person committed to the peace monitoring mission is withdrawing this month?

Rear Adm. Ritchie—He is moving before the end of this month.

Senator CHRIS EVANS—Has there been any increase in the level of threat to those personnel in recent times?

Rear Adm. Ritchie—There has been no real increase in the level of threat directly to ADF people in the Solomon Islands. There is in the Solomon Islands a concern for the general control of law and order, which I am sure you would have read about. It is a law and order problem; it is not a military problem, a problem of factional fighting or anything like that.

Senator CHRIS EVANS—Was the withdrawal of Australian personnel partly prompted by concerns about their safety?

Rear Adm. Ritchie—No. It is entirely to do with the utility of the particular force that was there and what it was doing.

Senator CHRIS EVANS—So that was purely because the role for which they were there, the peace monitoring process, had concluded?

Rear Adm. Ritchie—Yes.

Senator CHRIS EVANS—Who are the other parties to that peace monitoring presence?

Rear Adm. Ritchie—It is certainly New Zealand and Australia, and I have a mind that there are a very few people from other Pacific island countries. It is primarily New Zealand and Australia and it is run by Foreign Affairs in both countries.

Senator CHRIS EVANS—Are New Zealand and the other countries withdrawing from that role as well?

Rear Adm. Ritchie—Yes, in the same way that we are.

Senator CHRIS EVANS—We might come back to that when the witness is able to provide more information.

Rear Adm. Ritchie—Do you want to keep moving through those operations?

Senator CHRIS EVANS—Yes, thanks.

Rear Adm. Ritchie—Operation Cranberry is the surveillance of the north, separate from Operation Relex and aimed primarily in support of the civil authorities—in particular, fishing. That continues with primarily a contribution from the RAN patrol boat force under those standing national support arrangements that have been there for many years. Operation Mazurka provides people to the multinational force of observers in the Sinai. That continues with 25 personnel. Operation Paladin contributes to the UN Truce Supervisory Organisation in the Middle East. It is primarily in Israel and Syria. There are 13 personnel allocated to that. They remain allocated to that force. You may or may not be aware that the significant change there is that there were families living in Israel. Those families have been withdrawn.

Senator CHRIS EVANS—I was going to ask you about the changed security environment for those people in Paladin.

Rear Adm. Ritchie—The security environment has certainly changed and, as a direct result of that, families have come back.

Senator CHRIS EVANS—So we had families of serving ADF personnel based in the Middle East?

Rear Adm. Ritchie—Serving ADF personnel working with the UN Truce Supervisory Organisation had their families there. Roughly speaking, about half of the 13 people had families in the area. They are no longer in the area.

Senator CHRIS EVANS—Have they been repatriated back to Australia?

Rear Adm. Ritchie—Yes.

Senator CHRIS EVANS—Are there any other changes to the arrangements in terms of Paladin?

Rear Adm. Ritchie—There are no other changes to the arrangements other than a heightened awareness amongst that particular force.

Senator CHRIS EVANS—Has any thought been given to withdrawing them from the area?

Rear Adm. Ritchie—No. Operation Osier has people as part of the stabilisation force in Bosnia-Herzegovina and Croatia. There are eight personnel in that force. There is no particular change. Operation Pomelo contributes to the UN peacekeeping efforts in Ethiopia and Eritrea. There are two personnel there with no particular change. Operation Husky is ADF support to the International Military Assistance Training Team in Sierra Leone. There are two personnel there.

Senator CHRIS EVANS—Are all of those ongoing?

Rear Adm. Ritchie—They are all ongoing.

Senator CHRIS EVANS—And with no particular plans for that to be altered in the short term?

Rear Adm. Ritchie—The two other operations that are of some significance are Operation Gateway, which is the P3 aerial surveillance out of Butterworth. That is ongoing. And Operation Solania, which is P3 aerial surveillance in the south-west Pacific, is ongoing but I must admit at a reduced rate of effort because of those concurrency problems that we spoke about earlier on. They are both aerial surveillance situations.

Senator CHRIS EVANS—Is that because they are being required in Relex II?

Rear Adm. Ritchie—Yes.

Senator CHRIS EVANS—What were they doing in the South Pacific?

Rear Adm. Ritchie—Generally, it is in support of the Forum Fisheries Agency, those nations in the south-west Pacific who have banded together for the purpose of protecting their fishing economic zones. It is coordinated with the Royal New Zealand Air Force. They are still doing that particular task.

Senator CHRIS EVANS—I am not arguing a position here but has any thought been given to maybe drawing back some of those commitments in view of that operational pressure that the defence forces are under? I know they are all fairly small, apart from Bougainville, but no doubt they add strains in terms of personnel et cetera.

Rear Adm. Ritchie—Most of those—Mazurka, Paladin, Osier, Pomelo, Husky—are very small. In total they are less than 50 personnel. They are generally all Army. And generally I think the experience that is being gained by those people is well worth the effort.

Senator CHRIS EVANS—So there is no sense of reviewing the broader—

Rear Adm. Ritchie—No. The only thing that would change would be changes in the situation in each of the particular countries. If the UN force changes, then clearly we would change.

Senator CHRIS EVANS—Thanks for that.

Senator FAULKNER—Admiral Ritchie, I have some questions that properly go to this output on operations, but there may be an interface with Navy, which is the next program. I wondered, to save time, if that is the case you might just let me know. I thought if I came at the end of this output we would probably be able to do it in a way that would cause the least problems to all concerned.

Dr Hawke—That is fine by us. The Deputy Chief of the Navy is here, so we can proceed.

Senator CHRIS EVANS—We have completed the rest of output 1.

CHAIR—We might proceed with your questions, Senator Faulkner.

Senator CHRIS EVANS—Obviously if any officers are waiting for output 1 questions, they can go.

Senator WEST—Unless Senator Faulkner wants them.

Senator FAULKNER—No, only in relation to the matters that I am going to raise now, which would mainly concern Operation Relex. Thank you, Mr Chairman, and I thank Dr Hawke and Admiral Ritchie for assisting me in that regard.

I want to briefly go to some issues that were raised in a letter that has been written by Rear Admiral Smith to the Chairman of the Senate Select Committee on A Certain Maritime Incident. I am sure you would be aware of the correspondence dated 17 May 2002. It is described as a 'clarification of evidence'. It goes to some issues that Admiral Smith raised during his giving of evidence to that committee on 4 and 5 April and relates to the vessel SIEVX. That is what my questions go to. Hence, Admiral Adams, I am not sure how much of this is output 1 and how much of this is Navy, but I am sure you will be able to assist me on that. The first thing I want to ask just as background. The nomenclature SIEVX: could the Navy assist me with how that was determined?

Rear Adm. Ritchie—I think that was generated by the Senate committee. It is not a SIEV, as far as we are concerned.

Senator FAULKNER—I was not sure whether that came from us or came from—

Rear Adm. Ritchie—I think it came from you.

Senator FAULKNER—It became unclear. Everyone has adopted the terminology and I know that we started using the terminology.

Rear Adm. Ritchie—It may have even come from the press.

Senator FAULKNER—I do not think that is the case. I thought there were two possibilities: the Navy or our committee. I have asked that question of someone who I thought might know and they were not sure, so I thought you might know. But it is terminology or nomenclature that is used now within Navy, isn't it?

Rear Adm. Ritchie—I would accept that it is the nomenclature that is used to describe this particular incident.

Senator FAULKNER—The first issue I want to go to is the use in Admiral Smith's letter of a very significant number of qualifying words. For example, if you go to paragraph 3 of the clarification of evidence, the first sentence is:

The intelligence reporting from Coastwatch was used as indicators of a possible SIEV arrival in an area within a probable time window.

Then in the second sentence of paragraph 5 it says:

An intelligence report suggested that the vessel was delayed and Coastwatch assessed that the vessel remained a potential departure ...

In paragraph 6 it says:

The Abu Qussey vessel in the Coastwatch's CMSP OPSUM on PM 18 October 2001 through intelligence sources was 'reported' to have departed Indonesia for Christmas Island on 17 October 2001.

The next sentence says:

Coastwatch assessed that the vessel could 'possibly' arrive at Christmas Island, late 18 October ...

Then it goes on:

Coastwatch CMSP OPSUM, PM 19 October 2001 reported ... the Abu Qussey vessel as a 'possible' as it was reported to have departed.

The next sentence says:

Neither of these reports were confirmed.

And so it goes on. I wondered if one of the witnesses could explain to the committee the differences in intelligence that related to the SIEVs that were intercepted and the so-called SIEVX.

Rear Adm. Ritchie—I would very much like to explain that. I think, to understand what Rear Admiral Smith is talking about, you have to be very clear on the concept that sits behind Operation Relex. As I explained in here earlier this morning, at the time we are talking about, back in October, there were two main channels of arrival that we were concerned about: the channel which came from Sumatra, the western end of Java, down through the Sunda Strait and into Christmas Island; and the channel which came, generally, through Kupang, Roti and very quickly across the intervening distance down into Ashmore Island.

After the arrival of the vessel that became involved in what is now known as the *Tampa* incident, those intelligence organisations that had information about smuggling organisations or possible boat movements fed their information primarily, I think, into DIMIA, and they were the people who were the basic source of intelligence. There was a lot of analysis then applied by various other agencies, as there always is with any intelligence. Essentially, what you were getting was intelligence that was going through various means as to the possible movement of boats. I would say to you that there were many more boats mentioned in the intelligence than we actually ever saw. That is the background and I cannot really say a lot more about the sources of that intelligence without saying things that I really should not be saying in an open forum.

The point is that none of that intelligence is definite; none of it, in general, is specific; and much of it is continually countermanded. For example, it may be reported that a boat possibly sailed from the south coast of Sumatra on this date with this many people; the next day it might be reported that it did not sail from the south coast of Sumatra, it probably sailed from somewhere east of Jakarta and it might be going in the other direction. That was the sort of

thing that was happening. So Operation Relex had to consider how best to deal with intelligence as imprecise as that. Do you look, if you could, in every nook and cranny: in every creek and every port in the archipelago? Of course you do not; you cannot do that because we have no right to take Operation Relex into Indonesian waters. In fact we were very cautious that we did not take Operation Relex across the recognised boundaries; we applied buffers.

How did we do it? If you think about the Indonesian archipelago and you think about the position of Christmas Island, then anybody who is going to approach Christmas Island has to come from within a certain arc, realistically. They could come from 360 degrees, but that is unlikely; they will make direct passage from the ports that they normally come out of. So we put ourselves between the archipelago and Christmas Island and we waited for these people to come through those particular areas. All of the boats that we detected, that is how we detect them: they came through the area that we sat in. So, if you like, there is an oblong box that sits somewhere between Christmas Island and Indonesia, keeping well outside Indonesian claimed or recognised waters, and we were in that box. The ships themselves, in a general sense, because a ship has a limited visual and radar horizon, would be back near the focal point—Christmas Island. The aircraft would be more wide ranging, but those aircraft would still keep outside the sorts of areas that might be claimed by Indonesia.

My understanding of the SIEVX incident is that, yes, as Admiral Smith has said in his letter to the Senate, there was a variety of this sort of intelligence that I have talked about that came, some as far back as September, where it was known that the particular organiser was trying to put together some boats. Nothing much more was heard of him until you get into October and there were various reports that he had one boat, that he had two boats, that had sailed from here, that had gone back, that had sailed from somewhere else. And most of the intelligence reporting actually came after we subsequently found out that the boat had sunk. But there was no reason, no cause, nor, indeed, no right for Admiral Smith, for Brigadier Silverstone or for myself to send ADF assets into the area where that boat subsequently foundered and disappeared. We waited for that boat to come through, if you like, the funnel that we had put together; and that was how we were going to detect them. That is how we successfully detected all the rest.

I would have to say to you that we in the ADF are offended by the sorts of things that have been written about SIEVX because, as Admiral Smith said many a time, if anybody had been in possession of specific information which said, 'This boat here is sinking,' then we would have certainly done all we could within our power to save those lives.

Senator FAULKNER—I do appreciate, because Admiral Smith has made those points very strongly, what has been written about SIEVX. But I hope that you would accept, Admiral, that when such things are written or when issues arise, it is certainly a proper role for a parliamentary committee like this to ask questions and investigate those issues. As far as I am concerned I am asking questions about related issues. I am well aware, of course, of the differing views that Navy has in relation to some of what has been said in the public record. In my own case I have made some fairly strong statements about that also that I suspect Navy would not be uncomfortable with.

Senator Hill—A newspaper this morning said that you were saying this particular incident is now your highest priority.

Senator FAULKNER—I read what was said in a newspaper this morning. Newspapers can report what they like. I would have thought that I had a range of other priorities in my

parliamentary duties. My role in relation to the Senate Select Committee on a Certain Maritime Incident is a mere one of them, Senator.

Senator Hill—This says:

Labor's Senate leader, John Faulkner, told the *Herald* that SIEV-X was now his top inquiry priority.

Senator FAULKNER—Is that in inverted commas?

Senator Hill—Then it goes on, 'What is going on in the navy?' et cetera.

Senator FAULKNER—I did not say that. You do not want to concern yourself too much with my priorities, Senator Hill. I am the one who will set them and they will not be set by the *Sydney Morning Herald* or by you or by anybody else.

Senator Hill—Well, apparently you told the *Sydney Morning Herald* it was your highest priority.

Senator FAULKNER—Really? Well, take it up with the journalist.

Senator CHRIS EVANS—Senator Hill, you have lectured us on a number of occasions not to believe everything we read in the papers.

Senator Hill—I am confused because you have now come in here today and said it is not.

Senator FAULKNER—I beg your pardon.

Senator Hill—I am now confused. The article said that you said it was; today you have said it is not.

Senator FAULKNER—What I said to you is I will determine my own priorities, not the *Sydney Morning Herald*.

Senator Hill—I know you will, but it seems you told the *Herald* that it was your highest priority.

Senator FAULKNER—That is an assumption that you make.

Senator Hill—That is what the *Sydney Morning Herald* says.

Senator FAULKNER—If it is reported in the *Sydney Morning Herald* it must be right. Is that what you are saying?

Senator Hill—It is a good prima facie case.

Senator WEST—We will remember that next time.

Senator FAULKNER—Having established that, I will refer you to a number of editorials in the *Sydney Morning Herald* about your own performance in a range of areas. Perhaps you would care to comment on those. Let us just move on. I was making the point, however, to Admiral Ritchie, and I think it is a reasonable one, that I understand and have accepted a great deal of what Admiral Smith said and, on the public record in relation to his concerns about some statements that have been made, I do make the point and, given that you do not seem to understand it, I will reiterate it to you that it is a proper role for a parliamentary committee like this to examine these issues. Admiral Ritchie, I do thank you for that explanation because I thought it was helpful. Firstly, is intelligence that is gathered confirmed? If it is, how is it confirmed by Navy?

Rear Adm. Ritchie—In the broad, it is only ever confirmed by the subsequent appearance of the vessel itself. There is no other way of confirming it.

Senator FAULKNER—Therefore, understanding that, it is reasonable for me to jump to a conclusion that you do not need confirmation of intelligence before surveillance is ordered in relation to a ‘possible’ SIEV departure?

Rear Adm. Ritchie—No. The existence of intelligence will confirm your correctness, if you like, in continuing to conduct that particular surveillance. The point that I was making in my explanation is that surveillance was continuous and ongoing and was not dependent in particular upon any particular piece of intelligence information.

Senator FAULKNER—Yes, but I think the distinction you are drawing is an important one and perhaps is not well understood. At the end of the day, you say that you can really only confirm intelligence reports when a SIEV is sighted. Is that right?

Rear Adm. Ritchie—When a SIEV is sighted, and you can then relate that back to any given piece of intelligence.

Senator FAULKNER—Therefore, surveillance activities are not dependent on confirmed intelligence reporting?

Rear Adm. Ritchie—That is true.

Senator FAULKNER—Is it reasonable for me then to go to the next step and say that unconfirmed intelligence reports, for example the sort that we have that are recorded in Admiral Smith’s letter and in evidence that we have received from Coastwatch, do actually trigger surveillance activity?

Rear Adm. Ritchie—In the case of Relex, it does not specifically trigger surveillance activity because surveillance activity is there. The surveillance activity is ongoing against this background that says there are this many thousand people in the archipelago who are all looking for passage to Australia. What it might do to the particular ship or the aeroplane that is out there is to say be particularly careful today because today is an expected time of arrival.

Senator FAULKNER—Yes. What you are saying is that you have an ongoing surveillance regime under Operation Relex?

Rear Adm. Ritchie—Yes, that is correct.

Senator FAULKNER—Is it also fair to say that an unconfirmed intelligence report might mean that surveillance activity may get a focus it otherwise would not have? This is layman’s language, but I wanted to understand this, if I could.

Rear Adm. Ritchie—My broad answer to that is no. The main intelligence on which we are working is the two routes. We know that all of the people are going to come Sunda Strait to Christmas or Roti to Ashmore. That is the main thing that decides how we are going to do the surveillance. We may in fact alter the pattern within areas that we then set up which are reasonably static. We may alter the pattern of attendance in those areas if we think we have particularly good intelligence about a vessel, but the basic, ongoing surveillance of given, predetermined areas is not based at all on evidence or intelligence of one or more departures.

Senator FAULKNER—Could you explain that a little more? Understanding that there is a regime of surveillance under Operation Relex, what might an unconfirmed intelligence report about a possible SIEV departure mean for surveillance under Operation Relex?

Rear Adm. Ritchie—Let me give you another broad example. In October, we may well have been sitting there and the intelligence would say to us that within seven days we might expect three boats to arrive at Christmas Island and seven boats to arrive at Ashmore. That

would confirm for us that our surveillance had to be ongoing and continuous. If for any reason somebody said, 'We cannot find a P3 tomorrow,' we would be looking for alternative means to make sure that we did fly and cover that area because we would be looking at three maybe within 48 hours, that sort of thing. At the moment, surveillance is ongoing and continuous and there is very little intelligence.

Senator FAULKNER—But you, I think earlier in your evidence, suggested that intelligence of its nature is neither definite nor confirmed until you have a very tangible measure, which is actually a SIEV vessel under way. Is that right?

Rear Adm. Ritchie—Even if I had evidence that somebody had seen a vessel depart a particular place, it still does not mean that it is going to—

Senator FAULKNER—That is one of the things I have been grappling with and possibly not understanding. It does appear that some of the intelligence reporting here goes to size of the vessel, overcrowding and the like, which seems not to have the same level of qualification about it as some of the other intelligence reporting on the same vessel. Could there be a reason for that?

Rear Adm. Ritchie—No. I would place such qualification on all intelligence. Size of the vessel and overloading, all those sorts of things, might cause us to say that it will take longer than normal and might arrive at a later date because they will be more cautious and slower, those sorts of things. I cannot distinguish why any qualification is placed on some things and not on others. There have been many reports that were quite definite on size of boats, names of captains and numbers, and nothing ever eventuated.

Senator FAULKNER—Did I understand from you in relation to where this intelligence is sent that the principal address for receipt of this intelligence is DIMIA?

Rear Adm. Ritchie—The principal provider of that intelligence is DIMIA.

Senator FAULKNER—I think you made the point that there are other providers but you did not think that it was appropriate to detail those at a hearing like this. Is that right?

Rear Adm. Ritchie—I do not think it is appropriate for me to go into how any of this intelligence is gained. I am just saying that that is the organisation that first puts the intelligence together.

Senator FAULKNER—Let me turn again to Admiral Smith's letter. In paragraph 5 it says:

Coastwatch initially reported the Abu Qussey vessel on 14 October 2001 based upon intelligence analysis in the daily Civil Maritime Surveillance Program (CMSP) Operations Summary (OPSUM). An intelligence report suggested that the vessel was delayed ...

Are you able to provide for the committee's benefit any further and better details about that intelligence report?

Rear Adm. Ritchie—When he refers to the vessel being delayed, I think there is a further intelligence report on the 19th which says that the vessel has not yet been sighted. I think that there is a further one on the 20th which says that the vessel perhaps did not sail from where the original report said it sailed from—that it sailed from somewhere else and moved its port of destination from Sumatra to Java. I think that, as late as the 22nd, there is an analysis of a report which says the vessel has probably gone back to the Java coast, because of the weather that was being experienced in the area. What I am saying is that you start off with an original report that has been gained from some source or other, and then you have a number of

agencies who are taking that report, observing what happens thereafter and providing some degree of analysis as to what might have happened in the meantime.

Senator FAULKNER—Admiral Bonser was able to provide some more detail in this. You may not have seen his evidence before the Senate select committee. He was able to say that they knew that we—in this case ‘we’ is Coastwatch, I think, or Australian agencies, or however you prefer to determine it—knew that it (that is, SIEVX) was small and overcrowded. I asked him what ‘overcrowded’ meant, whether it was around 400 passengers, and Admiral Bonser said that they had an indication of numbers. He was also able to talk about the willingness or unwillingness of people to be embarked.

Rear Adm. Ritchie—But he did not say, importantly, that he knew where SIEVX was.

Senator FAULKNER—No, he did not say that, and I understand that. That issue was canvassed with him, but in some people’s minds I suppose the fact that you might have intelligence about the size of the vessel, whether it was overcrowded, whether there is an indication that people got on or off the vessel and the like might beg the question that, if you have that level of intelligence advice, it might not seem absolutely outlandish that you might know where all that was occurring. Correct me if I am wrong, but it is not a leap of faith, having some level of information as we have just been canvassing—numbers, size, overcrowding, embarking or—

Rear Adm. Ritchie—But it is a leap of faith to then move from there—and I would agree that you have not yet moved there—which others have already taken, to say that if you knew that then you should have been actively looking for it in some place other than the places we were looking.

Senator FAULKNER—Yes, but you have to be fair here, Admiral. That is not a jump or a leap that I intend to take.

Rear Adm. Ritchie—No. I have said that you have not taken it, but others have.

Senator FAULKNER—I would ask a serious question here: if intelligence reports, albeit unconfirmed intelligence reports, because of the proper qualification that you place on intelligence reports of this nature, might be able to detail that level of activity, the question in my mind—and I do not put it at any higher level than that—is why wouldn’t the issue of location be stronger? That is the question I have.

Rear Adm. Ritchie—Because there is no such thing as location attached to that particular report. In fact, that particular report was made available the day after that particular vessel was subsequently known to have sunk. It includes a change in the port of embarkation for these people, from one part of the archipelago to a significantly quite distant other part of the archipelago. It did say that it was probably a small vessel and that it probably had 400 people on it. That is all good information, but it is not going to help you find it.

Senator FAULKNER—There is a range of intelligence reporting here, isn’t there? It is not just one advice; there is a number of advices. It is fair to say that, isn’t it? We know that.

Rear Adm. Ritchie—Yes, it is a number of advices, but it is all coming through the one coordinating source.

Senator FAULKNER—And you identify that coordinating source as DIMIA in this instance.

Rear Adm. Ritchie—Yes.

Senator FAULKNER—When you say DIMIA, Rear Admiral, are you able to define that a little? Can you tell me what part or what agency within DIMIA handles that?

Rear Adm. Ritchie—No, I cannot. It is an agency within DIMIA that was producing then on a daily basis an intelligence report on the movement of illegal immigrants in Indonesia. I could find that out for you and give it to you on notice but, off the top of my head, I do not know what it is.

Senator FAULKNER—I have talked to DIMIA officers about this and I think it is probably what they call their joint intelligence strike team. Would you mind taking it on notice to provide the name of that element of DIMIA? There are a couple of different groups that have a role. I suspect it is the strike team, but would you let us know at some point? Concentrating on this report on 14 October, because one thing no-one can argue about any report on 14 October is that this is before the SIEVX sailed. That is fair to say, isn't it?

Rear Adm. Ritchie—I think it was probably a couple of days before it sailed.

Senator FAULKNER—With regard to the report on 14 October, when did you say that was received by Defence in the first instance?

Rear Adm. Ritchie—I did not say when it was received by Defence; I do not know when it was received by Defence. In the normal way of these things, those intelligence agencies in Defence that were looking at this would certainly have received it within 24 hours of its being originated, I guess.

Senator FAULKNER—Has there been any examination at all about the intelligence reports and their interface with surveillance with SIEVX within Navy or Defence that you are aware of?

Rear Adm. Ritchie—There has been a review of all the intelligence that was received in a chronological order. All it shows is that there was considerable confusion as to where this boat departed from, when it departed, how many people were in it and whatever.

Senator FAULKNER—When was that review kicked off?

Rear Adm. Ritchie—There is nothing that I could tell you about a review that formally kicked off—it is just something that has been done.

Senator FAULKNER—I accept it has been done. I just wondered when.

Rear Adm. Ritchie—I do not know the answer to your question as to when it was done.

Senator FAULKNER—Do you know who undertook it?

Rear Adm. Ritchie—I know it was done in the Maritime Command.

Senator FAULKNER—Could Navy assist me in relation to that review—any detail about the basis on which that was commenced?

Rear Adm. Adams—Certainly, Senator.

Senator FAULKNER—Do you know at the moment?

Rear Adm. Adams—No, I do not. I would have to take that on notice and provide the information separately.

Senator FAULKNER—I would be interested in knowing, if you could, Admiral. Perhaps you could just indicate when that review commenced, if there was any guidance or terms of

reference for it and the basis on which the decision was made to conduct the review—in other words, who instructed it, who ordered it and who conducted it.

Rear Adm. Adams—Certainly, Senator.

Senator FAULKNER—Coming back to this question of 14 October: it does appear that numbers of people—there might have been 400 people aboard this boat—

Rear Adm. Ritchie—I do not think that was known on 14 October. You are taking the 14 October date from Rear Admiral Smith's letter. Is that correct?

Senator FAULKNER—I do not know a huge amount about this—

Rear Adm. Ritchie—Are you guessing or is it 14 October?

Senator FAULKNER—There is no guessing. What I do have available to me at the moment is the detail of Admiral Smith's letter and Admiral Bonser's evidence. Beyond that you will be pleased to know that, whilst any other conspiracy theories or outlandish conclusions may be available to me, I am certainly not depending on them or using them.

Rear Adm. Ritchie—I say that because it might be timely to correct the notion of the 14th. In accordance with information I have, there was a departure, or report, of a boat belonging to this particular smuggler on the 10th. On the 11th there was a report that said, 'No, the departure has been delayed.'

Senator FAULKNER—But these were not reported to you by Coastwatch, were they?

Rear Adm. Ritchie—I am talking about the same material. There may well be a difference in interpretation, which we can come to in a tick. With regard to the 14th, which you referred to, I think the intelligence is saying to us that that boat did not depart, but it reports nine other potential sailings.

Senator FAULKNER—So you have reports on the 10th and the 11th. Is that what you are saying?

Rear Adm. Ritchie—I am saying that, in the period of the 10th, 11th, 12th, 14th and 15th, there were various reports, starting on the 10th, that a boat belonging to this particular person had sailed. Then there was a report saying, 'No, it's been delayed,' and then another report saying, 'No, it hasn't sailed at all but here are nine other boats that might have sailed.'

Senator FAULKNER—Maybe I am missing something here. Let us go back to Admiral Smith's letter, paragraph 5, which says:

Coastwatch initially reported the Abu Qussey vessel on 14 October 2001 ...

Rear Adm. Ritchie—Did it report that it had sailed or that it had been initially reported?

Senator FAULKNER—I am quoting the letter. Paragraph 5, first sentence—

Rear Adm. Ritchie—I do not have that letter.

Senator FAULKNER—I am sorry; I did not appreciate that you did not have the letter in front of you.

Rear Adm. Ritchie—I have just read it and it is not inconsistent with what I have just said. The letter says:

An intelligence report suggested that the vessel was delayed and Coastwatch assessed that the vessel remained a potential departure from Pelabuhan Ratu (06⁰59 South 106⁰33 East) for Christmas Island from Indonesia.

He did not say that it had sailed. He said that on the 14th Coastwatch said that Abu Qussey had a vessel, that it had been perhaps delayed and remained a potential departure from that particular place. Then in paragraph 6 he gave the first assessment of departure.

Senator FAULKNER—Yes, I know. What I am asking about is in relation to the beginning of paragraph 5. It says:

Coastwatch initially reported the Abu Qussey vessel on 14 October 2001 ...

You have talked about reporting on the 10th, 11th, 12th and then the 14th just to kick off.

Rear Adm. Ritchie—I am saying that you can go back as far as 5 September and start talking about Abu Qussey preparing two boats to go to Christmas Island. Admiral Smith has chosen there to start a little later in the chronology. Perhaps he is really talking about what he thinks is relevant to the sailing of the vessel. I do not know why he did not say anything earlier than that.

Senator FAULKNER—I do not either, and that is what I am trying to understand. It seems to me that there is an inconsistency with the letter and what you are saying, because it says ‘Coastwatch initially reported the Abu Qussey vessel’. Could the reason for the possible difference in the evidence be that the reports of the 10th, 11th and 12th did not come via Coastwatch?

Rear Adm. Ritchie—They could have come straight out of DIMIA.

Senator FAULKNER—Yes, but can you tell me whether they have come via Coastwatch?

Rear Adm. Ritchie—No.

Senator FAULKNER—We are going to break in exactly one minute and 10 seconds, so it might be possible for someone to check that over the lunch break.

Rear Adm. Ritchie—I am dancing around some of the intelligence, I admit, because of what it says. I cannot tell you that in this forum.

Senator FAULKNER—I have not asked you to and I never have. I have never asked any witness to talk about those sorts of things.

Rear Adm. Ritchie—I understand that. That is why I am approaching it in the way I am.

Senator Hill—Aren't the questions appropriately put respectively to DIMIA and Coastwatch through Justice? I do not know that it is Admiral Ritchie's job to answer questions about matters that are not in his immediate knowledge.

Senator FAULKNER—These questions arise from a letter from the Maritime Commander. They are important. Frankly, I think it is important from both Navy's and Defence's perspective, too, because there are questions that have been asked in relation to this. I stress to you that I am not drawing conclusions; I am asking questions. I had not intended to ask a question about the initial reporting, but when the Maritime Commander Australia says ‘Coastwatch initially reported the Abu Qussey vessel on 14 October 2001’ and Rear Admiral Ritchie tells me today that there was reporting on the 10th, 11th and 12th I am only trying to nail it down. It is not an apparent inconsistency; it is an inconsistency. We are now 21 seconds over the time for our lunch break—there will be a riot! Could someone please check it out over the lunch break and we will come back to it.

CHAIR—Thank you, Senator Faulkner. The committee will adjourn for lunch.

Proceedings suspended from 12.30 p.m. to 1.33 p.m.

CHAIR—Dr Hawke, have you got an answer that you wish to give?

Dr Hawke—Senator Hogg will recall asking a question last night about expenditure for the 2002-03 financial year on the Jindalee Operational Radar Network. The current planned expenditure for JORN for the next financial year is \$62.6 million. That plan was developed following a review of expenditure proposals which was conducted over the last month or so. The reason JORN is not in the top 20 table on page 77 of the portfolio budget statements is that at the time that document was put together the 2002-03 expenditure plan for JORN was \$38.6 million. The additional expenditure now planned for 2002-03 is due primarily to slippage of payments to the prime contractor, which were previously planned to be paid in the 2001-02 financial year. That is a sum of \$20 million, and the remaining \$4 million is due to increases and decreases—it is a net figure—across other expenditure elements of the project. I think that provides the information that Senator Hogg was requesting on that item.

CHAIR—Thank you.

Senator FAULKNER—Were we able to establish at all this issue about the initial report, Rear Admiral Ritchie?

Rear Adm. Ritchie—What I have established in the break is that the review of the intelligence material that I referred to—you asked who was doing that—is being coordinated by the group under Rear Admiral Gates, who has been tasked to support Defence and the Senate select committee. So that is where that information comes from. It would appear that in so doing that—and that is the information that I am privy to—they have discovered sources other than Coastwatch that predate 14 October. What you have from Rear Admiral Smith is what Rear Admiral Smith believed had been reported to his headquarters when he wrote that letter, and it starts at 14 October. The other information is from other sources. It predates the 14th. It does not materially change anything. From the 14th, where Rear Admiral Smith picks up the story, the story is indeed the same, according to those intelligence sources.

Senator FAULKNER—Accepting that—and I do—is Defence able to provide precise information to update the information we already have?

Rear Adm. Ritchie—Could I talk to the minister and come back to you on that particular question?

Senator FAULKNER—Sure. I appreciate the information you have given in relation to Rear Admiral Gates conducting that review. Do you know who tasked Rear Admiral Gates for this?

Rear Adm. Ritchie—No, I don't.

Senator FAULKNER—Would you be able to find that out too, please?

Rear Adm. Ritchie—We can find that out.

Senator FAULKNER—Would you mind finding out, if it is possible, when he was tasked and what the parameters of the review are and why it was determined to have the review?

Rear Adm. Ritchie—We can find that out.

Senator FAULKNER—Thank you for that, I appreciate it. I go to the general issue that is canvassed in Rear Admiral Smith's letter, if you like, of the communication between Coastwatch on the one hand and Defence on the other. Is it fair to say that not all the reports came from Coastwatch that Defence responded to in relation to the SIEVs?

Rear Adm. Ritchie—It is not fair to say ‘that Defence responded to’, because I think I tried to go to some pains earlier on to say that we did not particularly respond on individual instances; we responded on a collection and a pattern of information. Coastwatch was providing reports, and it is referred to in Rear Admiral Smith’s letter in what he calls their CMSP OPSUM—it is an operational summary. So they have taken and distilled other elements of information that they have got. At the same time, Defence also, in some cases, had access in the intelligence organisations to product that was coming out of DIMIA and those sorts of things and would have made its own assessments of what was happening in the archipelago.

Senator FAULKNER—Have you been able to establish what links there were between Defence and the joint People Smuggling Strike Team?

Rear Adm. Ritchie—In the break, no. Regarding those links, I would expect them to be through Coastwatch or through the Strategic Command here in Canberra.

Senator FAULKNER—Is the only effective line of communication between Coastwatch and Defence the operational summaries—the ‘OPSUMs’ as they are described?

Rear Adm. Ritchie—The operational summary is where Coastwatch formally reports to other agencies what it is doing, what its intentions are and what it thinks the picture is. There would be quite a deal of interaction between Coastwatch and the various Defence agencies on a personal level.

Senator FAULKNER—What is the interface between Defence and the DIMIA operation that is so important? One of the things I have been struggling with for a long time is to try to establish which is the lead agency. Which is it—the AFP, DIMIA, Defence? Everyone seems to pass the buck. The buck is not passed between Defence and the other two agencies; it is passed between those two agencies, AFP and DIMIA, to be fair. You have almost said to us this morning that from Defence’s perspective DIMIA appears to be the lead agency here.

Rear Adm. Ritchie—From Defence’s perspective, in the conduct of Operation Relex, Defence is the lead agency. There is no doubt about that. Defence was responsible for mounting that surveillance operation and for interdicting vessels as they were seen. The policy that sits behind that is a whole-of-government thing with probably DIMIA being the lead agency. In terms of intelligence that is gathered in other places, that was coming out of other agencies.

Senator FAULKNER—Yes, I know. But it is the intelligence that is gathered in other places, particularly what occurs onshore in Indonesia, that is of particular interest to me.

Rear Adm. Ritchie—That is not a Defence thing.

Senator FAULKNER—That is right. There may be other agencies that have not been identified, but certainly at a committee like this last week AFP and DIMIA were identified and particularly the joint People Smuggling Strike Team located in DIMIA. I am interested—and this may not be your bailiwick, Admiral, and I accept that—in any interface with the joint People Smuggling Strike Team that Defence had. The first issue is: has there been any interface with them? Secondly, if there has, how has that been handled from a Defence perspective?

Rear Adm. Ritchie—I do not know the answer to that.

Senator FAULKNER—Can I toss that one to you, Dr Hawke?

Dr Hawke—I do not know the answer either.

Rear Adm. Ritchie—The answer would be that, if there were, the Head of Strategic Command would know that answer, but he is not here.

Dr Hawke—In output 5 we will have Head of Strategic Command and we will ask him to address that issue when he arrives.

Senator FAULKNER—Thank you. I do accept, by the way, that there is a threshold issue here—which I tried to make clear in my question— and that is: has there been any interface? I am not suggesting there has; I do not have any knowledge of it. Questions may flow from that, if there has been, as to how it was handled from a Defence perspective. But it is quite clear, absolutely clear, that Defence in relation to this particular exercise is not a major player. That is very unusual, I am sure you would accept, Dr Hawke.

Dr Hawke—We understand where you are coming from, Senator.

Senator FAULKNER—It was the practice, was it not, that Coastwatch would provide at least its operations summaries to both the Australian Theatre Joint Intelligence Centre and NORCOM. That is correct, is it not?

Rear Adm. Ritchie—That is correct.

Senator FAULKNER—Could you explain to the committee, please, why that was the case?

Rear Adm. Ritchie—Coastwatch is very much a part of Operation Relex. The position we are in with Relex reverses the normal interaction we have with Coastwatch. In Operation Cranberry, the ongoing surveillance operation in the north, Coastwatch is the lead agency and Defence, through NORCOM, works for Coastwatch, if you like. In this particular operation it was decreed that Defence would lead and therefore Coastwatch acts in support. Coastwatch have people in Headquarters Northern Command. Coastwatch would join with us in a VTC every morning that was run from my headquarters. Maritime Command, Air Command and Coastwatch would be present and we would talk about Operation Relex at nine o'clock five or six days of the week, depending on what was going on. We were sharing our views on the background to this particular issue. It is as simple as that. Coastwatch has better access into some of the other agencies that you would need than we have.

Senator FAULKNER—Sure. The point of my question is why the two reporting streams—one to Australian Theatre Joint Intelligence Centre and one to NORCOM. I am just trying to understand why it goes both ways.

Rear Adm. Ritchie—Now that you make that point, it might go through ASTJIC to NORCOM, I am not exactly sure, but if it does it is because they are both closely involved. For example, if I were to send a theatre headquarters summary of what I had done for the day, I would not send it to just one address; I would send it to all of those addresses that have some involvement in the business I am engaged in. I think Coastwatch was merely doing the same thing.

Senator FAULKNER—Let us move from the general to the specific. Rear Admiral Bonser in his evidence to the Senate select committee talked in his opening statement about the telephone advice received from the AFP that the Abu Qusey vessel that we have been speaking of, SIEVX, was reported to have departed from the west coast of Java the previous day. He went on:

The information included advice that the vessel was reportedly small and overcrowded. The full detail of the advice is classified. This information was passed by telephone from Coastwatch to the

Australian Theatre Joint Intelligence Centre and to Headquarters Northern Command. The Australian Theatre Joint Intelligence Centre and Headquarters Northern Command included this information in classified intelligence reports, both of which were issued to Defence operational authorities on 20 October 2001.

My question goes to whether that procedure, effectively for Defence in the broad, was standard operating procedure. Was that the ordinary information flow or was it exceptional? That is what I am trying to understand.

Rear Adm. Ritchie—I would not say that that was exceptional.

Senator FAULKNER—Would you say it was standard operating procedure?

Rear Adm. Ritchie—I would say that that is more than often the norm.

Senator FAULKNER—The last paragraph of Admiral Bonser's opening statement includes this sentence:

On Tuesday, 23 October 2001, advice was received from the Australian Theatre Joint Intelligence Centre that a SIEV had sunk.

I think it is appropriate to ask you this question. I wanted to get the background to that advice that went from the Australian Theatre Joint Intelligence Centre to Coastwatch on 23 October. What information leads were there?

Rear Adm. Ritchie—I will check this. I would stand corrected. I think that that information comes from a cable that came out of the embassy in Jakarta that reported that this incident had become known through the press or whatever in Indonesia. You can see there that the ASTJIC passed that information on to people who would not normally be privy to that sort of cable traffic.

Senator FAULKNER—What was that last sentence?

Rear Adm. Ritchie—To people who would not be privy to that cable traffic. Cables that come into the Australian Theatre Joint Intelligence Centre do not necessarily go to Coastwatch or other places. So all they were saying, on a matter that they had both been aware of, was that this Abu Qusey vessel was around but that nobody knew where it was. All of a sudden, in comes a cable from Jakarta saying it has been reported that a vessel has sunk and those people have drowned. He was closing a loop on that information.

Senator FAULKNER—I accept it was the source of the advice—no doubt you will tell us if it is not the case—but could you indicate when that cable was received from the embassy, when the advice was passed on from the Australian theatre to Coastwatch that the SIEV had sunk and the mechanism by which that was done. I do not expect you to have that information at your fingertips, but if you would not mind taking that on notice I would appreciate it. Rear Admiral Bonser makes the point, just to complete the story, that CNN reported later in the day the sinking of the SIEV and the rescuing of the survivors. Does the Australian Theatre Joint Intelligence Centre have a special role in Operation Relex? Is there any special tasking there that you might explain to the committee?

Rear Adm. Ritchie—The Australian Theatre Joint Intelligence Centre exists to provide operational level information for those operations that the ADF conducts. When we came to Operation Relex, we started talking about people-smuggling and all those particular issues. The Australian Theatre Joint Intelligence Centre had no expertise in that sort of issue—because it was not something that we had followed in the ADF—but it took on the role of coordinating information from all of those other government sources who do this as a matter

of normal business and providing it to us who were running Operation Relex, to the Maritime Commander and indeed to NORCOM.

We found in fact that NORCOM had a better handle on those sorts of issues because, being geographically proximately placed, it had taken an interest in that in the past. Indeed, we then passed to NORCOM the analysis responsibility from a Defence point of view, at the operational level, and we took it away from the Australian Theatre Joint Intelligence Centre. Whether we did that before or after—I suspect it was after—we did change that. Rather than having two people trying to focus on it and one not doing it particularly well, we gave it all to NORCOM. It is now NORCOM, every morning at nine o'clock, who stand up and tell us their view of the intelligence picture with respect to Operation Relex. We do not try and generate that out of the ASTJIC.

Senator FAULKNER—Did you have people from other agencies working in the joint intelligence centre itself?

Rear Adm. Ritchie—No, not to my knowledge.

Senator FAULKNER—I still do not quite understand how this all fits in with the joint People Smuggling Strike Team. Obviously, there are a lot of agencies and groups undertaking similar roles.

Rear Adm. Ritchie—From our point of view, I am not sure that it needs to fit in, as long as whatever the intelligence product that they see we see. As long as we are not looking at two different intelligence pictures, in the context of the rest of Relex and what we have to do, we would only then come in contact with that organisation inasmuch as it had anything to do with setting policy as to what we do with illegal immigrants once they are detained—that sort of thing.

Senator FAULKNER—Someone there, or perhaps yourself in your role as Commander Australian Theatre, made what seems like a sensible decision that there might be another—

Rear Adm. Ritchie—We made a decision in our case that there was a better way of doing it.

Senator FAULKNER—Yes, someone else who could do that in a more effective way. Just going back to the specific issue in relation to the SIEVX, Admiral Smith, in his letter, in paragraph 15 of his summary, says:

Intelligence reports via Coastwatch's CMSP OPSUM advised Navy of the Abu Qussey vessel's 'possible' departure from Indonesia on 18 October 2001.

I wondered in relation to that report specifically, or in relation to any others, whether we can be clear on this. I think you have said this before, but I think it is important to nail this down. Did any of either that particular intelligence report, or operational summary of intelligence reporting, or any other material that came from Coastwatch or other agencies cause Defence to change in any way the surveillance regime that had been established?

Rear Adm. Ritchie—No.

Senator FAULKNER—Can you say, if I asked you in relation to SIEV6 or SIEV7, whether that situation—

Rear Adm. Ritchie—The surveillance regime has not changed other than when we think something is different, other than the approaches down the two axes that I have already talked about might be going to happen, we would change the surveillance regime. So we have had

cause to change it, but not for vessels on the archipelago Christmas or archipelago Ashmore route.

Senator FAULKNER—But you can say when your surveillance operation picked up SIEV6, for example. I have heard evidence about that before.

Rear Adm. Ritchie—SIEV6 was intercepted 67 nautical miles north of Christmas Island on the exact day we are talking about.

Senator FAULKNER—Yes, that is right. I am just wondering how stretched resources might be on this very day. Is it an issue because it is not as if—

Rear Adm. Ritchie—And that goes back to the concept. The concept says people are going to come down this axis and they are going to come down that axis and I only have this many resources with which to detect them; therefore, I am not going to go looking for them at their point of origin or in any other place other than to put something—put an overlay—over the places through which I know they must come if they are to get to their destination and achieve success. So you concentrate the force, if you like, in the focal area. That is what surveillance really is all about when you have got limited resources.

Senator FAULKNER—I am not suggesting that a people smuggler might decide to send off an armada of boats on the one day, but because of the date—there is clearly, at a minimum, utilisation of resources, which I am not saying are stretched but which we know are certainly being utilised, and we know what is occurring, for example, in relation to SIEVX—I am asking the question that I suspect people may well ask at a later stage: could that have had any impact, in your view, in relation to the surveillance task that may have affected the opportunity of identifying SIEVX?

Rear Adm. Ritchie—SIEVX, to my knowledge, never ever came within our search area, and we did not change our search area specifically to look for SIEVX.

Senator FAULKNER—I understand that, but did you change the search area to look for any of the other SIEVs?

Rear Adm. Ritchie—No. We very cunningly put the search areas in the right places in the first instance so that we knew people who were going to get to those destinations would come through them. That is the thrust of my concern with all of this. There was never, ever any reason, even if we had known there had been 10 SIEVXs, for us to change the pattern of searching. For those 10 SIEVXs to get to Christmas Island, they had to come through the area that we were surveilling. The one SIEVX that we know about never did.

Senator FAULKNER—I understand that point you make, and I suppose some might then pose the question: does intelligence reporting in some way impact on or affect decisions made about aerial surveillance?

Rear Adm. Ritchie—It does to the extent that, if the intelligence reporting indicates that the pattern is changing, we clearly would be silly if we did not change the pattern of our surveillance. But the sorts of intelligence reporting that we are talking about here—that this vessel may have sailed from here on such and such a date and within three or four days could be in Christmas Island—gives you no cause to change anything. If they had said, ‘It could be on the Kimberley coast, because that is where it is going to go to, rather than Christmas Island,’ yes, we would.

Senator FAULKNER—Anyway, we can be definitive that the intelligence reports on 18 October do not trigger any special action from Navy?

Rear Adm. Ritchie—No, 18 October triggers no special action that I am aware of.

Senator FAULKNER—And the reason for that is?

Rear Adm. Ritchie—We have established search patterns through which these people must come.

Senator FAULKNER—Because that is your standard operating procedure?

Rear Adm. Ritchie—I am not saying to you that Brigadier Silverstone might not have said to the captain of *Arunta*, ‘Make sure you are awake in the next 24 hours because someone is going to come through your area.’ But we have not changed the areas or the pattern of our surveillance because of it.

Senator FAULKNER—Dr Hawke, are you in a position to be able to talk about the Defence flow of information into and out of the People Smuggling Task Force? That of course is a different—

Dr Hawke—I am actually not, Senator. This would have been handled by the head of Strategic Command. It is an ADF operation, so it is handled in the chain of command from CDF, and my recollection is that the head of Strategic Command was doing this—

Senator FAULKNER—I thought you would say that, but I was not sure whether you would point me in Strategic Command’s direction. They determined representation on the task force, didn’t they?

Dr Hawke—CDF would have determined that.

Senator FAULKNER—Fair enough. Strategic Command was the point of contact between the task force and Defence—that is a better way of putting it.

Dr Hawke—That is my understanding.

Senator FAULKNER—I can deal with that when Strategic Command are before us.

Dr Hawke—CDF will be here at the same time.

Senator FAULKNER—I did want to follow up, if I could, on another thing. I had asked Rear Admiral Bonser about surveillance photographs—I refer you to page 1639. There has been a little bit of public discussion about this issue. I had asked him whether there were any RAAF surveillance photographs in relation to SIEVX—in other words, of SIEVX or in any way related to that incident. Rear Admiral Bonser responded that he did not have any such knowledge and that it was a question better put to Defence. Just to be clear on that issue, I wondered if—

Rear Adm. Ritchie—There are no RAAF surveillance photographs of SIEVX.

Senator FAULKNER—Are there any surveillance photos at all of SIEVX?

Rear Adm. Ritchie—We have never been anywhere near SIEVX. What period of time are you talking about—after it has sailed and it is at sea?

Senator FAULKNER—I did not qualify my question; I just asked whether there were any photographs of SIEVX.

Rear Adm. Ritchie—There are no photographs of SIEVX that I know of, and there are certainly—definitely—none of it in transit anywhere. I say that because it could well be that some of the intelligence sources have taken photographs of it.

Senator FAULKNER—As you know, some of the surveillance task is undertaken by Coastwatch and some is undertaken by RAAF, and then of course there is also in relation to some of these SIEVs, and in one infamous case, a great deal of photography that we all know about. So I wanted my question to be broad enough for me to be confident. Just because Rear Admiral Bonser said that he felt, for absolute certainty, this question ought to be directed to Defence, I thought it appropriate to ask you. But can you assure us?

Rear Adm. Ritchie—If the question concerns whether there are any photographs taken from an RAAF aircraft of SIEVX, the answer is no.

Senator FAULKNER—Are there any photographs taken by the Royal Australian Navy?

Rear Adm. Ritchie—The answer is no.

Senator FAULKNER—I think you have actually gone further than that and said that you are not aware of any surveillance photographs?

Rear Adm. Ritchie—I am not aware, no.

Senator FAULKNER—In relation to Operation Relex in the broad, how and where did you handle your point of contact with the department of immigration? Was that done at the task force level or was that done elsewhere, to your knowledge?

Rear Adm. Ritchie—There is no contact at my level with the department of immigration, as far as I am aware—and I will come back to one small qualification. As far as I am aware, that has been done through this interdepartmental committee that we have heard so much about in other hearings. Defence's representative in all of that has been Strategic Command Division. I say that there might be some qualification because I do believe that on the ground in the Northern Territory there is a relationship between the department of immigration and the Northern Command. That has primarily been in respect of Operation Gaberdine, about the use of detention facilities and those sorts of things. So there is clearly some relationship there, but it has no direct impact on the conduct of Relex as such.

Dr Hawke—On the same issue, there would have been some contact with the corporate services area of the organisation, the civilian side, in relation to facilities in precisely the same way that Admiral Ritchie is talking about.

Senator FAULKNER—Thank you for that. I suppose the only thing that perhaps surprises me—I perhaps expected those answers—is that there may have been some contact at the military attache level.

Rear Adm. Ritchie—That is possible. Do you mean in Jakarta?

Senator FAULKNER—Yes.

Rear Adm. Ritchie—That is possible. I have no direct knowledge of it, but it is possible.

Senator FAULKNER—How are the activities of the military attaches handled, Dr Hawke?

Dr Hawke—Military attaches are responsible to the International Policy Division, which comes under the Deputy Secretary, Strategic Policy. I think he is due to answer questions tomorrow. That is Dr Richard Brabin-Smith.

Senator FAULKNER—Would it be better dealt with there?

Rear Adm. Ritchie—I think so. They would know. He and Myra Rowling, who is the division head, would be the best people to address those questions to. As I mentioned

yesterday in relation to another question you asked, military attaches are responsible to the head of mission, who is of course a Department of Foreign Affairs and Trade person.

Senator FAULKNER—It is the only other contact I could imagine that might have taken place between Defence and DIMIA. I am not clear really on the role that the joint People Smuggling Strike Team and some of the other operations that hang off it have, but Admiral Ritchie is going to follow through for me on any Defence involvement of whatever nature. I suppose we could deal with that under the International Policy Division, could we?

Dr Hawke—That would be fine by us.

Senator CHRIS EVANS—Are we doing Navy?

CHAIR—We are doing Navy. Just before we do, Senator Payne, do you want to ask your questions on East Timor now?

Senator PAYNE—Mr Chairman, I want to ask a question about the chapter 6 versus chapter 7 mandate in East Timor, but I am in your hands as to whether that is appropriate for now or whether you want me to wait.

Dr Hawke—It is appropriate for now, Mr Chairman.

Senator PAYNE—Admiral Ritchie, the discussion through the UN Security Council debate on about 17 May canvassed the question of whether the continuing mandate would be chapter 6, split 6/7 or chapter 7. I think it resolved on chapter 7 with a review after 12 months. Is that right?

Rear Adm. Ritchie—It is certainly chapter 7 now, although the review after 12 months does not ring an immediate bell with me. Certainly the new mandate post independence remains chapter 7, with unchanged rules of engagement.

Senator PAYNE—Does that have an impact, significant or otherwise, on our planning with regard to East Timor?

Rear Adm. Ritchie—Not really. It means that we will continue to do the same sorts of things that we have done and will continue to need the same sort of force protection.

Senator PAYNE—Our other commitments elsewhere that have been discussed around the table over the past few days—I am sure we will have further discussion—does not make that process any more difficult?

Rear Adm. Ritchie—No.

Senator PAYNE—Thank you.

Senator HOGG—If I can turn to page 41 of the PBS, there you list a number of key risks and limitations for Navy. I want to go briefly through each of those. The first one on personnel states:

Shortages of uniformed personnel, particularly in some primary employment qualifications and categories, represent one of the most significant risks to the delivery of Navy capabilities.

What are some of the primary employment qualifications and categories that present this significant risk?

Rear Adm. Adams—We have split the categories into officers and sailors. In the seamen branch, principal warfare officers, surface warfare officers by another name—

Senator HOGG—Can you give me the category, your expected level and where you are actually at so that we can get an idea of the deficiencies?

Rear Adm. Adams—I can give you here and now an indication of the subspecialists, the qualifications we are missing, but I would have to take specific details of the numbers we are short on notice.

Senator HOGG—By category then, in the officers?

Rear Adm. Adams—Essentially it is seamen: principal warfare officers, pilot and observer, by which I mean airborne tactical operator.

Senator HOGG—How many categories are there?

Rear Adm. Adams—There are three primary qualifications. I should add that there would be an ongoing shortage of medical officers also.

Senator HOGG—Take me through those first three categories so that I have them correct.

Rear Adm. Adams—Principal warfare officer, pilot and observer.

Senator HOGG—Concerning those three categories, as you know, the references committee—the mirror image of this committee—conducted an inquiry last year into retention and recruitment. My recollection is that those categories which you have mentioned were brought up in that inquiry. You are not able to tell me the numeric deficiencies in those areas at this stage?

Rear Adm. Adams—No, not at this stage.

Senator HOGG—Are you able to tell me the retention and recruitment rates in those areas?

Rear Adm. Adams—In fact, I have the opposite; I have the separation rates.

Senator WEST—That is a good start.

Senator HOGG—A very good start. What are the separation rates in the principal warfare officer category?

Rear Adm. Adams—I would have to give them to you as an aggregated figure. The separation rate I have for seamen officers, which would include a term encompassing those three categories, is 13.7 per cent.

Senator WEST—Presumably, those three categories are all males. There would not be many female principal warfare officers, pilots or observers.

Rear Adm. Adams—No, there would be a number of females in all those categories.

Senator WEST—You do not have that broken down by gender?

Rear Adm. Adams—Not at hand, no.

Senator WEST—Again, that can go on notice.

Senator HOGG—That 13.7 per cent separation rate is to what month?

Rear Adm. Adams—That figure is over the last three years.

Senator HOGG—Are you in a position to say whether that separation rate is higher for what you have of this financial year, compared with the two previous financial years?

Rear Adm. Adams—I will ask Admiral Shalders to answer. I think we already gave this answer yesterday.

Rear Adm. Shalders—The figures for the last 12 months are dramatically reduced on the rolling three-year average. I know we are talking officers, but the overall separation rate on a

12-month basis is currently 11.6 per cent. The three-year average has been 13 per cent. There has been a dramatic reduction in the separation rate in the last 12 months.

Senator WEST—How does that go in relation to the gender break up?

Rear Adm. Shalders—I have those details; it will take me a moment to track them down.

Senator FAULKNER—What are the shortages in those three particular primary employment qualifications that you have given to me?

Rear Adm. Adams—I do not have specific numbers available to me now.

Senator HOGG—How are the shortages in those areas impacting upon your capacity to keep up the tempo rates that are required?

Rear Adm. Adams—We say separately in the PBS that it has forced us to make choices between filling shore positions in naval bases ashore, or in headquarters, and in filling a position at sea, in which case we have set the priority as being filling positions at sea. If, for example, in the case of seaman officer, there was a demand for a position ashore in Navy headquarters and one at sea, we would of course fill the one at sea. The impact of that means that some positions ashore are not filled.

Senator HOGG—Is the increased tempo and the need to fill those positions at sea causing personnel, when they find that they do not have the shore relief that they thought might be there, to resign? Is there anything to indicate the trend there?

Rear Adm. Adams—There is no doubt that most people are working very hard, and we acknowledge that. Is it a factor in their decision to resign? We do exit surveys. At this stage I do not have any information that suggests that the operational tempo involved in current operations is a specific contributor to the separation rate.

Rear Adm. Shalders—The answer to the question on notice you asked at the additional estimates about numbers has been passed back to the committee. That has significant detail on numbers by way of target and numbers by way of what we currently have on the books. It is question W36.

Senator HOGG—As a matter of fact, I have question W36 marked.

Rear Adm. Shalders—The answer to Senator West's question about gender breakdown is that there is no significant difference between males and females in terms of separation behaviour.

Senator WEST—You are telling me that has actually changed in the last couple of years?

Rear Adm. Shalders—It has reduced along with the overall reduction I mentioned a moment ago.

Senator WEST—But at one stage Navy was up to about a 20 per cent separation rate for some categories of females.

Rear Adm. Shalders—That is true. Some categories of males are at that high level as well. The critical trades that we have been speaking about are much higher than the overall 11.6 per cent that I have cited.

Senator WEST—Are the females that are separating coming out of particular areas or are they coming out across the board?

Rear Adm. Shalders—There is no discernible critical area that the females are separating from. As I say, the separation behaviour for females is not distinctly different from male separation rates.

Senator WEST—Meaning the same numbers all in?

Rear Adm. Shalders—The gender balance is remaining the same, if that helps with your question.

Senator WEST—The gender balance can be remaining the same because you are actually importing more females in recruitment.

Rear Adm. Shalders—That is correct.

Senator WEST—And, if you are importing more females—you maintain the same gender balance but you are having to import more females in through recruitment—then they must be going out the other end.

Rear Adm. Shalders—No, that is not true. There is no difference between the separation behaviour of females and males.

Senator WEST—So the overall number of females in the Navy is increasing?

Rear Adm. Shalders—No, it is static and has been for several years.

Senator WEST—So are we recruiting more females or not?

Rear Adm. Shalders—We would like to recruit more of everything, of course, but the ratio depends on the particular category of entry that we are pursuing.

Senator HOGG—Going to the answer that was supplied on question W36, I note that that the 2001-02 figures are as at 7 March this year. Looking through those figures, it shows that in aviation the numbers are well down on the target, as is the case for seamen, and I see that there is a note attached to that particular spreadsheet. There is a substantial deficit in almost in every category. Has that been maintained until now?

Rear Adm. Shalders—The figures I can give you as of today in the three categories are: seaman officers 283 short, pilots 41 short, and observers 25 short.

Senator HOGG—What about in the medical area?

Rear Adm. Shalders—I do not have that detail as of today.

Senator HOGG—Perhaps you would take that on notice. Based on those figures, there are still substantial shortages that are occurring. How targeted is the recruitment that is taking place to fill those gaps? I would suspect that some of those gaps would not be filled in the short term that there would be quite a lead time between the recruitment and the capacity to fill the gap. Can you give us, firstly, some idea of how the recruitment is going to fill those positions and, secondly, some idea of the lead time before those people that have been recruited will be able to competently fill the positions?

Rear Adm. Shalders—If I could take that in reverse order, it might be easier. For example, in terms of a seaman officer, from the point of recruitment until when that officer is awarded his primary qualification—which in that case would be a bridge watch-keeping certificate—could be of the order of five years. So there is about a five-year lead time for a seaman officer, for example. Similarly with pilots and observers, for an Australian Defence Force Academy graduate heading off to do a pilots course or an observers course, it could be five years before they achieve their primary qualification. In terms of targeting the critical trades or categories,

our recruiting advertising is very targeted, very focused. We know what the critical trades are, we know where we are short—witness the answer we gave to the question on notice last time—and we try and focus our recruiting effort on those critical categories as well as all the others that we need to recruit.

Senator HOGG—I accept that, Admiral, but given that the difficulties in this area have been known for some time I am now seeking your advice as to whether the recruitment is now starting to plug the gaps that were there. I am seeking some sort of assurance from you, if I can get it, some sort of evidence in particular if you have it.

Rear Adm. Shalders—I believe I can give you that confidence, Senator. In fact, our recruiting achievement is much better. As I have indicated, our separation rates are much lower. The net result of that is that the ADF is growing for the first time in 3½ years.

Senator HOGG—Is this the ADF, or Navy in particular?

Rear Adm. Shalders—This is the ADF. The figures I am giving you are ADF. I can break those down in a moment. As a general point, the ADF has grown by about 750 over the last three months; so a rate of 250 a month. That takes into account the recruiting achievement and reduced separation rates.

Senator HOGG—When you say it has grown at the rate of 750 over the last three months, does that necessarily imply that the critical areas across ADF that you are seeking to recruit to are the areas being filled or are those areas just being filled at the margins rather than to quotas that you desire?

Rear Adm. Shalders—I wish I could say that that growth rate was all in the critical areas. Of course it is not. That is a general figure across the ADF. So those shortage areas, in whatever service, will take some time to overcome.

Senator HOGG—What about particularly the shortages in Navy?

Rear Adm. Shalders—I will leave that to DCN, but I would like to note on the figure I gave you a moment ago—250 net growth per month—that the contribution of the Navy to that figure is 70. So the Navy is currently growing at 70 per month.

Rear Adm. Adams—In the context of overall improvement—a very useful and satisfying improvement—in terms of seamen officers it has improved over the years. However, in terms of pilots and observers, that is still a significant concern for us.

Senator HOGG—As you said in the PBS, they are all critical areas for your capability to man your platforms. Are there any platforms that are being stood aside because of your inability to man them currently?

Rear Adm. Adams—There are no platforms that have been stood aside. There is one area where, certainly last year, we did have to take measures such as leaving a patrol boat alongside—that is in a patrol boat force. There was a very distinct shortage of people of the seniority and the skill required to fill the position of navigator on patrol boats. So on a couple of occasions we did. I am talking about a matter of days here before we got a replacement in. We have employed suitably qualified reserves to very good effect in the patrol boat force; but, to get back to your question, no, there have been no ships set up or laid up alongside a wharf because of shortages in any particular officer or sailor category.

Rear Adm. Shalders—I have an update to some figures that I gave you a moment ago. The 12-month separation rate for those critical categories we were speaking of are all below the overall 11.6.

Senator HOGG—They are below?

Rear Adm. Shalders—Yes, they are below. The principal warfare officers separation rate over the last 12 months has been six per cent, for pilots it has been 10 per cent and for observers 10 per cent.

Senator HOGG—I thank you for that and I understand the context in which you put it. You are coming from a weakened position anyway, and one would hope that you are going to retain the staff that are there. What have you done to address the desire for people to separate in those categories? Have you put some strategy in place that is lessening the separation rate in those categories?

Rear Adm. Shalders—There is no particular strategy that we are using there. It is obviously a complex equation: people have to consider what will make them stay or leave. There are a number of retention initiatives, which the Senate inquiry was advised on. They appear to be working. There is no particular retention bonus, for example, for the categories we are talking about.

Senator HOGG—That is what I am heading to.

Rear Adm. Shalders— I am pleased to say the package of retention initiatives that we have been putting in place for the last two years seems to be making some impact, as evidenced by the overall separation rate reducing since the Senate inquiry into retention and recruiting.

Senator HOGG—One of the criticisms that was levelled during that Senate inquiry—not just at Navy, so we are not picking on Navy—was the issue of career management, particularly in the officer areas. In fairness to those who appeared before the inquiry, I think you could sum up their comments as saying it was not very well done by ADF in general but also by the particular services. Has that in any way been addressed as a primary cause of concern which motivated people to leave the forces?

Rear Adm. Shalders—Do you want a general answer?

Senator HOGG—I would like a general and a specific, if I can get it.

Rear Adm. Shalders—I will give you the general answer and then DCN will give the Navy-specific. Among the top 10 reasons that people cite for leaving the ADF, career management is within those top 10. It varies across the services. It varies across geographic location. Certainly, dissatisfaction with the career management process is one of the top 10 reasons. That has been hoisted on board by the career managers across the three services. We are looking, for example, at increasing the number of people in the career management cells across the three services. Deputy Chief of Navy will comment on what Navy is doing. It is very clearly on the radar screen as something that we have to do something about. It is part of a larger package of retention initiatives that we are looking at.

Rear Adm. Adams—One thing I should say that has gone a long way to improve the conditions, certainly for those serving at sea, is the decision by the Remuneration Tribunal to award very significant increases in submarine service allowance and seagoing allowance. That was certainly something we worked hard for and something that appears to have been very well received. Although I cannot sit here and say I have factual data to make the link, anecdotally we believe that is contributing to improvement in attitude and an increased desire to stay.

I should go on to say the very fact that we are working very hard—there is a high-op tempo—while it might produce difficulties, some short-term difficulties at least, does give people the chance to use the skills which they have been trained for. Right now we see people deriving a lot of satisfaction from having the opportunity to do so. That does not justify any operations, but I am just saying you certainly see that, particularly amongst the youngsters like pilots who are actually getting to fly a great deal.

In terms of career management, we have taken on board the criticisms that have been made in various surveys. Some of the criticisms are simple things like the way they are spoken to, the way the career managers speak to them. We have increased the number—not as much as we would like—but we have devoted more people to the task. We have put the money back in to allow career managers to get out of their offices in Canberra and go around and consult and talk. That is working. I do not think we are going to be in a situation where everybody is going to love the career managers, but I think we are seeing a beneficial effect of that.

Senator HOGG—In the PBS it says:

... the effect on retention and recruiting caused by the current high operational tempo and the extended periods that personnel are away from home is yet to become apparent.

When do think the effects of those two things will become apparent?

Rear Adm. Adams—From my perspective, we are only getting towards the end of the second rotation of the LPA in the gulf and the additional frigate. Our perception—not based on fact but based upon visits and discussions with the people serving in those ships—would be that the impact is not likely to be felt for some time. I guess when we invite people who have done one rotation through the gulf—who have got the very generous allowance, who are wearing the medals—to go back for their second that would the time we expect there would be an impact. We acknowledge we have to make sure that, between the point where they come back from one rotation and go back for another, they get access to leave et cetera and get time with their family.

Senator HOGG—That was one of the major criticisms that was raised in the inquiry—the sea to shore ratio in terms of their service. They were getting very little by way of shore leave. Some were saying that they were virtually coming back, turning round and going straight back out to sea. I presume that has been arrested to some extent.

Rear Adm. Adams—It would be wrong of me to sit here and say that people who are spending a long time in the gulf are not accruing leave. Of course they are. But, quite apart from that, within Maritime Command it is a specific goal of the Maritime Commander. He has placed the onus on the commanding officers to ensure that people take every opportunity to take the leave to which they are entitled, that middle level supervisors are in fact encouraging and indeed demanding that their people take the leave and not let bureaucratic or institutional difficulties get in the way or, indeed, people's own views that they are so indispensable that they cannot afford to go on leave.

Senator CHRIS EVANS—The operational tempo must be mitigating against that—just the fact that you do not have too many of your ships tied up along dock at the moment, from what I can see.

Rear Adm. Adams—Yes. As I said, there is an increase in accrued leave. That is natural. Our challenge is to make sure that we do whatever we can when the ships are back to get people off on leave. It is something that you have to work very hard at. We know just sending out a message to commanding officers saying, 'Tell people to take leave,' does not work; we

have done that before. It takes more focused and personalised attention to the problem to get results.

Senator WEST—But what is happening to the ship-shore ratio of length of time they are spending at sea as opposed to the time that they are having postings on land? We were certainly given evidence that people who were having their ATS on land time were down to about a 12-month period if they were lucky, if they were in those short-supply areas. In 12 or 18 months they were back at sea again. What is happening to those? It is not a matter of whether they take their leave or not. That is not the issue. It is the issue of when they are getting a posting that is on dry land.

Senator HOGG—And the nature of the posting on dry land as well.

Rear Adm. Adams—Clearly, from what you just said, it is a much larger problem than can be solved by short-term measures. In the one sense it does rely heavily upon the success of our recruiting. We do see the fact that the Navy is growing. Net growth in size will be—not immediately because we have to train these people before we get them into the trained force where they can contribute to a solution to the problem and that will take time—part of the solution.

Senator WEST—How many have you got sitting there in billets, having done their initial training but still waiting to be posted for their specialty training?

Rear Adm. Adams—Senator, I could not sit here and give you a finite number, but there is a problem there. One of the problems of being successful in recruiting is that it does put more demands on your training pipeline and it is a challenge to get people to bunks in ships at sea. We are actively flying people to join crews in the gulf. We are flying back to give people reliefs. We have looked into our training system to see whether we can expose people to life at sea earlier, and we are using contracted ships through Defence Maritime Services to try to do that. As I said, there is no easy solution to a long-term sea to shore ratio problem, but the principal solution to the problem will be through increased recruiting and a growing Navy.

Senator HOGG—I wish to briefly deal with the other ranks. We have had the critical positions in terms of officers. Could you give me those for the other ranks and, if you have got the data on the separation rates for those, that would be helpful.

Rear Adm. Adams—In terms of the broad specialisations, there is nothing new here. I think they are the same ones that you would have heard previously: combat systems operator, communication information systems operators, electronic technical and marine technical. They are the main ones. There are also shortages in medical branch, in health services and in cooks and stewards.

Senator HOGG—Do we have a separation rate for those?

Rear Adm. Adams—Not by category.

Senator HOGG—Overall?

Rear Adm. Shalders—Senator, while DCN is finding that, you asked a question about the impact of the op tempo on retention and recruiting. Again, I can give an overall answer there, if that would be helpful.

Senator HOGG—Yes.

Rear Adm. Shalders—In terms of recruiting, there is some evidence to suggest that the increased op tempo has contributed to our increased targets. People are aware of what we are

doing out there in an operational sense, and there is some evidence to suggest that that increases the inquiry rate. In terms of retention, I can give you some more scientific advice there. We do conduct attitude surveys every four months. In the attitude survey conducted over 10 per cent of the ADF last November and then again in April this year, the increased tempo was a significant factor in people's perception of how they felt about the ADF. So the increased activity was improving their morale, simply put. And there was a discernible difference in the survey before November and then between November and April. So that is probably a short-term thing, as DCN has indicated. There may be a honeymoon period associated with this feeling, but right now the statistics suggest that it has been a positive for us in terms of recruiting and retention.

Senator HOGG—Do you have the numbers for how below target you are in the four categories that I have just been given: combat systems operator, communications technician, electronics technician and marine technician?

Rear Adm. Shalders—We have the historical data in question W36.

Senator HOGG—I understand that. I meant the up-to-date figures.

Rear Adm. Shalders—I do not have that with me, Senator.

Rear Adm. Adams—Senator, I have it here. For communication information systems operator, the shortfall is 18 per cent. I am afraid these are all in percentage terms, not raw numbers.

Senator HOGG—That is fine.

Rear Adm. Adams—For combat systems operator, it is 14 per cent. This is disaggregated, actually. The shortfalls are as follows: combat systems operator (mine warfare), 20 per cent; electronic technical, 22 per cent; and marine technical, 19 per cent. There are a number of other categories here which I did not actually give you in my first response. I can go through the lot.

Senator HOGG—If you want to table those, I would be quite happy to accept that rather than take the time of the committee. Are there any specific strategies, other than the recruitment strategies in those areas, that you are applying to fast-track people in to fill the vacancies?

Rear Adm. Adams—They do internal recruiting in the branches, but of course that is not an overall solution. That is just robbing Peter to pay Paul, in one sense. So I have to say that the longer term structural solution to this is in sustained improved recruiting rates which will, in due course—as I said, not immediately—produce the right numbers of appropriately trained people.

Senator HOGG—Moving on to the accumulated logistic shortfalls, how long has the accumulation been taking place in the logistic support area? I am quoting straight from the PBS, under the heading 'Logistic Support'.

Rear Adm. Adams—I will defer to Admiral Scarce on this one. He is much more involved in the day-to-day logistics of the Navy.

Rear Adm. Scarce—The logistic shortfall has been accumulating over the last five to six years.

Senator HOGG—Why is that?

Rear Adm. Scarce—It is a combination of issues. Firstly it is increased maintenance due to the age of the platforms. We are seeing more obsolescence now with some of our American platforms; the Americans are not supporting to the same state that we are. We are seeing a combination of impacts on the budget through multiplicity of sources of supply as we buy our platforms. We currently have five or six suppliers around the world. Clearly price and currency fluctuations also increase the logistic shortfall.

Senator HOGG—What is being done to address the shortfalls, given that you have just told us that the shortfalls have been there for five to six years?

Rear Adm. Scarce—The shortfall is based upon costing extant policy and comparing that against guidance. The two principal cost drivers in our logistic shortfall are maintenance and inventory. In terms of maintenance, we are looking at the way that we maintain our ships, to see whether the extant policy is appropriate and to see whether there are other ways of maintaining the ship at a lesser cost whilst maintaining both safety and availability. That clearly impacts upon the amount of inventory that you would purchase. That is for the in-service support ships. In terms of future capability—

Senator HOGG—Could I stop you there for a moment. Looking at the in-service ships, are you saying that you are not doing it the most efficient way currently? Or are you saying that you are looking for different ways as these ships head down the path of being obsolete? Which is the problem?

Rear Adm. Scarce—The significant problem is looking at the way that we maintain the ship and seeing if there is a more cost-effective way of doing it. I would not sit here and say that my organisation of 1,000 people is doing everything as efficiently as they should and so there are—

Senator HOGG—It is not the obsolescence so much; it is the way in which they are currently being maintained?

Rear Adm. Scarce—It is a combination of those.

Senator HOGG—What combination?

Rear Adm. Scarce—When we buy a ship, we develop a maintenance policy for that ship. As the ship ages, we need to look at that maintenance philosophy to see whether it is still applicable for the ship and the way it is operated.

Senator HOGG—But there is nothing really that will stem the tide in terms of the shortfalls that are occurring now in the longer term because the obsolescence is growing closer. The problem in getting parts, I would imagine, is getting worse.

Rear Adm. Scarce—I do not imagine that we will significantly impact the current in-service ship logistics shortfall by fiddling around with the maintenance cycles. I think the issue for us is to look to the future as we get new capability to make sure that when we develop that new capability we get as much commonality in equipment between the various classes of ships so that we can build on economies of scale and repatriate as much of that maintenance and inventory into Australia as is possible.

Senator HOGG—The PBS says:

Accumulated logistic shortfalls hinder Navy's ability to support the current force structure, operational commitments and preparedness requirements.

I know the difficulties going down the path of talking about preparedness requirements, so we won't do that. But how does it hinder the force structure and the operational commitments? Are there any significant, tangible ways in which that happens?

Rear Adm. Adams—In the current force structure I think you could use the patrol boat force as an example of that. We do meet our obligations to government for days availability, but the fact is they are getting old and you find that when a ship goes into a maintenance period, its time in there can be extended by emergent work. That means you will find another ship will pick up the slack. There are work-arounds but that is an example of what we are saying.

Senator HOGG—So there is no short-term solution to that problem other than the acquisition of new platform?

Rear Adm. Scarce—The short-term solution is to make ourselves more efficient and to ensure that the maintenance that we are doing is appropriate to the age of the platform and to the operating profile. But I do not believe that will significantly impact on the shortfall that we have at the moment.

Senator HOGG—I would like to move to the next heading, 'Operations and Reconstitution of Forces on Completion'. It says:

Some individual and collective skills have eroded as a result of commitments to operations during 2001-02.

Could you comment on that, please?

Rear Adm. Adams—We have touched on this twice—once yesterday. I think Admiral Ritchie probably put it fairly succinctly this morning in saying that when you are employing ships predominantly, as we are now, in surveillance operations, you will become very good at that. You will become very good at other mariner skills and things like damage control et cetera, but because you are not devoting a lot of effort, for example, to antisubmarine warfare skills, your knowledge and skill levels in that area will decay over time. That is simply what we are saying there. We acknowledge that at some stage we will need to find ways to ensure that that skill degradation or knowledge lost does not go to such a low level that it is lost forever. We certainly are not in that position now, but that is what we have to be very careful of and we are very conscious of that.

Someone asked Admiral Ritchie this morning: 'How would you know that?' There are various ways, and simply talking to your people is probably a good one, and asking them what they think. You can look to your allies. Admiral Ritchie mentioned the importance—and these are my words, not his—of having access to an exercise in which a very competent ally was able to look at the way you do business and you were able to look at the way that they do business and make judgments about your levels of operational efficiency. So what that short section is meant to say is simply that we acknowledge there are risks there. We are identifying those risks and we are looking ahead to see what we will, at some stage, need to do to mitigate those risks.

Senator HOGG—What sort of timeframe is one looking at there in terms of doing something? How long can you let this continue without trying to arrest it and redress the situation that is emerging?

Rear Adm. Adams—I would have a great deal of difficulty in putting a time, a date, a month or a year on that. What I would look at—

Senator HOGG—We are not talking about a matter of months here; I understand that. Are we talking about a two-year period or a five-year period?

Rear Adm. Adams—I would be looking more at what sort of people we have, what experience they have had, how long they have been around and how long they are going to stay. I would look at ensuring that we do what it takes to retain people with that knowledge and that they are in a position where they can be employed in the training force to impart that knowledge and those skills to others in due course.

Senator HOGG—I will move on to the next heading, ‘Air warfare capability’. It says there:

The Navy’s ability to conduct air warfare operations is limited with the current force structure.

Could you elaborate on that for me, please?

Rear Adm. Adams—The limitations on our air warfare capability are fairly well borne out in other areas. One is in the white paper, where the government has announced its intention to get an air warfare destroyer. Recently, in October last year, we decommissioned our last guided missile destroyer, HMAS *Brisbane*, which had a particular level of air warfare capability. We have the FFG upgrade program starting soon, and some parts of the work done there, particularly with regard to radar, are intended to improve air warfare capability directly. Where that section mentions the A4 reduction in fast jet support, it is simply saying that, upon the New Zealand government’s decision to withdraw the A4, where once we had been getting a very high level of service, we were left to find another solution to provide that service. We simply have not found it yet. A number of bodies in industry have approached us and expressed interest in providing a similar service previously provided by the New Zealand Skyhawks, but neither we nor they are yet in a position where we know precisely what we want or how it might best be provided. It is a work in progress, for which we see ourselves having to find a solution in due course.

Senator HOGG—That is another example of the erosion of your current warfare skills, isn’t it—not having that access to the A4s that you previously had?

Rear Adm. Adams—We have to find alternative means of providing that service, which was with us until last year. There are solutions there.

Senator HOGG—I was a bit worried when I read that section of the PBS. I was reading as code the words ‘aircraft carrier’, but I have not heard those words mentioned. I am sure the minister is a bit relieved, and we all are.

Senator Hill—I am sorry, I was thinking of something else.

Rear Adm. Adams—Senator, on your behalf I will assure the senator that the words ‘aircraft carrier’ were not in our minds as we wrote this paragraph of the PBS.

Senator HOGG—I was just saying, Minister, that it might have been code for that, but it obviously is not.

Senator CHRIS EVANS—All the Air Force and Army blokes at the back pricked up their ears when you raised that.

Senator Hill—Aircraft carriers are becoming popular again.

Senator CHRIS EVANS—Yes, they have always been popular with the Navy.

Senator Hill—Now, with vertical take-off aircraft, you can have smaller ones. They would go well, wouldn’t they?

Rear Adm. Adams—Aircraft carriers, or things that carry aircraft, come in various shapes and sizes these days.

Senator WEST—The most stable bit is what we are sitting on right at present, of course.

Senator CHRIS EVANS—Do we take it that you have committed to two, Minister, or is it three?

Senator Hill—It depends what sort of a deal we can get.

Senator HOGG—I refer to the last heading there, ‘Submarine capability’, where it says: Deficiencies in the Collins-class submarines currently limit their operational effectiveness.

Without getting into classified areas, how serious is that and how significant? They did not put it in the PBS. As I said, I am not asking to get into classified areas; I just want some expansion on what is there. It talks of deficiencies in the Collins class submarines currently limiting their operational effectiveness.

Senator Hill—For what they are required to do at the moment, they are able to do it and doing it very capably.

Senator HOGG—Yes, but that is not what that says, Minister.

Senator Hill—As you know, we are developing a new combat system which will be more capable than the previous combat system. We talked last night about the purchase of a new generation torpedo which will be more capable than the old generation torpedo.

Senator HOGG—I accept what you are saying. If that is the explanation that is to be read in conjunction with that, that is fine. I just thought putting the descriptor that was in there did not necessarily serve a reasonable purpose. It would have helped if there could have been a more expansive description.

Senator Hill—Either more expansive or less expansive.

Senator HOGG—Less expansive would have seen it deleted completely, Minister.

Senator Hill—I know; that is what I mean. That was a compromise.

Senator HOGG—If that was the compromise, that is why I am asking what the deficiencies are, without trying to get into—

Senator Hill—I do not think we would want to say any more than what is there, in a public forum. But it would be a grave mistake for anyone to underestimate the capability of those boats.

Senator HOGG—All right.

Senator CHRIS EVANS—I wonder if we can get an update on the various investigations and inquiries into the alleged assault involving *Arunta* crewmen that we discussed last time. Are you in charge of that, Admiral Adams?

Rear Adm. Adams—Yes, Senator. I can confirm that the investigations and the resultant disciplinary action under the DFDA is nearing conclusion. And I am talking about within a matter of days.

Senator CHRIS EVANS—At last count I had about four investigations and inquiries, so I think for the record it would be useful for us to be clear which one we are talking about. Perhaps you could help me there by giving me a fuller description of which inquiry is about to conclude.

Rear Adm. Adams—Yes. I am talking entirely about HMAS *Arunta* and the allegations made about conduct of members of its ship's company in Christmas Island. I will try and avoid a long-winded explanation. When allegations were made that certain people had conducted themselves inappropriately, the following morning the service policeman on the ship, a chief petty officer naval police coxswain, conducted normal investigations that a service policeman would conduct. Though in the case of a number of allegations those inquiries were taken through to a conclusion, in a number of other allegations they were not finished.

Separately, and following allegations made in the press, the Chief of Navy, under the Defence (Inquiry) Regulations, appointed an Army colonel, out of the Navy's command chain, to conduct an inquiry into certain of those allegations made in the press. That report, made under the Defence (Inquiry) Regulations, was passed to the Chief of Navy, who then directed that, in relation to a number of the allegations, service police—and in this case not naval policemen but Air Force and Army policemen—investigate specific matters referred to in the colonel's inquiry done under the Defence (Inquiry) Regulations. We are now at the point where those subsequent service police investigations—

Senator CHRIS EVANS—I am sorry to interrupt. These are the investigations under the Defence Force Discipline Act?

Rear Adm. Adams—Correct. We are now at the point where we are concluding Defence Force Discipline Act action in response to those service police investigations.

Senator CHRIS EVANS—Do you mean action or inquiries?

Rear Adm. Adams—I mean action—action where action was considered appropriate after consideration by prosecution lawyers and the command chain. In answer to your question: in relation to Christmas Island there have been three levels of investigation, to use that word in the generic sense. There were the initial investigations conducted by the ship's chief petty officer naval coxswain; an investigation was conducted under the Defence (Inquiry) Regulations by an army colonel; and there were subsequent investigations conducted by Army and Air Force service police.

Senator CHRIS EVANS—So that is why we have got three layers. Where are we at in the process, then? The inquiry under the Defence (Inquiry) Regulations has gone to the Chief of Navy—when did he receive that?

Rear Adm. Adams—I am not able to recall as I sit here. It would have been in March.

Senator CHRIS EVANS—And on the basis of that he ordered the Defence Force disciplinary inquiries?

Rear Adm. Adams—Yes, he asked the service police, in this case Army and Air Force service police, to investigate specific matters referred to in the report of the colonel's inquiry.

Senator CHRIS EVANS—And that has gone back to police investigations under the Defence Force Discipline Act. Could you take me through the process of those? Do they go to the equivalent of a DPP type person, is it a chain of command issue, or what?

Rear Adm. Adams—After the service police have conducted their investigations they have made recommendations as to whether they consider a charge should be laid. Their reports have then gone to the ADF prosecution office, which is staffed by service legal officers who then review all the evidence provided and make an assessment as to whether they agree that a charge is warranted and whether a conviction would be likely if it was

proceeded with. In this case, in addition to having the ADF prosecution office do that we have had two separate reviews: one by the most senior legal officer serving in the Defence Force and his staff and one by a reserve legal officer who is a magistrate in his civilian occupation.

Senator CHRIS EVANS—These are reviews of what?

Rear Adm. Adams—They are reviews of the police investigations.

Senator CHRIS EVANS—Is that in addition to the ADF prosecution branch inquiry? I was not clear what the leap there was. You said that the police inquiries are then referred to the ADF prosecution office who determine whether or not to prosecute, the likelihood of success et cetera. Then you introduced the subject of two reviews and I was not quite clear what the leap was.

Rear Adm. Adams—The decision on whether to prosecute or not in a particular number of the allegations has become very complex, and it was simply seeking, as it turned out, two levels of more senior legal advice to ascertain whether a charge should or should not be laid.

Senator CHRIS EVANS—So they were providing advice to the ADF prosecution office about the prospects for success?

Rear Adm. Adams—They were essentially providing advice to the command chain. In the end it is the duty of the command chain, the commanding officer or the commander, to make the decision on whether to proceed with a charge or not. The legal advice is simply that: legal advice on which the command can make a decision whether or not they should proceed to charge.

Senator CHRIS EVANS—So the ADF prosecution office does not have the final say on these things?

Rear Adm. Adams—No.

Senator CHRIS EVANS—In effect they sought advice from two other legal sources in forming their advice—is that a fair description?

Rear Adm. Adams—In addition to seeking advice from the ADF prosecution office, the command chain sought two additional sources of legal advice.

Senator CHRIS EVANS—The command chain sought that advice.

Rear Adm. Adams—Yes.

Senator CHRIS EVANS—Was that before or after they had received the ADF prosecution office advice?

Rear Adm. Adams—It was after.

Senator CHRIS EVANS—The command chain is a bit like the royal we, I suspect, but who is the command chain in this instance? Is it the Chief of Navy? In the end does the buck stop with the Chief of Navy?

Rear Adm. Adams—It does, but it is not as simple as the Chief of Navy directing that someone charge someone else with an offence. In this case, it is the maritime commander's responsibility to proceed to charge.

Senator CHRIS EVANS—So the maritime commander is the officer under your chain of command who has the decision on this matter?

Rear Adm. Adams—In naval parlance, the ship HMAS *Arunta* is within his command. He is the administrative authority for that ship. It is his responsibility to progress this.

Senator CHRIS EVANS—But he has already made a decision.

Senator Hill—It is quite complicated. We are a bit reluctant to help, but that is what we are here for. If we work on the basis that, in effect, the final decision is that of the Chief of Navy, two matters had been dealt with administratively and the Chief of Navy accepted that that was an appropriate process. Concerning a third incident of alleged indecent assault, about which we spoke at the previous estimates committee, the Chief of Navy indicated to this committee that he was requiring a further investigation, which was referred to here today and which has been carried out. That investigation was completed. Internal legal advice was taken on it which assisted the Chief of Navy. Ultimately, advice of an outside, senior counsel—a reservist—was taken as well, which assisted the Chief of Navy.

Senator CHRIS EVANS—That advice went only to the question of the prospect of successful prosecution.

Senator Hill—Yes, reviewing the evidence and applying the law to the evidence to assist the Chief of Navy as to whether a prosecution should be launched. Taking into account the advice of the investigators and all of the legal advice, the Chief of Navy has now decided that a prosecution in this particular circumstance will not be launched, which I can say is consistent and which I have reviewed. I do not have any particular role to review except that I am accountable to this committee and expect to be asked the hard questions. In my view, for what it is worth, on the basis of the investigation and the legal advice, the decision the chief has taken is soundly based.

Senator CHRIS EVANS—I want to be clear, Minister. The initial advice from Rear Admiral Adams was that a decision was to be made in the next few days.

Senator Hill—There are more matters; that is why I am trying to separate them.

Senator CHRIS EVANS—So the decision in terms of the indecent or sexual assault allegation is that there will be no prosecution on that matter?

Senator Hill—Correct. That is the decision he has taken on the one that was reinvestigated. There are allegations of another assault—

Senator CHRIS EVANS—The one on 3 December or the one on 4 December?

Rear Adm. Adams—They all occurred on the same day. There are three allegations.

Senator Hill—I am talking about the incidents at the Golden Bosun Tavern on Christmas Island.

Senator CHRIS EVANS—Yes. There was some suggestion that there was an incident on 3 December and one on 4 December in a couple of reports. I just want to be clear for the record.

Senator Hill—Maybe midnight intervened.

Rear Adm. Adams—It was late at night.

Senator Hill—We understand it was the night of 3 December.

Senator HOGG—If the decision has been made not to prosecute because there would be no likelihood of success in proceeding, is there a lesser charge that can be brought as a result of the conduct or behaviour that would succeed?

Senator Hill—I have not been worried about lesser matters; I have been worried about what I think are the more serious allegations—

Senator HOGG—I accept that.

Senator Hill—but I do not think it is intended to take any further action on that particular matter in terms of a lesser action. Two incidents were dealt with administratively. One has been investigated in full—which seemed to be the more serious of the three allegations—and, after a comprehensive investigation and a great deal of legal advice, it has been decided not to pursue that further. There was, in technical terms, the possibility of another assault charge but that is not going to be progressed. I think that anyone who reviewed the file would say that that was soundly based.

Senator HOGG—Is that on the same advice from the same QC?

Senator Hill—They are all associated matters.

Senator HOGG—It is all in the one piece of advice?

Senator Hill—Yes. They are all associated matters. I think it was a senior counsel not a Queen's Counsel. His advice primarily related to the more complex issue, which is the one that I have been talking about. There are, however, a number of lesser incidents that occurred during that period—and that might be what is being referred to in relation to the fourth—which have been investigated and with which I have not concerned myself. They were behavioural type incidents.

Senator CHRIS EVANS—Is this the skinny-dipping and whatever?

Senator Hill—Those sorts of things. I am quite confident the Navy can sort those things out themselves.

Senator CHRIS EVANS—I am not going to make that my highest priority, Minister.

Senator Hill—Lastly, there was an allegation relating to the disposal of a video, which could be a serious matter. I understand that the investigation of that matter has been completed and that the Chief of the Navy is still to make a decision upon that.

Rear Adm. Adams—Correct, Minister. As of this morning, the final decision as to whether to lay a charge or not has not yet been made in relation to allegations of evidence mishandling.

Senator CHRIS EVANS—So the two assault charges have been investigated and there is no prosecution to be launched on those but, on the destruction of evidence matter, there has been no decision made by the Chief of the Navy?

Senator Hill—I am not going to say any more.

Rear Adm. Adams—If I could just go from the top. There were two allegations of indecent assault, which were handled administratively. They are complete. There was a third charge of indecent assault, which has been, as the minister said, reviewed and reviewed, and the decision was taken not to proceed with that. There was a fourth issue, which is not indecent assault, it is common assault—punching. As the minister said, a decision has been made not to proceed with that. An allegation of evidence mishandling is not yet complete, as of this morning. There are a number of minor issues—three or four here—of exposure and skinny-dipping. The expectation is that charges have been laid, perhaps as we speak, or will be laid.

Senator CHRIS EVANS—This reinforces my concern in some ways. I went back over the *Hansard* of the discussion we had last time, and the advice that was given about how these matters were to be handled seemed to be contrary to the instructions for how questions of indecent or sexual assault were handled. I had this discussion with your legal advice et cetera. This suggestion that indecent or sexual assault can be handled administratively seems to totally counter anything contained in your own regulations.

Rear Adm. Adams—No allegation of sexual assault has ever been made in relation to *Arunta* at Christmas Island. Allegations of indecent assault were and they have been dealt with. Two of them were dealt with administratively at the request of the young woman and they are complete. As I said, in relation to the third incident of indecent assault and a later one of common assault, a decision has been made on legal advice not to proceed further.

Senator Hill—If you want to get into this overlap and inconsistency et cetera between civilian law and military law, perhaps we should get Commodore Smith back again. But for what it is worth, the allegations, in terms of definitions in the defence law, were best characterised as indecent assault and not sexual assault. There is different guidance under the administrative directions as to how each of those two categories are to be dealt with. In broad terms, that guidance is that an allegation of indecent assault can be dealt with through the Defence Force regulations; an allegation of sexual assault would be referred to the civilian police.

Senator CHRIS EVANS—Does that logic follow then that the question of indecent assault is one for the commander of the ship to resolve? Is that what you are saying to me?

Senator Hill—It follows that a legitimate process for it to be resolved in terms of defence law and administration is for it to be dealt with through the naval chain of command process. Then there are different sub rules as to who has what authority within that chain to deal with particular matters. In relation to the first two lesser allegations—I hesitate to use that expression as any allegation of indecent assault is obviously taken very seriously—the two incidents that would be generally interpreted as less serious were dealt with administratively, and that was a proper way in which they were able to be dealt with.

Senator CHRIS EVANS—Where will we stand if the Chief of Navy decides not to proceed with a prosecution on that charge?

Senator Hill—On which charge?

Senator CHRIS EVANS—The incidents involved the alleged destruction of video evidence.

Senator Hill—I think it would be better for him to make a decision and then we debate that rather than speak hypothetically about what might be the consequences of any decision that he takes.

Senator CHRIS EVANS—I do not think it is all that hard. If he decides not to lay charges, as it were, then no charges would be laid arising from this incident of any sort. Is that right?

Rear Adm. Adams—That is correct.

Senator Hill—Certainly, if we are talking about the videotape, which is a different issue entirely. But if he decides not to prosecute on an allegation against a different person for a different activity—if that is the advice and he accepts that advice, and that has not been taken—then there will be no further action taken on that matter from within the naval chain of command.

Senator CHRIS EVANS—Does that mean that the outcome of all of this would be consistent with the correction that Admiral Shackleton made to the record when he wrote to the committee on 6 March? At the last hearing he said that three personnel were disciplined as a result of the trial. He wrote to correct the record and said that his statements referring to a trial conducted by the commanding officer were incorrect. His letter states:

The facts are that the Commanding Officer directed an investigation under the Defence Force Disciplinary Act into the indecent assault. Based on the recommendation of the investigation report and the wishes of the complainant not to proceed with the Defence Force Disciplinary Act action, the Commanding Officer decided to pursue administrative action under Defence Instructions. The outcome of that action was a formal Caution for Unacceptable Behaviour for one sailor and counselling for another.

Do I take it that you feel that, rather than having hypotheticals—putting the video issue to one side—the total outcome of all of this is a formal caution to one sailor for unacceptable behaviour and counselling for another?

Senator Hill—In relation to the incidents of alleged indecent behaviour—the indecency allegations—yes.

Senator CHRIS EVANS—Will there be any summary of all this? I am not particularly arguing anything in particular but, given the interest in this, I can accept from Navy's point of view that this is a bit of a problem in terms of justice being seen to be done. We always have it in the civil area too; when the DPP or someone decides not to proceed with charges, it is always a bit fraught. But there will be no further public statement or explanation? I know you said you would call for reports earlier in the piece. What else will be made available to explain what has happened here?

Senator Hill—What I was intending to do was to make a statement. You might recall that I previously—I think it was prior to the last estimates hearing—made a statement saying that action was being further taken in relation to two of the matters. One was what seemed to be the more serious allegation of indecent assault, and the second was the matters relating to disposal of the video. It has been in only the last few days that the first of those matters has been finally settled. In relation to the video, it has not been quite settled. I was hoping that both of those would be settled by this time and I would have been able to make a statement on those.

In terms of providing the materials upon which those decisions were made, that becomes quite awkward. I would speak to the Chief of the Navy—it is his documentation—but it might be possible to provide some of that material on an in camera basis. I do not think it would necessarily be in the interests of all parties that it be put on the public record. It might give pleasure to some, on an inside column of a tabloid, but I do not believe it would add to justice or be in the public interest.

CHAIR—Senator Evans, do you have further questions on this matter?

Senator CHRIS EVANS—Yes, but I will wait until after the break.

Senator Hill—In conclusion, I want to make it clear that it has been a long and complex and in some ways a quite awkward process of inquiry. I think that is something for the Defence Force disciplinary process to have a look at and see whether there are ways in which the processes can be improved.

Senator WEST—Go and re-read.

Senator Hill—Further improved.

Senator WEST—Yes, that is right.

Senator Hill—The second point is that, in relation to the more serious allegation, I am satisfied that it has been thoroughly investigated, that good legal advice has been taken on it and that the decision of the Chief of Navy is sound. I and this government are very concerned about any allegation of indecency—in particular, indecent assault—particularly if it includes a gender aspect. We want women in the Navy to know that when they join, they can be confident that they are going to be properly protected in relation to any allegations of misbehaviour.

Senator CHRIS EVANS—That is the problem isn't it, Minister? We are left with a situation that after six months and four or five different investigations—a fairly tortured route—internally the Navy decides there is no case to answer. It is a question of whether justice has been seen to be done and whether those interests which you espouse have been protected.

Senator Hill—No, it is more than that. It has gone up the chain of command to the top of the Navy and it has been given months of attention there—including a reinvestigation, of which we are aware. I have taken a personal interest in the matter, whereas some might think that is meddling unduly, because I think I have a public interest and responsibility as well. I am accountable to the parliament and the parliament might demand more of me. If that is the desire of the parliament, then we will see how we can accommodate that while protecting the interests of innocent people. Actually, it is a great deal of accountability when you start to think about it.

Proceedings suspended from 3.38 p.m. to 3.59 p.m.

Senator CHRIS EVANS—Mr Chairman, I want to finish on the *Arunta* issue. I tried to think over the break about what was said to us today. I suppose I was not prepared for that. I am uneasy about leaving it at that. I appreciate Navy's difficulty. I am not making any comment on the appropriateness or otherwise of the decision making processes; I want to make that clear. I simply do not know so I am not making a comment. From a public perspective, we have had a highly public case about what seemed to be a fairly serious assault on a female sailor. To be frank, we have had a very unsatisfactory series of investigations and reports on those investigations, including at an estimates hearing where we were given wrong information and the record had to be corrected. This has all led to heightened public concern about the process and about the incident. Certainly it is one that has concerned me, and the minister has made the point that it concerned him.

My concern is that I am left with this unease that it will be seen publicly as there having been an incident that the Navy dealt with internally. Someone then raised concerns publicly—the military police or whoever it was who made that report available—and the thing blew up. The Navy has had another four investigations and they have found themselves innocent and it was left at that. As I say, I am not making a judgment on that but it does concern me that that would be a public perception. So I wonder whether there is anything further that could be said about the legal advice and about why the decision was taken not to proceed with charges. I appreciate that one cannot give the ins and outs of the case, but I would be interested in whether Admiral Adams or the minister are able to provide any further information as to what underpinned the decision not to lay charges—whether it was a question of the chances of success or whether it was believed that the assault had not taken place. At the moment we are left with no charges to be laid, end of story, which does not give us any information or

understanding of what has occurred. I understand the legal difficulties but I want to know what else you might be able to say about that reasoning that might help.

Senator Hill—I think what I will do is discuss with the Chief of Navy whether there might be some way in which the final legal advice can be made available to you. The trouble is that it would have to be on a confidential basis and you might well say, ‘If I can’t use it there is not much point in me having it.’

Senator CHRIS EVANS—I am always a bit reluctant, Minister, to receive briefings. I would want to think about that if you made the offer.

Senator Hill—I understand that. I will speak to the Chief of Navy as to whether that offer can be made to you and then you will have to consider whether you want to accept it.

Senator CHRIS EVANS—As I said, there were a couple of things I thought about in the break as to how we might respond to this. As I say, I express my unease about how this was to be resolved. Firstly, I thought to ask whether or not there was more information about the reasoning behind the decision not to proceed with prosecutions and whether or not that could be made available to the committee—and, in effect, made publicly available. Secondly, I thought to ask whether or not you, Minister, would consider making a statement that attempted to provide as much information as possible on these matters—a statement that would go to both the actual incident and the processes. That may be difficult but I suppose I am saying that I think things are a little unsatisfactory at the moment and that I am a little uneasy at leaving it there.

Senator Hill—Beyond what I have said I will do, I will consider the matters further. The only other thing that I should have said before the break and that is relevant is that the Chief of Navy has taken a process matter which I think is a good decision in relation to dealing with these matters administratively. At the moment, as I understand it, if there is an allegation of indecent assault the commander of the ship has a discretion as to whether he deals with that allegation pursuant to an administrative direction; alternatively, he deals with it under the Defence Force Discipline Act. In this instance, the commander of the ship decided to deal with it under the administrative directions—

Rear Adm. Adams—At the request of the young woman.

Senator Hill—That is relevant, because I think the guidance is that if that request is made then he has to. The Chief of Navy has decided to change that process for the future, in that the commander of the ship will no longer have that discretion, but in the case of an allegation of indecent assault will have to deal with it under the Defence Force Discipline Act, whether or not that is the wish of the complainant.

Senator CHRIS EVANS—I must say that at first blush I thought that was what was required of them. I did not realise they had the choice. We had this debate last time and we got caught up on arguments about the definition of sexual and indecent assault. On re-reading the *Hansard* I think it was not just that we were confused at the time; even in writing it was confusing. But that is one of my major concerns, that a young female sailor would be in the position of having to take responsibility for how those matters were proceeded with, when dealing with her commanding officer and offences may be committed by crew with which she is serving. That just seems to me to be totally unsatisfactory.

Senator Hill—I think that what has been done is a procedural improvement in that regard.

Senator CHRIS EVANS—How will that be progressed?

Senator Hill—The order has been given.

Senator CHRIS EVANS—That would have to be an amendment of some sort to the regulations, would it?

Senator Hill—To the administrative directions, I understand.

Rear Adm. Adams—The form we promulgated was simply a directive from the Chief of Navy to all commanders and commanding officers that they no longer had the discretion to make that choice in favour of administrative action. They were to handle it under the Defence Force Discipline Act. That applies to Navy, but it is not across Defence.

Senator CHRIS EVANS—And that is in relation to indecent assault?

Rear Adm. Adams—Indecent assault.

Senator CHRIS EVANS—So that is a directive that then goes into your handbooks and instruction manuals. Is that the way it works?

Rear Adm. Adams—It is in force throughout the Navy right now. It is something that we will now take up with our colleagues in Defence, and endeavour to have that incorporated in the Defence Instructions.

Senator WEST—My next question to the minister is: Navy is not the only one where there are issues of sexual harassment and sexual assault. If it is only in force for Navy, what are you doing to bring the other two forces up to Navy's standard?

Senator Hill—I did not know that there was exactly the same procedure in each of the three services. I have been concentrating on a particular naval incident. But certainly in my view the principle is correct as it applies to any of the three services. If I am being told today that that discretion still exists in relation to the other two services, then that is something I will take up with the Chief of Defence Force.

Senator CHRIS EVANS—The other point I would make there, Minister, is that I would be very keen to make sure that that instruction was, if you like, consistent and complementary, because having looked at some of these instructions, and even from getting some legal advice on what they meant, it was not at all clear that they were necessarily easily read and understood as a body of instructions in terms of indecent assault, sexual assault et cetera. While I am encouraged by the suggestion that we ought to deal with what I thought was a particularly inappropriate measure in the sense of having that discretion about an indecent assault, I am also, I suppose, urging some caution that whatever we do does not create another set of anomalies or inconsistencies in dealing with assault matters.

Senator Hill—I think the decision that has been made is a step in the right direction. I personally think that an examination should be made of the definitions as well. I am a little out of date with these things but I am not sure that the way in which indecent assault and sexual assault are distinguished within military law represents how it is done in civilian law. I think civilian law is a little more progressive in this regard. I think it would be a good idea. I am satisfied with the arguments that have been put to me that the decisions that were made were sound within the military law as it exists at the moment, including the directions, but I am not sure whether that distinction is appropriate and meets what most people in the community would regard as well-understood definitions of these particular actions.

Senator CHRIS EVANS—I think you are picking up the same concern that I had in the broader sense that, while I appreciate what you have said will happen in terms of the Chief of Navy's direction, it seems to me there are broader issues, having looked at this case and

having looked at the instructions et cetera. We had that debate about definition of sexual assault, which at the time I was quite concerned about because we got to the stage, by error, of talking about serious sexual assault versus sexual assault, and that certainly concerned me. There is also the fact that there seemed to be some confusion and some contradictory instructions in the various sets of regulations and directives. I would have thought that, for a serving commanding officer, it would not have been easy to work their way through, even with a law degree, let alone if they did not have any legal background and were trying to deal with it on the spot.

I was just concerned that whatever we did while attempting to fix this problem did not actually create further problems but also addressed the concern that you expressed relating to definitions of assault. It seems to me that that requires a bit more of a fundamental review of the way Defence handles these matters than just a directive from the Chief of Navy on that one issue.

Senator Hill—That is correct. That would require changes to the law rather than just the administration, but I think that should be reviewed. I will see that it is reviewed. There may be some strong arguments for the definitions that they use but they strike me as out of touch with contemporary standards.

Senator CHRIS EVANS—I think we ought to flag that the committee will be taking a keen interest in that as well. I take it that you are of the view that no more should be said about the decision publicly as to why charges were not proceeded with?

Senator Hill—Certainly, at this stage, I said to you that I would think about whether there was something further that could be said on the public record, but I would want to think about it.

Senator CHRIS EVANS—How will we know what the Chief of Navy's decision is in relation to the other matter of the video tampering allegations?

Senator Hill—He or I will make a public statement.

Senator CHRIS EVANS—Thank you for that assurance. We might as well get all of this out of the way at once. Do you want to deal with Diego Garcia while we are here? As you are not having a very good time, Admiral Adams, we might as well get it all done with at once.

Rear Adm. Adams—I should say at the outset that, in relation to Diego Garcia, there never has been any suggestion of sexual assault or indecent assault. These matters are entirely related to minor acts of foolish behaviour involving alcohol. I am talking about urinating in public, nudity, doing a streak in a public bus, verbally abusing a foreign military person, being drunk, and indecent exposure.

Senator CHRIS EVANS—Why was it that Admiral Shackleton saw it as being necessary to then invoke the Defence Force disciplinary activity? He seemed to be treating it with a fair degree of seriousness at the last estimates hearing.

Rear Adm. Adams—Yes, he did. He simply was unaware that any incidents had occurred until advised by some of the more senior officers in the Defence Force who had heard about it by way of incidental conversation, or it had been reported to them. He was very concerned that allegations were being made about the behaviour of Navy people in a foreign port that he was not aware of. He had no idea whether there was any substance to the allegations, and he had done what is called a quick assessment.

In this case, an Air Force group captain was sent to Diego Garcia to find out what went on and whether there was substance to these allegations. I hate to go back to where we were before, but that officer did a report of his quick assessment. He said that, yes, there appeared to be evidence that some people had conducted themselves inappropriately along the lines I discussed. He handed it to Army military police, they investigated and they recommended that a number of charges be laid against people. They recommended, in the case of some of the allegations, that no offence was actually committed or that there was insufficient evidence to proceed. At this stage, we are expecting there to be two charges laid for exposing themselves in public. The other charges were so minor that they were not backed up by the evidence collected by the group captain or the police sent to Diego Garcia, and sent to the gulf to interview the naval personnel.

Senator CHRIS EVANS—The upshot of it is that you expect two sailors to be charged with exposing themselves?

Rear Adm. Adams—With minor acts.

Senator CHRIS EVANS—That will be handled, in disciplinary terms, by whom?

Rear Adm. Adams—By the ships' commanding officers, as these minor acts would be handled.

Senator CHRIS EVANS—Had there been any action taken in regard to these matters previously?

Rear Adm. Adams—No Defence Force disciplinary action, no.

Senator CHRIS EVANS—Had they been brought to the ships' commanding officers' attention beforehand?

Rear Adm. Adams—No. There is no similarity between the discussion we have just had and the handling of the alleged incidents at Diego Garcia.

Senator CHRIS EVANS—When do you expect those—

Rear Adm. Adams—I am simply unable to sit here and tell you exactly, but I would expect and hope that if they are not already completed, they will be done in the very near future.

Senator CHRIS EVANS—Thank you. Can I ask about crossing the line?

Rear Adm. Adams—What would you like to ask?

Senator CHRIS EVANS—I notice that Admiral Shackleton suspended the ceremonies pending a review. Can you give me an update on what has happened there?

Rear Adm. Adams—I know there is an unfortunate history to crossing the line ceremonies, which I do not intend to flagellate myself by going through. We were surprised when we saw this. The events as depicted in the video release by Channel 7 did occur. They were in a Fremantle class patrol boat. What you see there did occur. The people who participated in it were entirely volunteers. The ship's executive officer ran the traditional crossing the line ceremony in a manner that was acceptable to all members who were in ship's company.

When it appeared on television, clearly it was very hard to stand there and explain some of that behaviour. The chief's approach was simply to take time out and to ask people in the Navy whether they thought the way crossing the line ceremonies were being conducted was what they wanted or what they wished to participate in. The maritime commander and the

systems commander who is responsible for shore establishment were tasked to canvass opinion and I did some of my own. That meeting, which I was to chair at 1400 this afternoon, was to consider the feedback from that and to recommend to the chief whether we should proceed with crossing the line ceremonies and, if we do, under what procedural guidelines. That is simply where we are now.

Senator CHRIS EVANS—Thanks for that, Admiral. But as I understand it, you had been through that process before. Didn't you go through that sort of process last time that this was a problem? I must point out that I know that footage was old. I think it was two or three years old. Without going through the detail of the past history, I thought that the guidelines for crossing the line ceremonies were issued originally following concern about what activities were or were not appropriate and that you had been through that assessment. Is that not right?

Rear Adm. Adams—You are correct. With the submarine *Otama* incident, there were guidelines issued. This most recently televised incident was entirely in accordance with those guidelines. What the chief has done is simply said, 'Okay, we've put the guidelines out there. We're still getting video like this even though it was conducted with no criminality, no abuse or whatever. There were no suggestions of it. We will simply sit down and ask ourselves whether, notwithstanding those revised guidelines, they are still appropriate in this day and age.'

Senator CHRIS EVANS—What is the time line on that?

Rear Adm. Adams—As I said, it was supposed to be today. It will be delayed a little. I would expect that, before the end of this month, we should be able to get revised guidelines out. I would envisage us getting some guidelines together and putting them back out there into the fleet to the young men and women who may or may not wish to participate in future. We will have a look at them through a consultative process and make sure that if we do continue with these—and quite frankly, in my personal view, it is such an old tradition that there is likely to be some form of it go on—we will just make sure that there is no humiliation, abuse or injuries and that whatever we do can be filmed by any television company in the world and we can afford to have it all over the television sets.

Senator CHRIS EVANS—I think that was my concern. I remember doing crossing the line ceremonies as a child, Admiral Adams, and dressing up as King Neptune, as I recall, and running around the ship. But they were fairly innocent. I do not remember the dead fish or the whacking stuff. I want to make clear that I do not think any of the senators on the committee or anyone wants to stop the observance of a ceremony. But I think there was concern about a video about aspects of humiliation, particularly of a young female sailor, that I think were disturbing. I know, in some sense, you are a victim of video and those sorts of things. But I think there was some concern also about how it might undermine the Navy's efforts to promote themselves as an equal opportunity employer and a safe employer of choice. We had a discussion yesterday about the advertising budget. It was a real countermeasure, I suppose.

Rear Adm. Adams—I understand your concerns. Could I just put on the record that the young woman involved was a young officer and, on the advice I personally received from the executive officer, that young woman was a completely happy participant, a volunteer. So while it might not look good it was completely voluntary on her part.

Senator CHRIS EVANS—All right; I appreciate that. So the most likely outcome is that they will be recommenced at some stage or be allowed but under revised guidelines. Is that a fair summary?

Rear Adm. Adams—I am speculating, but that is my personal view. I do not see us actually dispensing with an ancient tradition which we should be capable of running in a completely acceptable manner.

Senator CHRIS EVANS—Okay. Thanks for that.

Rear Adm. Adams—Mr Chairman, at this stage it might be convenient to give some answers we have to questions asked previously. Admiral Scarce has one on lightweight torpedoes and I have some numbers to do with shortages of medical staff.

CHAIR—Thank you.

Rear Adm. Adams—I have this answer on medical staff. In relation to medical administrators, the Navy has three above our requirement; in terms of doctors we are 10 below our requirement; and in terms of nurses we are two above our requirement. So our shortage is specifically doctors.

Senator WEST—Are they all the answers?

Rear Adm. Adams—That is my answer. Admiral Scarce has answers on lightweight torpedoes.

Rear Adm. Scarce—I have answers to three questions posed yesterday. The first from Senator Hogg was about the Audit Office report of Collins and the \$2 billion. In fact, Senator Evans asked that question at the previous hearings—it is question W2. In essence, the figures of \$860 million and \$840 million are a mixture of current and future dollars and a mixture of new capability and rectification of Collins deficiencies. The figure for rectification of deficiencies is about 75 per cent of the \$860 million. The remainder of the money that had been identified by the Audit Office is capability improvements.

Senator CHRIS EVANS—I knew it sounded like a good question!

Rear Adm. Scarce—The second question posed by Senator Hogg was in relation to the table on page 77, Collins class submarine augmentation. As I identified yesterday, that is the augmentation of the two boats, the augmentation of the combat system and the phasing in of the fast-track improvements to improve reliability, noise—those improvements to the remainder of the six boats.

The third question, from Senator Schacht, was in relation to the lightweight torpedo. He was particularly interested in opportunities for Australian industry involvement. As I mentioned yesterday, one of the alliance partners is Thales. That integration into the platforms will be conducted in Australia. The through life support for the weapon will be conducted in Australia. We expect, as I mentioned yesterday, production of the weapons also in Australia. And the level of Australian content in the current phase of the project is anticipated to be around 50 to 55 per cent.

The final question from Senator Hogg was in terms of the heavyweight torpedo. The current phase we are in, phase 2, requires us to physically integrate the weapon into the submarine and to purchase initial training weapons. The price that we have for that is \$238 million. I would expect to see that in the PBS for next year as we start to expend the money in that particular project.

Senator HOGG—Thank you.

Senator WEST—There have been some press comments about cracks in the Navy frigate keels—in the *Australian* of Wednesday, 17 April, page 3. How many of the Anzacs are in service and how many are under construction?

Rear Adm. Scarce—We have three Anzacs in service, a further Anzac that we accepted on 31 May and three under construction.

Senator WEST—Does that include the two that were going to New Zealand?

Rear Adm. Scarce—No, two separate ships went to New Zealand. So there are 10 in all.

Senator WEST—What is the situation with that press release?

Rear Adm. Scarce—A bilge keel is attached to the bottom of the vessel above the bridge. It protrudes about 450 millimetres and it is designed to prevent excessive rolling in the ship. In our routine maintenance we have found small crack lines along the bilge keels, which are positioned on either side of the ship. We have discussed with Tenix a repair schedule, and for those boats that are still under warranty Tenix are making the necessary modifications and fixing the cracks and those ships are proceeding back to sea. For those vessels that are out of warranty, we are currently discussing the matter with Tenix and Blohm and Voss, the designer, who should have liability for those cracks. It is our view that it may well be a design fault and that the cost should not lie with the Commonwealth.

Senator WEST—How many of them are out of warranty?

Rear Adm. Scarce—Three, plus the New Zealand ships.

Senator WEST—What is the implication in that respect? What is the possibility that the New Zealand government will want to recoup from us?

Rear Adm. Scarce—I suspect they will not have an action against us; they will certainly attempt to progress the action against Tenix, the builder, and Blohm and Voss, the designer.

Senator WEST—What is the likely cost in terms of productivity, lost maintenance time and sailors sitting idle while the ships are recalled for repairs? Or is it something that you would do at a normal refit?

Rear Adm. Scarce—We will conduct those activities when the ship comes in for normal docking maintenance. There is no reason to draw them straight out of operational service. That should be just part of the normal docking cycle. From memory the cost of maintenance per ship was around \$500,000 but I will need to get back and confirm that.

Senator WEST—Tenix do not think they should be paying for this maintenance?

Rear Adm. Scarce—Tenix are in earnest discussion with Blohm and Voss at the moment. I would not like to attribute whom Tenix thinks is responsible for the cracks.

Senator WEST—But is it fair to say that Navy believes it is a design issue and not something that the government or the taxpayer should have to foot the bill for?

Rear Adm. Scarce—That is entirely our view.

Senator WEST—Have you been asked to pay?

Rear Adm. Scarce—We have paid for those ships out of warranty but have notified Tenix that it is our intent to pursue them and Blohm and Voss for the cost to fix that. We have done that so we can have operational ships. We have a requirement at the moment, as you would well know, and we cannot have ships alongside not operational. Tenix has paid for those ships under warranty.

Senator WEST—What about the New Zealand ships? Are they being brought back in for repair or are they still roaming around?

Rear Adm. Scarce—From memory, one is about to undergo a maintenance routine in Auckland and we will have those keels fixed there.

Senator WEST—Are they in or out of warranty?

Rear Adm. Scarce—They are out of warranty.

Senator WEST—Who is Tenix thinking should pay for that—the New Zealanders or us?

Rear Adm. Scarce—I think Tenix are having discussions with Blohm and Voss about that now and I know that the New Zealanders will be eagerly encouraging them to do so.

Senator CHRIS EVANS—Does the warranty run out when you commission the ship?

Rear Adm. Scarce—From memory, the warranty lasts three years after we take provisional acceptance of the ship. I will need to confirm that. It is about that sort of time frame.

Senator CHRIS EVANS—It just seemed to be that the ships that were commissioned were out of warranty and those that were not were still in warranty. Is that the effective date or is it another—

Rear Adm. Scarce—No, it is a time period after we take provisional acceptance.

Senator WEST—I turn to the issue of the Military Superannuation Benefit Scheme retention benefit, I guess for everybody, but specifically for marine techs. I am thinking of a 15-year case. This is one of those areas of critical shortage. What is done to advise those sailors and officers that are coming up for eligibility for this as to the fact that they are becoming eligible and what is done to ensure that they understand very clearly what the requirements are to apply?

Rear Adm. Adams—What we have done now, faced with retention, particularly in maritime command, is that we have made it a responsibility of the commanding officer to personally encourage every person to stay, particularly when they have exhibited signs of wishing to separate for any reason. I am not able to sit here and say specifically whether the MSBS re-engagement issue is a required part of that discussion. So, in short, if you do not mind, I will take that question on notice and give you an answer.

Senator WEST—I am aware of a situation where at least one marine tech—and I suspect there would be more—coming up for the 15 years had been led to believe by the ship's office over the years, dating back from about 1994, that they had become eligible and it had to be submitted within 90 days of becoming eligible, interpreting that to mean 90 days after the 15 years clocked over. Upon application, six weeks after his 15 years clocked over, he was told that he was ineligible because it was deemed that it had to be submitted 90 days before the 15 years had been clocked up. I want to know what material is given to this particular group of people to ensure that they are able to comply with the situation? Is there any flexibility? Say, in this case, he has been told, 'That's it, sorry; you are six or seven weeks too late. Make up your own mind: stay or go,' I want to know what material is given. I would have thought that, if you were so desperately short of them, you would have been watching the time frame get close and have somebody there with a pen and paper saying, 'I am from the Navy. What can we do to help you? I want to keep you.' In this case it seems to be that the officer was spending a lot of time at sea and he got ship's office information, but I do not know that anything was ever given to him in writing.

Rear Adm. Adams—Senator, I am not aware of the detail of the particular case, but you are right: we should be encouraging every person to stay. If you are agreeable, I will make that a detailed part of my response to you.

Senator WEST—In this case, what right to redress a grievance does this person have?

Rear Adm. Adams—I will make that part of the answer too, Senator.

Senator CHRIS EVANS—I wish to ask a couple of questions about the Australian Submarine Corporation. I think the minister mentioned it last night in a more general discussion about torpedos and the American alliance but, specifically, has the scoping study being carried out by Electronic Boat been completed?

Rear Adm. Scarce—The scoping study by EB has been completed and late last week we received their report into the services that they believe they can provide to assist ASC to gradually become the sole supporter of the Australian submarines.

Senator CHRIS EVANS—Are they the sole support now?

Rear Adm. Scarce—In terms of design, we currently use Kockums, the original designer, to provide our certification services. Our discussions with Kockums at the moment are to get access to the intellectual property so that those duties can gradually be taken over by ASC over the next two years.

Senator CHRIS EVANS—So you are keen to rid yourselves of Kockums?

Rear Adm. Scarce—No, I did not say that. We are keen to bring those skills back into Australia. Kockums have provided us with excellent services over the years. It is now a question of trying to build ASC into a viable in-service support unit to deliver those services in their entirety.

Senator CHRIS EVANS—What is it that Kockums cannot do now to assist ASC in that regard, particularly given that they own the intellectual property?

Rear Adm. Scarce—Kockums are currently providing us with design services. Our goal is to gradually replace Kockums with Australian contractors and, indeed, for ASC to do those services in the future.

Senator CHRIS EVANS—I may have lost the thread there, but I thought we were talking about Electric Boat, the American company, providing those services.

Rear Adm. Scarce—Electric Boat are coming to assist ASC with the delivery of those services.

Senator CHRIS EVANS—How is that different from what Kockums do? Is there a distinction in what you are saying?

Rear Adm. Scarce—There is a distinction in that ASC, at the present time, does not have all the requisite skills to take over those responsibilities. As we gradually take Kockums from those responsibilities, EB will assist us in developing the skills in Australia to deliver those services, as well as delivering some commercial expertise to ASC on how to deliver effective inservice support over the next decade.

Senator CHRIS EVANS—This has been decided already, has it?

Rear Adm. Scarce—It is a government decision to invite EB to assist ASC into the future, yes.

Senator CHRIS EVANS—And now we are working out how they can assist? The scoping study was for them to tell us how they can assist us?

Rear Adm. Scarce—In 1999, we invited four companies to tell us how they could assist in developing ASC from a builder to an in-service supporter. We examined those four responses and government took a decision that, as part of getting closer to the US, particularly in submarine matters, EB would be invited to be a capability partner to help ASC.

Senator CHRIS EVANS—So they have done this scoping study. That was handed to the Australians last week?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—It details how they can assist us in the way of services, skills, intellectual property?

Rear Adm. Scarce—Technical services and commercial services.

Senator CHRIS EVANS—What is then done with this scoping study? What is the process?

Rear Adm. Scarce—We will review the scoping study and put a recommendation to government on those services that we believe are necessary. We will do that jointly with ASC. Once we have government approval, we will finalise a contract with EB.

Senator CHRIS EVANS—So they have told you what they can do for you and you are now going to decide whether you need all the assistance or whether they have been a little generous in their offer and you could perhaps manage without some of it?

Rear Adm. Scarce—We are assessing the offer.

Senator CHRIS EVANS—Is that in the context of there being only one bidder? They are going to get the work. It is a question of how much work they get, is it?

Rear Adm. Scarce—ASC get all the work and they are looking at providing a small number of personnel—certainly under 10—to assist ASC to deliver all of the in-service support requirements for the Collins submarine.

Senator CHRIS EVANS—So the nature of the relationship is that Electric Boat are likely to provide a group of 10 or so personnel who will bring specialist skills?

Rear Adm. Scarce—And we would obviously also have reached back to Groton, which is their base in America, for submarine advice as well.

Senator CHRIS EVANS—Obviously their experience is based on their own submarines though, which I understand are all nuclear. They do not have any particular experience with the non-nuclear technology, do they?

Rear Adm. Scarce—A lot of the generic submarine skills are irrespective of whether it is nuclear or conventional. But there are certainly areas where they do not have significant skills, particularly in the areas of shock, batteries and a number of other areas where we need to supplant some experience from outside EB and ASC.

Senator CHRIS EVANS—So in addition to Electric Boat expertise we will still probably require, in terms of that in-service support role, other support from people with experience in conventional submarines.

Rear Adm. Scarce—We will, Senator, mostly from the original equipment manufacturers who will provide us that advice, as they do now.

Senator CHRIS EVANS—Is that Kockums?

Rear Adm. Scarce—No, that is the builders of the batteries.

Senator CHRIS EVANS—I see.

Rear Adm. Scarce—The Kockums role really is understanding the implications of changing equipment and systems within the submarine on the total impact that that change will have on all of the submarines. So Kockums bring the expertise to do that. We have some expertise in ASC and we want to supplement that with GD and gradually grow Australian expertise to take over that total role.

Senator CHRIS EVANS—So, for instance, if it is something like having slightly heavier torpedoes, Kockums would provide some advice about those broader impacts on the substitute?

Rear Adm. Scarce—Yes. At the moment Kockums are engaged with ASC on delivering that advice in terms of the weight implications on the submarine.

Senator CHRIS EVANS—So you will make a recommendation on the services that are being offered by Electric Boat and then government will make a decision on that. Is that anticipated to be a fairly immediate thing—in the next few months?

Rear Adm. Scarce—Yes, I certainly hope so. We would wish to engage EB as quickly as we can.

Senator CHRIS EVANS—Is that because ASC are already in need of that assistance in terms of the in-service support role? There have been suggestions put to me that they have actually lost a bit of their skill base through loss of key personnel, et cetera.

Rear Adm. Scarce—Senator, it has been reported to me from ASC senior management that they have lost some of their technical skills, but I think it is more in line with assisting ASC to move from a build mentality to an in-service support mentality. In those commercial areas and business systems, we believe EB can provide us with early advice that will enable that transition to progress quickly and smoothly.

Senator CHRIS EVANS—What is left to do of their building role?

Rear Adm. Scarce—*Rankin* is the final submarine to complete construction, and she is due I think at the end of the second quarter or the beginning of the third quarter to complete and start her trials at sea. That will be the end of the build program.

Senator CHRIS EVANS—There is another one still trialling, I think, isn't there?

Rear Adm. Scarce—No, that *Rankin* is No. six. We have a submarine in at the moment doing a full cycle docking.

Senator CHRIS EVANS—I gather there is a debate about where some of the docking will occur. Has that been resolved?

Rear Adm. Scarce—The Prime Minister made a commitment last year that full cycle dockings will be completed in South Australia for the foreseeable future.

Senator CHRIS EVANS—I am sure that was based on good technical advice. What about the—I cannot think of the terminology.

Rear Adm. Scarce—Mid-cycle dockings?

Senator CHRIS EVANS—I gather there has been a bit of a live debate about those. Is that resolved?

Rear Adm. Scarce—The mid-cycle docking, generally, is about three years into the seven-year cycle at about 16 to 20 weeks. They are currently conducted in Western Australia. As we move away from the build program to an in-service support program, part of our examination will need to be where we cost-effectively maintain submarines in the future. I am not trying to suggest that there is going to be a change but I am suggesting that, as we look at the totality of what we can afford into the future, we will need to look at all aspects of the maintenance of the submarine and make some strategic decisions about where we place that expertise and where we invest.

Senator CHRIS EVANS—As I understand it, there is also an argument about the viability of ASC in Adelaide in terms of whether or not they get the mid-cycle docking.

Rear Adm. Scarce—That is all part of the same equation of understanding the totality of the maintenance and deciding where we can afford to maintain the vessels. Clearly, that is also a decision for government once we have gone through that process of looking at our costs when the build program finishes. We have not yet commenced that examination in detail. We will certainly start that and use EB's experience in the coming months.

Senator CHRIS EVANS—Are you able to help me with the financial position of the ASC? Who do I speak to about that?

Rear Adm. Scarce—Is that with dollars?

Senator CHRIS EVANS—Yes.

Rear Adm. Scarce—No, I am a poor admiral. Perhaps you could ask the question.

Senator CHRIS EVANS—I was trying to check on the financial state of the ASC and who I would direct those questions to.

Rear Adm. Scarce—You would best address those through the finance element who manage the ASC at this particular time.

Dr Hawke—You mean the Department of Finance and Administration?

Rear Adm. Scarce—Yes, the Department of Finance and Administration.

Senator CHRIS EVANS—I am seeking guidance here, Dr Hawke. Questions about the financial arrangements of ASC should be directed to the Department of Finance and Administration?

Dr Hawke—That is my understanding.

Senator CHRIS EVANS—You have no day-to-day knowledge or control of those?

Dr Hawke—No, the Department of Finance and Administration exercise the ownership responsibility on behalf of the Commonwealth, following the Commonwealth's purchase of the company.

Senator CHRIS EVANS—Fine, thank you.

Dr Hawke—Chair, with your indulgence, I understand we are going to DHA at 5.30 p.m. Will we be continuing with Navy until then? If we are going to Army, I could tell Air Force and other people that they need not stay.

CHAIR—What do you propose, Senator Evans?

Senator CHRIS EVANS—I have certainly finished examination of Navy. I assumed we were going on to Army.

Dr Hawke—So Air Force colleagues can depart?

CHAIR—Air Force can depart, yes.

Rear Adm. Scarce—Chair, could I read in one final answer to a question? It was in relation to Senator Schacht, who asked for the unit price of the lightweight torpedo.

Senator CHRIS EVANS—How many did you get for \$260 million?

Rear Adm. Scarce—You will be glad to know that price has gone up to \$287 million.

Senator CHRIS EVANS—Has it, because we were calling you ‘Admiral \$260 million’.

Senator WEST—If that was all we were calling you, you are doing well.

Rear Adm. Scarce—The unit price is commercial-in-confidence. We have certainly discussed it with our supplier, who would strongly prefer not to release the unit price.

Senator CHRIS EVANS—Senator Schacht was really interested in a ballpark figure. If you are able to give him something within a million, if that is the sort of price, or \$10,000 if that was the sort of price, that is what he was interested in.

Rear Adm. Scarce—What I can say is that the \$287 million, which is the second phase of this project, will buy us an initial batch of torpedoes and integrate the weapon into those platforms that I mentioned last night. The next phase of the project, which has a year of decision of 2005-06, will be the production of the weapon, hopefully in Australia. At that stage we will get an accurate unit price. The initial stage is simply to get enough weapons so that we can test the integration.

Senator CHRIS EVANS—I think that will leave him no better informed than he was at the start.

Senator WEST—He is not here to worry about it.

Senator HOGG—Are the test torpedoes going to be different from the ones you buy subsequently?

Rear Adm. Scarce—No. The third phase of the project is merely to take the production of the weapon that we had initially in phase 2.

CHAIR—Thank you. We will move on to output 3, Army capabilities.

[4.56 p.m.]

CHAIR—Welcome, Lieutenant General Cosgrove and Mr Williamson.

Senator WEST—I want to ask about sexual harassment in Army and, in particular, in Army Aviation. What information you can provide me with as to what has been discovered and detected, and what remedial action is being put in place?

Lt Gen. Cosgrove—As a result of some revelations from you and one of your colleagues in late 2001, we undertook an immediate investigation into the case of some young women in the Aviation community who were reporting incidences of harassment. That took the course of having a senior officer from Army headquarters conduct an initial, immediate investigation. Subsequently, the senior equity adviser from land headquarters—a female officer—conducted a further review into the situation as experienced by all women in the Army Aviation community. In the case of one particular servicewoman, a military police

investigation has subsequently ensued. I will return to that in a moment. Perhaps I can summarise from a paper prepared by the female officer—the equity adviser—and make some general remarks. I have to be careful because it is staff-in-confidence and mentions names, et cetera, which you would understand.

Senator WEST—I do not want names. I know names, but I do not want them mentioned.

Lt Gen. Cosgrove—I understand that. She conducted a series of focus groups of the women in the Army Aviation community. While there were specific references to incidents of harassment or obnoxious behaviour over some period of time, I give you now a summary of what she said. This part is not staff-in-confidence, so this is safe. It says:

The participants in all focus groups presented as forthright, articulate and mature soldiers who enjoyed the Army environment. They reported having faith their chain of command would treat their complaints and concerns seriously and confidence their unit commanders would continue to demand an appropriate workplace environment. There was a sound understanding of the equity adviser network and how it supports the chain of command in resolving equity issues.

The common aspiration for focus group participants was to be fully accepted as an integral part of the team, based on their capabilities and performance. The notion of establishing additional support mechanisms specifically for females was seen as being isolationist in nature and was not endorsed.

The message was clearly conveyed that servicewomen want to be managed, tasked and disciplined in the same manner as their male counterparts within the limits of their physical capabilities. Given that there was still some room for improvement, servicewomen reported a greatly improved climate within Army in recent years. It was widely mooted that the continuing education programs established in both units—

the major Army aviation units—

that is unit equity briefings and DEO sponsored training sessions have been and will continue to be, of benefit.

Harassment and unacceptable behaviour where it has occurred has been predominantly in the form of inappropriate language and/or ill-considered jibing regarding female capabilities and professionalism. More serious incidents of unacceptable behaviour where they have occurred have been appropriately dealt with by investigative action. Based on the contributions provided by the female members of both 1st Aviation Regiment and 5th Aviation Regiment, and subsequent discussions with respective commanders, it is considered that there are no systemic problems in either unit. Specific recommendations regarding remedial actions are thus considered unwarranted.

To return to the issue of a particular young lady who had a separate issue, in her case—and I will again quote from a staff-in-confidence document.

The specific allegations of harassment against certain individuals made by servicewoman X have been formally investigated.

The investigation was initiated by the CO of that particular unit in response to matters raised by servicewoman X's OC. SIB investigations have been initiated in respect of two members. One investigation is complete and is with Legal and the other should be completed in the next fortnight. Disciplinary action is possible against both members.

That was dated 15 April. I understand that in that time that young lady might have taken discharge, and that is perhaps your information.

Senator WEST—What about the situation at 171 Oakey?

Lt Gen. Cosgrove—That is included in one of those unit level investigations.

Senator WEST—What has been the separation rate of women, particularly out of 171 Oakey, over the last, say, eight years?

Lt Gen. Cosgrove—I do not have that at my fingertips, but I could provide it for you.

Senator WEST—My understanding is that there have been a number of separations from that particular squadron and that it ranges not just from privates but right through to officer rank. The other issue relates to attitudes—that there is still a very blokey attitude that pervades the place and that there are still comments made to the females. If they are having a bad day, comments are made like, ‘Well, go and see the shrink,’ and I believe the latest one coming out in the more junior areas—the training areas—is, ‘Well, suicide is an option.’ Those sorts of throwaway comments concern me greatly. It is not actually sexual harassment, but it is a form of harassment. It is a form of putting pressure on them to conform to what the male esprit de corps is or has been within those particular units. I am wondering what is happening there to address this.

Lt Gen Cosgrove—There are two points there, or three really. First, I share your concern wherever that occurs, not just in a particular part of the Army but throughout the Army. The second point is that the equity officer who conducted the survey into the Army aviation community stressed that the younger female soldiers were finding a much better environment than had been the earlier experience of some of the more mature, or longer service, female soldiers—generally and in the community. From that point of view, I am uplifted. And the last point you should perhaps note is that there is ongoing, frequent equity training in this part of the Army and in all parts of the Army.

Senator WEST—What has the equity review person done to make sure that, as a result of the work that she has been doing, there has not been some backlash on the part of the male personnel? I have certainly heard of that happening—that it looks as though there has been a complaint, the blokes are being clamped down on a bit and they want to take it out on somebody—very subtle, but effective.

Lt Gen. Cosgrove—We do have in place checks and balances. I think it would be fair to say that the commanding officers of those units surveyed would be hugely on their toes about this sort of issue, in that it is very much a measure of their successful command that they should have a workplace environment which is equitable in nature. The second point is that we have instituted—and there are existing in the wider defence area—hotlines and avenues for complainants or aggrieved people to voice their concerns in a way which will bring scrutiny from outside the immediate chain of command if that is warranted.

Senator WEST—What has been the use of the hotlines by this particular group?

Lt Gen. Cosgrove—We have had one reference to the hotline in recent times. In fact, the soldier that I referred to in particular activated the hotline in April. I have no other records at the moment as to whether any of the individuals that I am aware of have activated the hotline. Could I make a further response to you?

Senator WEST—Sure. I am quite happy for that to be taken on notice. It is an interesting issue. This is something that will have to go on notice too. I am just wondering what is the incidence of referrals to the psych units from various units. I am not speaking of just around Army; Admiral Shalders can listen to this one too. What is the incidence of referrals and support from the psych units for the female members of some of these units as opposed to the corresponding males in those units?

Lt Gen. Cosgrove—I imagine we have that data about the gender. Are you seeking it ADF wide?

Senator WEST—Army wide and ADF wide. It is beginning to appear to me as though there is a bit of an undercurrent that, when the women are having a bad day, the support they get from some of their male peers is not as it should be—there is not the same support that the blokes would give to the blokes or, if there is, it is not appropriate to give it to the females—and that there is a bit more pressure on them. I have had it said to me, ‘We’re told, “Oh, if you’re having a bad day, go and see the shrink.”’ There is that encouragement or that pressure on them, even a subliminal message being delivered there.

Lt Gen. Cosgrove—We may need to add comment, if that is available, from our psychologists as to whether the statistics we would give you have that nuance to them. They will know what the referrals are; they will not give us the details, and quite properly, but they may be able to say if they are the result of some kind of workplace environment.

Senator WEST—Some of that workplace involvement can be very subtle and range around sexual or harassment issues—gender issues rather than sexual issues—but still impact on the enjoyment that they are getting out of work and therefore the amount of value they are able to contribute back.

Lt Gen. Cosgrove—I should remark that, without the details being made available, and again quite properly, I am reliably informed that our psychologists will always wish people who are receiving some level of harassment not just to report it to the psych but to take action through the chain of command to redress that. It is not just a question of treatment of them but counselling of them to seek proper redress.

Senator WEST—It is often easier said than done.

Lt Gen. Cosgrove—Understood, but it is a responsible thing for the psychologists to do.

Senator WEST—Very responsible. Within Army Aviation, how many of the females are posted as single female postings to particular units or particular areas.

Lt Gen. Cosgrove—I do not have that data here. Again, I would be happy to look into it.

Senator WEST—I think that has been a problem at Oakey—that you have, on a number of occasions, had single females sent on a posting or into an area.

Lt Gen. Cosgrove—By single, do you mean females without a partner or one female to a work area?

Senator WEST—When I say single I am not talking about their home life or anything like that. I am talking about one female ADF personnel being placed in a unit where there is no other female—and, if she is an NCO, if she is a private, no other private or lance corporal level—for the pair of them to actually provide support to one another. It is no use saying, ‘There is a captain and a private.’ The disparity in power and rank means it is not appropriate for them to actually be able to support one another. That was certainly one of the findings out of Swann. I am interested to know just how many times females have been sent on single postings to units or deployed where there is no other female of somewhat similar rank there so they can support one another.

Lt Gen. Cosgrove—Given the fairly involved nature of the return of that information, are we confining this to Aviation at the moment?

Senator WEST—Yes, please. That will do me, and I am quite happy for it to come back on notice. I will not be here when it comes back, but I am sure my colleagues will follow it through. If they do not, I will come back and haunt you in some other guise.

Lt Gen. Cosgrove—Based on the timing, you are likely to still be here. We have got to have it back to you fairly smartly these days.

Senator WEST—No, it is 11 July. I will be retired by then.

Lt Gen. Cosgrove—We will give it to you as a retirement present.

Senator WEST—Thank you, I appreciate that.

Senator McKIERNAN—Is that all you are getting in this committee?

Senator WEST—Yes, that is all I am getting in this committee.

Senator McKIERNAN—It is not much, considering all the service you have put in.

Senator WEST—After fighting sexual harassment for eight or 10 years or whatever, I will take those answers back.

Senator McKIERNAN—I notice it is an all-male table of witnesses. That has probably got something to do with it.

Senator WEST—No. Defence has done a lot better. There has been a big change in the last 12 years, in that there are a number of females in the room. So there is an improvement. It could be better. I look forward to seeing the first female CDF. I hope I live that long.

Senator McKIERNAN—I am glad I do not have to take my shoes off to do the count.

CHAIR—We will wait for a Democrat government.

Senator WEST—I will leave it at that.

Senator CHRIS EVANS—I should have known that Senator McKiernan joining us would not help. Could I ask about the Army ammunition study? I think the minister made some reference to it last night. I think we had the discussion about the money in the budget, because of the war munitions stock, and, certainly on first blush, I thought that was a related matter, but obviously it is not. What is the status of the report?

Lt Gen. Cosgrove—The last time I appeared before the committee, I spoke about the existence of the report. It was then in train, and I was hoping to take it, certainly before this next hearing. It was not in any way hinged upon the committee's consideration, but that was just the timing of it. I did see it a while ago, but I think you probably saw it before me. While it did speak about the need for more investment for stocks of ammunition to do with readiness and proficiency, it was incomplete in certain senses. It gave us a good indication of what might be a level of investment to improve our training stocks available, particularly in areas such as artillery and tank ammunition. Of course, there was a dollar tag to that which was extensive. Its flaw at the time I took it was the fact that it did not give me enough alternatives. It invites me to go to the government and ask for a considerable amount of extra money to achieve these higher levels of ammunition for training—for proficiency.

But it does not speak enough about simulation, about what I might get if, instead of investing all that money in extra ammunition, we were to spend some of that money in much more sophisticated simulation, and it did not tell me nearly enough about the benchmarking we might do in those other armies around the world which have a roughly similar order of battle, roughly similar capabilities, roughly similar practices—I guess the ones you would say

we are culturally closest to. I did not get enough there so that I could go to the government and say, 'I am persuaded and I seek to persuade government to invest more in training stocks of ammunition.' In summary, it told me that, at first blush, more was needed. But I was unhappy with the options it gave me for ameliorating that extra investment to give me the same outcome or whether or not that investment as it stood was actually the bottom line.

Senator CHRIS EVANS—What is the status of the report?

Lt Gen. Cosgrove—The report has been sent to get that extra information and we will take it again in the third quarter.

Senator CHRIS EVANS—I think you described it as an interim report last time we spoke. You as Chief of Army have considered that report and you have asked for it to be redrafted—is that right?

Lt Gen. Cosgrove—No. I have asked for it to be expanded. I am happy enough with the rigour of its approach to quantities and I consider that that is a good basis. I do not have, though, the cost-benefit trade-offs of investing in some dramatic simulation solutions and I do not have the confidence that on a benchmarking basis what we would propose to achieve in terms of the quality of our ability to shoot in all calibres, from 155 millimetre down through to small arms, is what we need to achieve in a benchmark sense against other culturally similar armies.

Senator CHRIS EVANS—But it seems to me the budget papers confirm the basic thrust of the report, which is that there was less ammunition than was desirable. I read on page 45:

... ammunition stocks may become insufficient to meet the levels required for training and enhanced operational deployment. Significant investment could be required to align ammunition stockholdings with capability and preparedness requirements.

That seems to reinforce the thrust of that report.

Lt Gen. Cosgrove—It does. It certainly is a prudent comment to see in the PBS. It is the actual quantum of that significant additional investment that I think we need to be very certain about before we go to ask for more money, or to end up with a reordering of priorities to take the money from inside the portfolio outlay.

Senator CHRIS EVANS—So you think that more work will be done, effectively, on what alternatives are available to you other than just expending ammunition in practice. Is that a fair way to describe it?

Lt Gen. Cosgrove—Yes, it is. I will give you an example: we will spend a lot of money on tank ammunition but if we find that the United States army, which is pretty well developed in its training approach or proficiency in the firing of main tank guns, has a better approach through simulation then that is something we ought to note. We ought to measure the cost of the simulation off against the cost of buying ammunition.

Senator CHRIS EVANS—Could I take you to some of the details. In particular, artillery ammunition stocks have been raised with me. Is it the case that we have a very significant problem there in terms of 105-millimetre and 150-millimetre artillery ammunition stocks?

Lt Gen. Cosgrove—We had a problem with serviceability of some of the 155 ammunition, which meant that for a while we were unable to train to the right levels of capability in 155 artillery, until we started to see a technical solution to the problem with the ammunition. The inspection showed some flaws. We were able to get a deeper level of inspection which gave confidence which allowed release of some of that ammunition to put our 155-millimetre

artillery training back on track. By now—certainly by next month—we will have our proficiency amongst our 155 artillery units back on track.

Senator CHRIS EVANS—Are you able to tell me how much of that has been used in training in 2001-02?

Lt Gen. Cosgrove—Absolutely not; but I can find out. We are talking now about how many rounds would be fired. We fire hundreds. I would not mislead you with a figure at the moment.

Senator CHRIS EVANS—I just wondered whether one of your officers had those figures available.

Lt Gen. Cosgrove—I would like to put on the record that just having the number will not be as instructive as having an indication on the proficiency of the unit.

Senator CHRIS EVANS—You say there was a particular inspection issue with the 155s which affected that, so I am interested in that. You say that is now resolved and therefore you would expect the ability to access that ammunition to improve and therefore people's ability to practise to improve?

Lt Gen. Cosgrove—I will give you some data. Again, the numbers themselves will not mean a tremendous amount. We released 600 rounds of 155 ammunition to 8/12 Medium Regiment in March this year. They fired those rounds. There were no problems reported. These were some of the ones that had to go through a deeper level of inspection to ensure that they were right to be fired. So that regiment would be approaching its highest directed level of capability.

Senator CHRIS EVANS—Just by the by, was that incident in Townsville the other day, the one that injured the soldiers, unrelated?

Lt Gen. Cosgrove—That is right.

Senator HOGG—That was 105-millimetre round?

Lt Gen. Cosgrove—That is right. And we do not know the reason for that. That is under a significant investigation. I might remark here that the soldiers were all tremendously lucky to survive. We had two early read-outs on this. One was that perhaps the round did not leave the barrel and did not detonate. There is subsequent information which suggests it did detonate. Either way, there was a catastrophic explosion in the barrel of the gun which basically destroyed the gun and sent very large pieces of it flying around, some of which missed people, who were nonetheless wounded, by a very small distance. If any of those larger pieces had hit a soldier there would have been dead soldiers.

Senator CHRIS EVANS—What is the latest update on the current health of those six soldiers?

Lt Gen. Cosgrove—None of the injuries were life threatening. The last time I was able to check, only one was still in hospital, and in a general ward at Townsville general hospital.

Senator CHRIS EVANS—A much better outcome than otherwise might have been expected.

Lt Gen. Cosgrove—Yes.

Senator CHRIS EVANS—That is good. Does that mean that you have put a halt to use of the 105-millimetre rounds in the meantime?

Lt Gen. Cosgrove—Absolutely. Until further notice.

Senator CHRIS EVANS—And you have some form of investigation under way?

Lt Gen. Cosgrove—Yes, the Joint Ammunition Logistic Organisation and our own experts collaborating will have a full investigation into the cause of it. Until we know the reason there will be no resumption of artillery live fire practices in the 105 calibre.

Senator CHRIS EVANS—I have a question on the situation of hand grenades. Has that been an area of shortage as well?

Lt Gen. Cosgrove—Not especially. It is an area of feast and famine. If you were to ask a soldier in an RDF battalion how many he wanted it would always be twice what we gave him. It is a very popular ordnance. But really, having thrown one or two, you do not actually need to throw them like a man with no arms to keep proficiency. So again, if somebody tells me nominally that an infantry soldier would like to throw 10 a year, it might be that older soldiers say ‘but two is plenty’.

Senator CHRIS EVANS—But there was that Audit Office report on the East Timor deployment which highlighted concerns of commanders over the competence of troops in the use of hand grenades. That obviously must have raised concern about whether or not you were getting enough training with hand grenades?

Lt Gen. Cosgrove—We will never simply ignore a valid representation by commanders whom after all we put in there to be responsible for proficiency. But I would be the first to say that they must be persuasive in their bids. I will always respect audit reports and the valid representations of commanding officers but I am not about to ask for a very large amount of money for Army until I am persuaded that there is no better way of doing what it is we have to do to train.

Senator CHRIS EVANS—Was the decision taken not to issue hand grenades to troops going to East Timor because of those concerns about the lack of practice?

Lt Gen. Cosgrove—No, it is more closely to do with the environment in East Timor.

Senator CHRIS EVANS—Could you expand on that, please?

Lt Gen. Cosgrove—Yes. While chapter 7 is quite rightly the guiding part of the UN charter that frames the rules of engagement in East Timor and we remain extraordinarily alert there, it is not an environment where the rules of engagement would readily see hand grenades thrown all over the shop. There is a reduced need for hand grenades.

Senator CHRIS EVANS—But was that always the case, though, or are you talking about currently?

Lt Gen. Cosgrove—No, during INTERFET days and for some time thereafter, it was considered to be very reasonable and necessary that there be no restrictions on the sort of infantry weapons that might be employed.

Senator CHRIS EVANS—So you had hand grenades issued during INTERFET days?

Lt Gen. Cosgrove—Routinely. It is not actually a deliberate policy to have troops who go to East Timor non-proficient in hand grenades but I am much more concerned about accurate shooting in going to East Timor than I am about people having armloads of hand grenades.

Senator CHRIS EVANS—So when was the decision taken not to issue hand grenades to those troops?

Lt Gen. Cosgrove—That might have been an internal decision. I am telling you about my concerns for proficiency. If there was a decision taken at a lower level not to issue them, then I will get back to you on that. I am framing my remarks around the notion of how concerned I am that troops in Timor do or do not have hand grenades.

Senator CHRIS EVANS—The information given to me was that a decision had been taken not to issue hand grenades and it was argued that it was because of the concern highlighted in the audit report about commanders' concerns about the competence of their troops in their use because of their failure to get access to them during training.

Lt Gen. Cosgrove—No direction was given along those lines. I think my return to you, Senator, would be a comment on that perception that a direction had been given and it was because of lack of proficiency. It is not my take at all on the battalions that have been sent to Timor. They are magnificently well prepared and they perform very well. So that seems at odds with every other notion we have towards our troops there.

Senator CHRIS EVANS—Yes, although, as you said, that notion was one that came from their own commanders.

Lt Gen. Cosgrove—Yes, I understand that.

Senator CHRIS EVANS—I just wanted to make it clear. I was not making any criticism of the troops; this is what your own commanders have told the auditors.

Lt Gen. Cosgrove—I am sure that they are not criticising the troops either. If they are, they will not be in their jobs for long.

Senator CHRIS EVANS—As I say, they were expressing a concern which you said you would obviously take seriously.

Lt Gen. Cosgrove—I think the auditors were expressing the concern. I will chase that up.

CHAIR—Senator Evans, you indicated you wanted an hour for DHA.

Senator CHRIS EVANS—I am happy to adjourn there, Chair.

CHAIR—Thank you, General Cosgrove.

Lt Gen. Cosgrove—May I make one correction? I promised I would make this correction on the issue of the Incident Response Regiment. Yesterday when I was at the table briefly, I mentioned a figure of 302. It is actually 309 and I apologise to the committee.

Senator Hill—I take it we still have not finished Army.

CHAIR—We have not finished Army.

Senator CHRIS EVANS—Chair, my outstanding Army issues are very few and would probably go on notice just as happily. They go more to detailed questions. We can spare Army the inconvenience of coming back.

CHAIR—I am in the hands of the committee.

Senator HOGG—I would like to put one quick question on notice. You will not be able to give me an answer now, I am sure. I have been advised by one of my colleagues of a fairly eager army person in Queensland—I do not know their identity—who apparently has made comments to the effect that Army has underspent on last year's budget and has apparently been encouraging people to spend up; otherwise, they might lose. If I had a name, I would give it to you, Lieutenant General Cosgrove, I can assure you. The report is that, for example, in south-east Queensland alone, over \$1 million has been spent on gymnasium equipment,

and in Rockhampton money has been spent on similar equipment, but not such a large amount—\$100,000 that I know of at this stage. That is the report to one of my colleagues. I have no tangible evidence for it. I thought this mentality had died within the Defence Force.

Senator Hill—We should ask Mr Williamson whether there is something extraordinary in this year's funding profile.

Mr Williamson—The budget for Army for this current financial year is about on track. If there is a notion of 'We have plenty of money and let's spend it,' I do not know where it is coming from.

Senator HOGG—That is what concerned me.

Mr Williamson—I have to make the observation that we normally have an authority to draw more from store. The amount of actual cash we have for such activities is very small. I do not know where this notion comes from.

Senator HOGG—As I said, a colleague raised it with me. They gave me no names, no pack drill, to my disadvantage. It seemed rather odd. I thought I would raise it with you here to satisfy my colleague. I put it on no higher priority than that.

CHAIR—Thank you, Lieutenant General Cosgrove.

[5.36 p.m.]

Defence Housing Authority

Senator HOGG—Firstly, could I go the PBS. I understand that the DHA will be borrowing \$100 million in 2002, \$100 million in 2003, and there will be total debt of \$425 million. Is that true?

Mr Brocklehurst—We are committed to drawing down debts of \$100 million in June—this month—and a further \$100 million in June 2003. The total facility we have is \$425 million but we have no plans at this point in time to draw down on the remainder of that facility.

Senator HOGG—What are these loans for?

Mr Brocklehurst—The authority is a government business enterprise, and under corporate governance arrangements for GBEs there is a requirement to operate with a commercial capital structure. A review was carried out into that last year and it recommended that DHA should move to a capital structure that incorporates a mixture of debt and equity; the introduction of debt into the balance sheet follows that review.

Senator HOGG—Is there anything specifically that the borrowings are earmarked for or is it part of the basis on which you are making yourself look like any other commercial operation?

Mr Brocklehurst—It is part of the total funding requirement for the organisation. There is not a specific expenditure outlay that will be met by the loan draw-downs that we have. However, we have a very large capital program in the next two to three years and it is part of the funding requirements that we have to meet that capital program.

Senator HOGG—How will these loans be serviced over that period of time? Is that part of the PBS? Can that be seen within the out years?

Mr Brocklehurst—Obviously, there is an obligation to pay interest on that debt.

Senator HOGG—Are they interest only loans or are you expected to repay part of the capital as well?

Mr Brocklehurst—They are interest only loans with fixed maturity dates. We have a spread of maturity dates going out three, five and seven years on the first \$100 million draw-down.

Senator HOGG—So the first \$100 million will mature in three years time?

Mr Brocklehurst—Yes.

Senator HOGG—And the second \$100 million in five years time?

Mr Brocklehurst—Could I just correct that. The \$100 million draw-down will mature in three parts: \$35 million in three years, \$35 million in five years and the balance of \$30 million in seven years time.

Senator HOGG—That is the \$100 million for this year?

Mr Brocklehurst—Yes.

Senator HOGG—And I presume the \$100 million for next year will be progressed one year on from that. Is that the way to read this?

Mr Brocklehurst—That is correct.

Senator HOGG—But in each of the next two years you will have to meet the interest payments and then in the third year you will meet an interest plus the principal repayment.

Mr Brocklehurst—That is right—or we may have the option to roll the debt for a further period.

Senator HOGG—What interest rates are being charged on the amounts that have been borrowed?

Mr Brocklehurst—I do not have the exact interest rates here in front of me. However, they are based on the relevant period's swap rates in relation to the period of time that the maturity goes out for, plus an agreed margin which ranges from 0.12 per cent for the shorter term debts out to 0.25 per cent for the longer term debts. The all-up interest rates vary, but they are in the region of six to 6½ per cent.

Senator HOGG—Six to 6½ per cent?

Mr Brocklehurst—Yes. And that is fixed.

Senator HOGG—That was my next question. That is a fixed interest rate?

Mr Brocklehurst—Yes.

Senator HOGG—So you have beaten any interest rate increases that have come out?

Mr Brocklehurst—Yes, that is right.

Senator HOGG—You are required to pay back the first \$100 million over seven years, yet I note also in the PBS that there is \$800 million which you have returned to the government—over a period of time I presume?

Mr Brocklehurst—Over the last two years.

Senator HOGG—It raises a question in my mind: if you have returned \$800 million, why are you then needing to take out \$100 million this year and \$100 million next year? It also begs the question, if one looks into table 1, why you are returning an annual dividend which I presume is to government—

Mr Brocklehurst—Yes.

Senator HOGG—starting out at \$32 million for the 2002-03 budget year but decreasing to \$28.9 million in the 2005-06 year. Could you explain that to me?

Mr Brocklehurst—The capital structure the DHA is looking to implement is a commercial capital structure that a business in the private sector or operating in a commercial manner would seek to put in place. It is essentially one of optimising the cost of total funds to the organisation between equity, which is generally more expensive, and debt, which is generally cheaper, while still maintaining a capital structure that is conservative and enables us to meet our future obligations. The funds that we have been returning to the government are essentially surplus funds that DHA does not have a requirement to use to meet its obligations to provide housing to the Defence Force.

Senator HOGG—Does that annual dividend that you return include the interest payment?

Mr Brocklehurst—No. The interest cost is taken account of, however, in the profit and loss statements.

Senator HOGG—I am trying to get the flavour of the way your accounts operate. I do not think this committee has taken the time to go through your accounts for a substantial period, so pardon me for now taking just a little bit of time. Why would the dividend not be counted as an interest repayment?

Mr Brocklehurst—As I said before, we are a government business enterprise and we operate along commercial lines. In the commercial sector, you essentially have two forms of capital type funding to the organisation. One is debt type arrangements and the other is equity. With regard to debt arrangements, you obviously pay interest on the debt, and that is one of the expenses of running the business, if you like. The dividend is a payment to the owner of the business—the equity holder of the business—and is essentially a payment out of funds that have been earned during the year after you have taken account of any interest payments and also any tax payments.

Senator HOGG—I accept that, but it would be quite feasible for the government not to ask you for a dividend, wouldn't it?

Mr Brocklehurst—It would be. And there are sections within our enabling legislation that basically say that we should pay a dividend, only to the extent that it does not impact on our ability to meet our obligations and our future funding requirements. So there certainly is flexibility as to the amounts of dividend that can be paid.

Senator HOGG—How is the dividend fixed?

Mr Brocklehurst—The board of DHA, as part of their corporate plan, establish a dividend policy. They will refer to their act and they will refer to the corporate governance arrangements for GBEs in determining what that policy is. That will go forward in our corporate plan and is then subject to negotiation or otherwise with the ministers of DHA.

Senator HOGG—Given the context of the budget, is it a fixed percentage of your expected operating profit after tax or before tax?

Mr Brocklehurst—Yes.

Senator HOGG—Is there a formula by which it is established?

Mr Brocklehurst—Yes. The policy that we have in place at the moment is that 60 per cent of profit after tax is the dividend payment.

Senator HOGG—So it is 60 per cent of the operating profit after tax. I refer you to table 1. I note that the interest and dividends is \$472,000 in 2002-03, increasing to \$720,000. That is a fair increase.

Mr Brocklehurst—I point out that that is interest received.

Senator HOGG—Yes, that is interest received.

Mr Brocklehurst—So that is on funds that we invest. We have working capital that we invest in bank bills—that is all we need—and we earn interest on those funds.

Senator HOGG—Where do you invest your funds?

Mr Brocklehurst—We either invest it on overnight deposit—

Senator HOGG—With the Reserve Bank?

Mr Brocklehurst—No, we invest with commercial banks.

Senator HOGG—Commercial banks, merchant banks—which?

Mr Brocklehurst—Mostly trading banks—say, the Commonwealth Bank, the ANZ or whoever is giving the best rate at the time.

Senator HOGG—All right. And you would hold a number of deposits, I presume, which cover a range of periods—three months, six months, 12 months and so on?

Mr Brocklehurst—Yes. Generally less than 90 days. We obviously seek to hold funds on hand that will be required to meet our working capital requirements, so we do not have anything longer than 90 days in terms of investments.

Senator HOGG—The interest and dividend amount there, I presume, would be predominantly interest, would it—you would have no dividends coming?

Mr Brocklehurst—It is solely interest.

Senator HOGG—So we could really leave ‘and dividends’ off?

Mr Brocklehurst—Yes.

Senator HOGG—Firstly, if one looked at the estimated actual for 2001-02 in table 1, it is \$3.105 million. The estimated in 2002-03 drops down to \$472,000. What accounts for that and then the increase to the out years where it is static for the next three out years?

Mr Brocklehurst—The cash that we have had on hand during the current year is greater than the forecast that we have for the cash-on-hand throughout the year in the 2002-03 year.

Senator HOGG—So could I assume that there has been a substantial return to Finance or to the government?

Mr Brocklehurst—Yes, \$323 million will be returned in the current financial year.

Senator HOGG—What will be the return to the government next year?

Mr Brocklehurst—In our corporate plan, we are proposing a further return of \$150 million.

Senator HOGG—That would account for that drop in the interest. You obviously do not have the funds to invest that you otherwise would have had.

Mr Brocklehurst—That is right.

Senator HOGG—I note also that the basis on which table 1 has been compared varies from the previous PBS. Is there a reason for that?

Mr Brocklehurst—The format that we have in here is one that is considered to be more informative for the nature of the business that the DHA is in.

Senator HOGG—That is fair enough. The 2002-03 estimated in last year's PBS and the 2002-03 estimated—that is, for both revenue and expenses—seem to be pretty much what you expected. Is that correct?

Mr Brocklehurst—In respect to the 2002-03 year?

Senator HOGG—In the 2002-03 out year for last year, it was \$360 million—I will just give round figures—and the estimated 2002-03 revenue for the forthcoming financial year is \$360 million, so the figures are roughly the same, even though you have changed the presentation.

Mr Brocklehurst—Yes.

Senator HOGG—The total expenses for the out year 2002-03 in last year's PBS are \$282.5 million and the expenses expected in 2002-03 are \$284.2 million. There is much of a muchness there. But when I turn to the liabilities in table 2 I note that, if one does the same exercise there, the total assets in 2002-03 in last year's PBS is about \$1.55 billion, yet in this year's PBS for 2002-03 you now have a figure of \$1.677 billion. The net assets estimated for 2002-03 last year were \$1.138 billion, but now you are up to \$1.338 billion for 2002-03. Can you explain why both the assets and the liabilities have increased over what you had expected they would be in this forthcoming budget year?

Mr Brocklehurst—I do not have those comparisons in front of me.

Senator HOGG—I accept that.

Mr Brocklehurst—I would need to look at the detailed statement to be able to do a comparison.

Senator HOGG—Could you take that on notice and get back to me? It just seems to me that there is an extra \$120 million in total assets, and there seems to be about an extra \$120 million in net assets. I am just trying to work out what is the extra \$120 million in assets that you have reflected in the 2002-03 budget over what was projected in the previous PBS for the out year 2002-03. It is not a trick question. I am just trying to work through the figures.

Can I take you to table 3, particularly 'Investing Activities', which are listed as 'Proceeds from sales of property, plant and equipment and intangibles'. The estimated actual figure for 2001-02 is \$313 million, and the estimated figure for this coming financial year, 2002-03, is \$484 million. That is a substantial jump indeed. In the out years it tapers off to \$228 million. Can you explain why, please?

Mr Brocklehurst—The proceeds from the sale of property, plant and equipment essentially represent the sale of properties. We have two different types of sale of properties: the first is the sale of surplus properties that are no longer required by DHA to meet the Defence requirements for housing; the other part of our sales relates to the sale and lease-back program that DHA operates. This is where we sell properties for which we have a continuing requirement to meet Defence housing needs and we sell them to a private investor on a lease-back style arrangement. The significant increase in the next two years is mirrored by the increase in the capital expenditure program, and there are reasons behind why we are looking to spend a lot more in—

Senator HOGG—Just let me stop you there, if you do not mind. Where is that reflected?

Mr Brocklehurst—That is under ‘Cash used’ in the ‘Purchase of property, plant and equipment and intangibles’ item. As we build and acquire new houses, DHA seeks to move a lot of those off on the sale and lease-back program and sell them to private investors which provides a significant part of DHA’s funding requirements. As we have a very large capital program in the next two years in particular, that is also reflected in the increased asset sales that we have in these statements.

Senator HOGG—For that increased capital program over the next two years, have you received any injection of funds or do you have to take that out of existing reserves?

Mr Brocklehurst—No, that is completely funded by a combination of sources of funds. There is the cash that we generate from operations, which is essentially the money that we receive from Defence for the rental of the houses that we provide to them; there is the sale of properties, particularly on the sale and lease-back program, that generates substantial funding requirements for us; and the debts that we are drawing down as well that we talked about earlier.

Senator HOGG—If I could assume, let us take the actual figure as being reasonable. The budget estimate is \$315 million, so in rough terms you want an extra \$160 million; \$100 million of that you will fund from the borrowing. Is that a reasonable way to look at it? The other \$60 million will be taken from within your internal funds anyway.

Mr Brocklehurst—I think that is a reasonable way of looking at it.

Senator HOGG—I am not going to die in a ditch over this. I am just trying to get a feel for the flavour of what you are doing. That explains why, in the investing activities, the cash received has been falling off in the out years. I note also that the investment falls off in the out years. Is there any reason for that as well?

Mr Brocklehurst—Yes, we have a—

Senator HOGG—In property, that is.

Mr Brocklehurst—In terms of the purchase of property?

Senator HOGG—Yes, the cash used.

Mr Brocklehurst—We rely very significantly on leasing arrangements with private investors. We have a very significant portfolio of houses in the next two years on which the leases will be expiring. Some of those we will be seeking to renegotiate and re-extend with those investors, but with quite a lot either we will not or they will not. So in our planning we have factored in a requirement to replace a substantial number of properties in the next two years in particular.

Senator HOGG—That does not quite sit with me in my mind as to how Defence will be trying to expand their forces over a period of time. Will that not place a greater demand on your need to invest in property rather than to reduce your spending, or am I reading that the wrong way?

Mr Brocklehurst—The way we do our planning and the way we determine how many properties we need to provide is based on advice from Defence as to what the housing requirements are expected to be for the next four to five years. A number of factors impact on housing requirements. The Defence forecast is essentially that that requirement will stay at

reasonably steady levels over the next five years, so significant growth in the housing requirements is not expected.

Senator HOGG—Looking now to ‘Financing activities’, in table No. 3, you are drawing down \$100,000 this year and you are only advocating—

Dr Hawke—It is \$100 million.

Senator HOGG—I am sorry, \$100 million, and then \$30 million in 2004-05. Is that correct?

Mr Brocklehurst—That is correct. We have not committed to that \$30 million at this point in time.

Senator HOGG—But I think earlier when you were answering me you mentioned that you were going to draw another \$100 million down in, as I took it, 2003-04.

Mr Brocklehurst—In June 2003, which would be in the 2002-03, yes.

Senator HOGG—So \$100 million is being drawn down this month

Mr Brocklehurst—That is right.

Senator HOGG—My apologies. I misunderstood what you were saying. And \$100 million is being drawn down, so that is the total of \$200 million. And the other \$30 million you put in there, but you are not necessarily committed to drawing that down at this stage.

Mr Brocklehurst—That is correct.

Senator HOGG—But you have got available to you \$425 million?

Mr Brocklehurst—That is the full facility we have, yes.

Senator HOGG—It is the full facility?

Mr Brocklehurst—Yes.

Senator HOGG—That being the full facility, are you paying interest on the difference between the \$100 million that you draw down and the \$425 million?

Mr Brocklehurst—No. There are no unutilised facility fees. We only pay for the funds that we actually draw down under that facility.

Senator HOGG—And where do you draw the money down from, a commercial bank? Or is this a draw-down from government?

Mr Brocklehurst—The loan agreement that we have is between ourselves and the Minister for Finance and Administration.

Senator HOGG—Thank you for those answers; that has assisted. I understand that in the midyear economic finance statement it was flagged that you would require the loan from the Commonwealth. That has now been implemented?

Mr Brocklehurst—That is correct.

Senator HOGG—I also understand that the total number of homes owned by DHA has reduced from 19,127 on 30 June 2001 to a projected figure of 18,207 on 30 June 2002. Is that correct or near enough?

Mr Brocklehurst—To clarify those numbers: I think that those numbers refer to the actual Defence housing requirements, which have reduced by that sort of number during the last 12 months.

Senator HOGG—All right. I think I got that figure of 19,127 from last year's budget.

Mr Brocklehurst—Yes.

Senator HOGG—Last year's PBS, 'Output performance indicators' showed 19,127 and this year it is 18,207.

Mr Brocklehurst—That is correct. That is a statement of the housing requirements that Defence has.

Senator HOGG—What were the actual figures?

Mr Brocklehurst—In terms of the houses that we actually provide?

Senator HOGG—Yes.

Mr Brocklehurst—I do not have the actual numbers in front of me.

Senator HOGG—I am quite happy for you to take that on notice.

Mr Brocklehurst—In essence, the way we meet those requirements is through a mixture of houses that we provide and houses that are provided through the rental market. So ADF members either receive a house through DHA or obtain rental assistance for a house through the market.

Senator HOGG—Can I ask, therefore, what has caused the reduced requirement from the 19,127 in last year's PBS to the 18,207 now?

Mr Brocklehurst—As I said before, there are a number of factors that influence the actual requirement for houses, but the principal factor during the last 12 months has been that a lot of ADF members have been choosing to buy their own home.

Senator HOGG—During that period of time has there been a sell-down of the number of properties owned by DHA and, if so, how many?

Mr Brocklehurst—DHA have reduced the number of properties that we own. We currently own about 37 per cent of the portfolio of houses that we provide. This time last year that would have been just over 40 per cent. We have a continuing program through the sale and lease-back program to reduce DHA's ownership in the housing portfolio.

Senator Hill—So the DHA provided houses, but not necessarily DHA owned houses.

Senator HOGG—I understand that, Minister. I am just trying to get a picture of what has happened to the housing situation in DHA over the last 12 months. It has just been explained that you have reduced the level of ownership that you have from 40 per cent to 37 per cent. Is it intended to reduce that percentage lower in the foreseeable future and, if so, is there a level below which you will not go as a business?

Mr Brocklehurst—The board of DHA has established planning parameters on which the corporate plan is based and on which these financial projections here are based as well. The forward estimates included in here do reflect a further reduction in ownership of DHA houses. There is a level of 25 per cent ownership in each market in which we operate that the DHA board has established as a planning guide to be applied. Local market circumstances may cause us to vary that, but that is the level that we see is the limit to which we should go.

Senator HOGG—So this will be a gradual sell-down program over a number of years. There is in the plan 25 per cent. It does not say that that is the limit, but that is the target at this stage, and there will be variations around or about that 25 per cent. Is that a fair way to assess that?

Mr Brocklehurst—Yes.

Dr Hawke—If you look at page 122, you will see in the third paragraph some further figures which will help what you are after in terms of acquiring and constructing new properties, selling under the sale and lease-back and getting rid of some that are no longer required.

Senator HOGG—Thanks, Dr Hawke, you have probably answered my next question. How many properties do you intend to sell this year, how many do you intend to construct and will that leave you with a net loss or gain for the year?

Mr Brocklehurst—Are we talking about the 2002-03 year?

Senator HOGG—Yes.

Mr Brocklehurst—They are the numbers that Dr Hawke just provided.

Senator HOGG—They were last year's.

Dr Hawke—They are for this year.

Senator HOGG—For this year?

Dr Hawke—Yes, 2002-03.

Senator HOGG—I will be guided by—

Mr Brocklehurst—They are the figures for 2002-03

Senator HOGG—So 2,100 are to be built.

Dr Hawke—We are in paragraph 3 on page 122.

Senator HOGG—Sorry, I am with you. There are 1,137 to be sold and leased back and 782 are no longer needed for your requirements.

Mr Brocklehurst—That is correct.

Senator CHRIS EVANS—You will lose about 750 or so in your total stock. Is that right?

Mr Brocklehurst—No, that is not correct. We have a very large leasing portfolio—properties that were leased from the private sector—and there were movements in that as well that reflected change. There is a reduction in our total portfolio during the 2002-03 year but most of that is driven by lease expiries.

Senator CHRIS EVANS—I see.

Senator HOGG—You may need to take this on notice, but can you give us a breakup of the accommodation you supply by DHA ownership and by DHA lease-back arrangements?

Mr Brocklehurst—We can certainly do that.

Senator HOGG—Thank you. Are the properties that are to be sold readily identifiable or are they spread throughout the country? Is it a block of housing in Brisbane, for example?

Mr Bear—The housing is spread across the country and at this point it is not specifically identified. We would look at the operational requirements of people moving in and moving out and decide which are the most suitable.

Senator HOGG—Are you able to give us a state-by-state breakdown of the properties that will be sold?

Mr Brocklehurst—We have a plan that breaks it down by location.

Senator HOGG—Is that plan available to the committee?

Mr Bear—We can make that available to you.

Senator HOGG—Also in terms of properties to be acquired?

Mr Brocklehurst—Yes.

Senator HOGG—Can you give us an idea of the occupancy rates of DHA owned housing?

Mr Bear—Yes.

Senator HOGG—And leased properties, as well? I presume you have a number of properties that are currently unoccupied.

Mr Brocklehurst—Yes, there are some unoccupied.

Senator HOGG—If you could give us those figures it would be interesting. In the midyear economic forecast last year there are estimates for capital measures since the 2001-02 budget. It refers to the Defence Housing Authority accelerating sale and lease-back program. The figures are: 2001-02, \$50 million; 2002-03, \$150 million; 2003-04, \$100 million; and 2004-05, \$100 million. Are you familiar with those figures?

Mr Brocklehurst—Yes.

Senator HOGG—Could you explain them to me, please? Are those figures the expected outcomes from the sale of properties?

Mr Brocklehurst—Yes, they are the expected increases from the sale and lease-back program.

Senator HOGG—Are those figures or something akin to them reflected in this year's budget anywhere?

Mr Brocklehurst—Yes, something akin to them are. Since that time we have been through our detailed corporate planning exercise where we determined what we would need to acquire, what we would be able to sell on the sale and lease-back program and what the market could bear as well. So there is something akin to those, because there are variations to those numbers reflected now in our planning.

Senator HOGG—Could you draw my attention to where that would be in the PBS?

Mr Brocklehurst—Yes. The cash flow statements, in cash received in the investing activities area, show the total value of the sale of properties that we are planning to make.

Senator HOGG—So part of that \$484 million there was that \$150 million increase that was expected back in the midyear economic forecast last year?

Mr Brocklehurst—Yes.

Senator HOGG—And the \$100 million that is in both out years—2003-04 and 2004-05—would have worked its way into the budget as well?

Mr Brocklehurst—Yes.

Senator HOGG—When you sell a property and lease it back, does the occupant receive the same benefits, where improvements are made, as a person who is in a DHA owned house?

Mr Bear—Yes, they do.

Senator HOGG—I am going to come to the issue of airconditioning in a few moments, but let's say DHA decided to aircondition every property in a place like Darwin: would it

necessarily follow that because you are in a lease-back home you would get the advantage as well?

Mr Bear—The authority is continually trying to improve the standard of housing. One of the projects that is under way at the present moment is airconditioning all houses in the Darwin region.

Senator HOGG—I am sorry, I am just trying to use that as a general example to see if the people who occupy DHA owned houses, as opposed to those that are leased back from private owners, receive exactly the same treatment in terms of the benefits.

Mr Bear—That is what we endeavour to do.

Senator HOGG—Right. Is DHA being privatised at all?

Mr Brocklehurst—DHA is 100 per cent owned by the government and is a government business enterprise.

Senator HOGG—So there is no intention to privatise it, Minister?

Senator Hill—No.

Senator HOGG—That is the longest no you have scored all week!

Senator CHRIS EVANS—If that was supposed to reassure people quickly, I am afraid the length it took you to get there will undermine the answer.

Senator Hill—I will be even more reassuring: not that I know of.

Senator HOGG—Not that you know of?

Senator Hill—I paused because I was confused between that and the announcement that we made with the budget that there would be a scoping study to examine whether or not the assets of the Defence Housing Authority should be sold.

Senator CHRIS EVANS—I see: you would keep the company but sell their assets?

Senator Hill—That is the way it reads:

The Government considers the scoping study is a prudent measure and allows it to examine the performance and ownership of its assets.

Senator HOGG—What is the timetable for that, Minister?

Senator Hill—It recognises the excellent job that is being done by DHA. It gives you the comfort that oversight will be in the hands of the Department of Finance and Administration—furthermore, that relevant stakeholders will be consulted and that any consideration of selling the assets of the DHA will have full regard to Defence's commitment to provide members of the ADF with high quality housing.

Senator CHRIS EVANS—That is much more like a yes than a no, Minister.

Senator Hill—And I have not got a timetable.

Senator HOGG—Who would be the relevant stakeholders?

Mr Bear—The scoping study is being undertaken by the department of finance, and we will be—

Senator HOGG—Is that being undertaken now.

Senator Hill—This says that Finance will be overseeing the management of the study, which is different. Is it being done by Finance?

Mr Bear—They are managing the process.

Senator Hill—That is what I said.

Senator HOGG—So who is actually doing the scoping study? Can you tell us or can you find out?

Mr Bear—That is a matter for the department of finance.

Senator Hill—We could probably ask them nicely, though.

Mr Bear—Yes, we could.

Senator HOGG—Could you ask them nicely and give us a response, please? Also, could you tell us who are the relevant groups being consulted? I heard there was a consultation program being undertaken.

Senator Hill—Do you need to know that today?

Senator HOGG—No.

Senator Hill—We will take that on notice.

Senator HOGG—And the time frame in which the study is being undertaken. On another issue: in respect of the privately owned homes that are leased back, I presume they can be modified to meet the needs of service families where necessary, if there are special needs.

Mr Bear—Absolutely. Generally a special needs case would be treated just as the name implies, as special needs, and a particular house would be acquired.

Senator HOGG—Has there been any response to the move away from DHA owned housing to private ownership and lease back? Has any concern been expressed by any of the service family groups like the National Consultative Group of Service Families?

Mr Bear—No, Senator. The National Consultative Group of Service Families are represented on the DHA board and are party to all discussions.

Senator HOGG—Are you able to confirm that community centres at Duntroon and two centres in Darwin are in states of disrepair?

Mr Bear—I have never been in them, Senator, so I cannot confirm that.

Senator HOGG—The information I have is that they contain asbestos. Do you know if that is true?

Mr Bear—The community centres are not buildings that are managed or under the control of the Defence Housing Authority. They are part of the Defence portfolio.

Senator HOGG—So they are not yours.

Mr Bear—They are not ours.

Senator HOGG—Okay.

Dr Hawke —You could ask those questions tomorrow when the infrastructure division people are here.

Senator HOGG—All right. What was the cost of relocations within Australia for ADF personnel in 2001-02?

Mr Bear—That would depend upon the definition of cost. We could give you some information on that.

Senator HOGG—Do you have an anticipated cost for the coming financial year? I understand you are now responsible for the relocation of the families. That is why I am asking.

Mr Bear—The cost of the administration of the process, yes. I will provide you with a figure.

Senator CHRIS EVANS—I understand it would be looming large in your minds, from what I hear about it, too.

Senator HOGG—A figure for this financial year and a figure for next financial year. Do you outsource removal contracts?

Mr Bear—The removal is undertaken by a contract within the Department of Defence.

Senator HOGG—How is that done?

Mr Bear—That is managed by the Department of Defence.

Senator HOGG—Managed by the Department of Defence, not by yourselves?

Mr Bear—The contract is managed by the Department of Defence. When someone comes to us for a relocation and they require a move, we give a notification of that requirement to the removalist.

Senator HOGG—But you do not get involved in the negotiation of the tender with the contractor?

Mr Bear—We do not.

Senator HOGG—Last year, prior to the election, Minister Scott raised the issue of Defence homes in Darwin—the fact that they would be fully airconditioned and that the project was to cost, I think, \$3 million and completed this financial year. Has that been completed?

Mr Bear—The project is not yet completed. It is progressing and is well on the way to completion.

Senator HOGG—What was the cost of the project, and is it within budget?

Mr Bear—Rather than guess, I will let you know.

Senator HOGG—You will take that on notice—thank you.

Senator CHRIS EVANS—Does that mean all your homes in Darwin?

Mr Bear—All homes in Darwin are to be airconditioned, yes. There are some houses on the RAAF base and at Coonawarra where there are electrical supply issues that have to first be addressed, and those supply issues are, I understand, being addressed by Defence.

Senator CHRIS EVANS—But, effectively, the decision has been made to aircondition everything in Darwin?

Mr Bear—We have contracts under way and we are moving through that process.

Senator HOGG—When do you expect the process to be completed?

Mr Bear—In August.

Senator HOGG—August this year.

Mr Bear—With the exception of those where there may be issues associated with the supply of electricity.

Senator HOGG—When you speak of the supply of airconditioning to the properties, I presume that is only airconditioning a number of specific rooms within each property.

Mr Bear—It varies, but yes. Each individual house has been inspected and a decision taken as to what best suits that particular house.

Senator HOGG—And the airconditioning applies to all lease properties as well as—

Mr Bear—It applies to all leased properties, on-base properties and owned properties.

Senator WEST—Isn't that a variation from what normally happens? The airconditioning was a standard for a couple of rooms only. I cannot remember whether it was the living area or the bedroom area.

Mr Bear—There has been a variation of the policy. Lots of the older homes did not have the same extent of airconditioning that is now being installed.

Senator HOGG—Were there any homes that had been airconditioned?

Mr Bear—Yes, there were.

Senator HOGG—Will they have replacement systems?

Mr Bear—All homes built in recent years have had airconditioning as a standard fixture. It was primarily some of those that were built some time ago that needed various forms of upgrading.

Senator HOGG—So some houses will get replacement systems and some houses will be airconditioned for the first time?

Mr Bear—Yes.

Senator HOGG—What is the maintenance budget for DHA homes for 2002-03 and where is that to be found in the PBS?

Mr Brocklehurst—The maintenance budget for next year is \$33.6 million. That would be part of the expenses to suppliers in table 1.

Senator HOGG—So that is an Australia-wide figure and that covers both lease-back properties as well as DHA?

Mr Brocklehurst—It covers all DHA owned properties, all on-base properties that we look after, and includes the sale and lease-back properties that we have sold since 1996. The ones that were sold before 1996 provide for the lessor to meet the costs of the repairs and maintenance.

Senator HOGG—Is that an increase over the costs for the 2001-02 budget?

Mr Brocklehurst—Yes, we are expecting to spend close to \$30 million this year.

Senator HOGG—So it is roughly in the order of about 10 per cent increase?

Mr Brocklehurst—Yes.

Senator HOGG—What would be the reasons for that increase?

Mr Brocklehurst—Can I take that on notice?

Senator HOGG—Yes, you can take it on notice—and we have finished 30 seconds before we need to. Thank you very much for your cooperation.

Senator CHRIS EVANS—I would like to say, by way of congratulations to the department, that I visited the Lavarack barracks in Townsville the other day—the new single

persons accommodation—and it is of a very high standard. I think you can be congratulated on the quality of the accommodation.

Mr Bear—Thank you very much, but unfortunately singles accommodation is provided by the Department of Defence, not the authority.

Dr Hawke—We will accept the compliment.

Senator WEST—It was pretty grotty.

Dr Hawke—It was.

Senator CHRIS EVANS—You still have some terrible stuff there, as well.

Dr Hawke—We are doing something about it.

Proceedings suspended from 6.30 p.m. to 7.37 p.m.

Department of Veterans' Affairs

ACTING CHAIR (Senator Ferguson)—We now move to the consideration of particulars of proposed expenditure for the Department of Veterans' Affairs. I welcome officers from the Department of Veterans' Affairs and the Australian War Memorial. The committee will begin with a portfolio overview of the Department of Veterans' Affairs and then consider outcomes in numerical order. The committee will conclude with questions for the Australian War Memorial. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions. The questions will be forwarded to the department for answer. The committee has resolved that the deadline for the provision of answers to questions taken on notice at these hearings is Thursday, 11 July 2002.

Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. The Senate has resolved that there are no areas in connection with the expenditure of public funds where a person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. Finally, I remind everybody present that mobile phones are to be switched off in the hearing room. We will now move to questions for the portfolio overview.

Senator MARK BISHOP—If it is convenient with the committee, I propose to commence my questioning on outcome 2, beginning with the PBS and concentrating on the new savings proposals. Then I propose to proceed to outcomes 1, 3 and 4 in that order. As I have already advised the secretariat, I have no questions for the War Memorial, the Veterans Review Board or the Repatriation Medical Authority. Welcome, to the officers from the Repatriation Commission and from the department. The first issue I wish to address briefly is with regard to an article that was in the *Weekend Australian* on 13 April. It announced a review of the PBS to be chaired by the assistant secretary of the Department of Health and Ageing, Ms Louise Morauta. Will this review include a review of the RPBS?

Mr Stonehouse—Not specifically, although we are involved in the review and obviously there is a flow-on effect from the PBS to the RPBS because the prescriptions for which we pay are paid for under that scheme.

Senator MARK BISHOP—What will be the role of the department?

Mr Stonehouse—We have been invited to join with the review and we will be represented by one of our branch heads.

Senator MARK BISHOP—Is it an IDC or is it a committee chaired by Ms Morauta? What exactly will your role be?

Mr Stonehouse—I have not got all of the specifics to hand, which I apologise for, but I do not understand it is an IDC in that sense. It is a committee run by the Department of Health and Ageing and we have been invited specifically to join with that review.

Senator MARK BISHOP—Was your role explained? What will be your role in participating in that review?

Mr Stonehouse—To contribute to the thinking processes, to focus on the issues that affect the provision of pharmaceuticals to veterans.

Senator MARK BISHOP—So, effectively, the RPBS is under review as well.

Mr Stonehouse—I would not have characterised it that way. My understanding is that the RPBS is an additional list of pharmaceuticals and other medications that are provided in addition to the PBS.

Senator MARK BISHOP—Yes, that is right—for clients of DVA. We have a review of the PBS and you are participating in the RPBS. Is the differential between the PBS and the RPBS going to be the subject of review?

Dr Johnston—As Mr Stonehouse has explained, this is a review of the PBS, and our membership of the committee will enable us to contribute views and advise the committee of possible ramifications or interactions with the RPBS. If a report goes to government, we would have the opportunity to comment on those recommendations and identify any possible implications for the Repatriation Pharmaceutical Benefits Scheme. But that scheme is a separate scheme; it has its own integrity and it is not under review.

Senator MARK BISHOP—Dr Johnston, turning to page 23 of the PBS, could you just explain to me generally how the savings on the RPBS have been calculated? Are they simply extrapolated from the savings on the Pharmaceutical Benefits Scheme or is the calculation done separately and differently?

Dr Johnston—I can say that with each measure we independently identify the implications for the Repatriation Pharmaceutical Benefits Scheme. I can ask Mr Stonehouse to speak generally about the approach. It may be that there are some specific questions that you have, but let us have a go at a general explanation first.

Senator MARK BISHOP—I do have some very specific questions on four or five rows there, but I just wanted to get a general overview of how the savings have been calculated, firstly.

Mr Stonehouse—They have been broadly calculated as a percentage of the overall savings and we have been similarly funded in a percentage way to assist in achieving those savings through increased compliance measures, through increased education and similar type measures.

Senator MARK BISHOP—So it is broadly similar percentages?

Mr Stonehouse—Yes.

Senator MARK BISHOP—That is fine. Mr Stonehouse, does growth in the RPBS mirror growth in the PBS?

Mr Stonehouse—Generally speaking, yes.

Senator MARK BISHOP—So what are the causes of growth in the RPBS?

Mr Stonehouse—A greater use of medications by veterans and some more expensive medications, but Dr Killer can give a more comprehensive answer to that.

Dr Killer—Last year, the Department of Veterans' Affairs spent in the order of \$320 million on pharmaceuticals and wound products. As you know, there is the PBS and the additional items which are on the RPBS. So, in a sense, the amount we spend on pharmaceuticals largely mirrors the PBS, but we have a discretionary component that takes account of additional items plus prior approval items; but, out of the \$320 million, that only accounts for about \$21 million. Whatever happens when a drug is placed on the RPBS, it automatically is provided to veterans; so there is an automatic flow-on. So, in a sense, if the Department of Veterans' Affairs wants to control its budget, the only discretionary part of the budget relates to the RPBS items and the prior approvals—and, as I have said, they only make up a small proportion of the amount we spend on pharmaceuticals. So, out of \$320 million I think last year and maybe \$360 million this year, our discretionary area which we really directly control is only of the order of \$20 million-plus.

Senator MARK BISHOP—But you are looking to save in the 2003 year almost \$20 million?

Dr Killer—But those savings would be similar savings in percentage terms to what would be occurring on the PBS because we have that common list of pharmaceuticals.

Senator MARK BISHOP—So you expend in the order of \$320 million on pharmacy items and you are looking to save roughly \$20 million in the 2003 financial year, and you say that is broadly similar to the savings that would be expected on the PBS?

Dr Killer—The savings are substantially in proportion to what would be saved on the PBS.

Senator MARK BISHOP—You say the growth in the RPBS is \$20 million to \$25 million that is not directly related to the PBS?

Dr Killer—No. I think last year our figures were of the order of—I have not got the figures in front of me—\$20-plus million and I think for this year it will be about \$28 million. So they are not substantial amounts in real terms, but it is a reasonable percentage growth.

Senator MARK BISHOP—What is the percentage growth?

Dr Killer—It would be in the order of—

Senator MARK BISHOP—18 per cent?

Mr Stonehouse—I do not have the figures at hand, but I think we were asked a similar question at the last committee meeting and it was in the order of 24 per cent, based on our annual report.

Senator MARK BISHOP—That is a bit high. I thought it was in the order of 18 per cent to 19 per cent per annum growth outlays in the RPBS in recent years.

Dr Killer—I think that is probably closer to it.

Dr Johnston—On page 40—and we are just doing the percentage calculation for you—there is an actual line item there in the appropriation, and the calculation is 10 per cent year on year.

Senator MARK BISHOP—That is \$363 million up to \$400 million. That is \$40 million—a bit over 10 per cent.

Dr Johnston—Just 10.9 per cent, Senator. That reflects to some extent the assumed impact of the budget measures. I am assuming that is the case.

Senator MARK BISHOP—That is minus the savings?

Dr Johnston—That is after the impact of the budget measures. My recollection is that, last year, the percentage growth was in the order of 19 per cent. But we will have to confirm that for you if you want that.

Senator MARK BISHOP—Page 40 indicates that there are going to be increases in outlays in the order of \$40 million and that, but for savings, it would be in the order of \$60 million, which takes it back up to the figure of 18 per cent or 19 per cent.

Dr Johnston—Of that order, yes.

Senator MARK BISHOP—What are the differences between the causes of growth in the RPBS and the PBS?

Dr Killer—The growth in the PBS and RPBS for the common list would be comparable. The only difference would be in the RPBS listed drugs; there we have different arrangements. We obviously have additional drugs and wound dressings that are essential for the special management of veterans. For instance, we have wound dressings because large numbers of veterans have chronic wound ulcers going back many years. So the main differences in the growth in the RPBS, the separate listing, is really looking at the drugs that are on prior approval. We prior approve drugs for cancer that are not available on the PBS, and it would also be on the additional items that we have in our listing.

Dr Johnston—Adding to Dr Killer's explanation, you may have in mind the fact that the veterans' usage of PBS pharmaceuticals might have a different pattern from the rest of the community because of their age and infirmity. We would expect that per capita usage, because of the age profile of veterans, would be higher than that for the Australian community as a whole. We do not have that dissection that we can lay out for you, but some of those factors would also be influencing the growth in veterans' usage of PBS listed products as well as RPBS.

Senator MARK BISHOP—So we have two reasons advanced: (1) additional or differential drugs and differential usage by veterans in the areas identified by Dr Killer and (2) Dr Johnston's suggestion that the age profile of veterans accessing the RPBS might be different from the general population accessing the PBS.

Dr Johnston—I think that is a fair summary.

Dr Killer—I think it is worth mentioning that, with the RPBS, we do take additional measures to deal with pharmaceutical management. Because of the Department of Veterans' Affairs pharmaceutical database, we are able to identify each veteran and determine the individual number of pharmaceuticals they are on and also their main or regular general practitioner. We look at the pharmaceuticals on a regular basis and provide feedback on those individuals who may be high users of pharmaceuticals who are at risk because of the numbers

of pharmaceuticals of drug interaction. We provide this information back to their general practitioner.

This is very useful information for the general practitioner because, quite often, they are not aware of all the pharmaceuticals someone might be on, for the simple reason that some of the veterans see numbers of general practitioners as well as quite a number of specialists. Many of them have chronic conditions, as you are aware, and might see up to 10 or 11 different practitioners. So sometimes the ordinary general practitioner might not be aware of all the pharmaceuticals a veteran may be on. We provide this information on a regular basis, through a number of programs, to their regular general practitioner. This has resulted in significant savings for the department and, I would have thought more importantly, reduces the risk of inadvertent outcomes because of drug interaction.

Senator MARK BISHOP—So for every veteran who accesses the RPBS you effectively maintain a computer file on their usage and you can identify a whole range of useful information from that.

Dr Killer—We can conduct a watching brief to look—

Senator MARK BISHOP—I am not asking what you do.

Dr Killer—at the pharmaceutical usage. But the main thing is that it is empowering the doctor sitting in the surgery to better manage the pharmaceuticals for their patients.

Mr Stonehouse—The actual material is extracted from the HIC, de-identified, reviewed by an independent body and then sent back to us when it is re-identified. That enables us to send out the letters that Dr Killer signs to general practitioners and other doctors, pointing out when the usage is abnormal.

Senator MARK BISHOP—Is growth in the RPBS affected by higher levels of disability among veterans or a higher average age than the PBS? Do we have any information on that?

Dr Johnston—We are having some research undertaken at the moment by the Institute of Health and Welfare to try to analyse these factors in our health expenditures, but we think your suppositions are worth testing.

Senator MARK BISHOP—Is there a different age profile for veterans accessing the RPBS than for the general community accessing the PBS?

Dr Johnston—There is no doubt that that is the case. We are not sure what impact that is having, in its own right, on usage and trends in usage.

Senator MARK BISHOP—That job has been given to whom?

Dr Johnston—The Institute of Health and Welfare are working with us at the moment on analysing those aspects of our data.

Senator MARK BISHOP—When were they given that? Is that a consultancy, or a contract, or what?

Dr Johnston—It is a consultancy. That work is under way at the moment and has been for a couple of months.

Mr Stonehouse—Less than two months.

Senator MARK BISHOP—When will they report back to the DVA?

Mr Stonehouse—We are trying to get a report as quickly as possible, but we think it will realistically take about six months in total to get some meaningful information. We are

initially more interested in comparing veterans with a similar age-sex cohort in the general community rather than against the broader PBS usage, which of course covers everything from paediatric use right through. We have put some pressure on, because we believe it is important to be able to identify where there are differences in the veteran community, if there are differences, and then see what is driving those and if, for example, there is more usage than there should be.

Senator MARK BISHOP—We might have a discussion on that at the end of the year when you might have the report down. It sounds quite interesting.

Dr Killer—We certainly have an understanding at this stage, from our surveys, of the types of conditions veterans have, but we are not in a position to compare them with a similar age non-veteran cohort. We know, for instance, how many have visual disorders, how many have hearing problems, et cetera, but we cannot compare them with a similar age non-veteran cohort.

Senator MARK BISHOP—Going back to that issue you raised, Dr Killer, how many doctors, if any, does the department monitor?

Dr Killer—We do not actually monitor doctors. I am sorry if I have created that impression. What we are doing is looking at the pharmaceutical profiles of patients. It is not a process of monitoring the doctor; it is looking at pharmaceuticals in terms of quality management of medicines, to reduce the risk of drug interaction or inappropriate usage. We are certainly not monitoring doctors.

Senator MARK BISHOP—In a given three-month period, how many patients would you be monitoring?

Dr Killer—We are now in the third year of the prescriber feedback program, which is providing helpful information back to the practitioner to achieve better outcomes. The number of patients depends on the particular program. The first program we conduct each year is usually the polypharmacy program, looking at veterans who might be on large amounts of medication. In the first year we conducted the program, I think we looked at all veterans on more than 20 separate medications. The number of veterans we wrote out to doctors about in relation to being on 20 or more separate medications was in the order of 700. Over the three years, we have progressively reduced the numbers. I think the last mail-out on so-called polypharmacy patients—people on more than 10 medications—was sent to several thousand.

It is not just polypharmacy; we also look at drugs and the elderly—drugs that might be appropriate in the management of younger people but for which special care would be required in prescription for the elderly. We have looked at specific drugs like warfarin. As you are probably aware, warfarin is used to thin the blood, but as well as being a very useful drug it also has side effects. We had a mail-out on warfarin to doctors and patients to make sure they understood the potential drug interactions. Some mail-outs have simply been to doctors; others have also been to veterans and have provided them with simple information in relation to their pharmaceuticals.

Mr Stonehouse—We wrote to veterans for the first time in our last exercise, to engage them in the process. The intention is to make them partners in their medication management.

Senator MARK BISHOP—And to make them aware of possible harmful consequences.

Dr Killer—There is no doubt, if you want to modify the use of medicines, providing information for the doctor is one thing but empowering the patient is probably more important. As Geoff says, that has been our ongoing initiative.

Senator MARK BISHOP—Is the department aware of any differences in usage patterns between veterans' use of the RPBS and the general population's use of the PBS? Has any comparison work been done?

Mr Stonehouse—They are fundamentally different lists of medications, so it would be hard to make a direct comparison.

Senator MARK BISHOP—Are they fundamentally different? Dr Killer said the cost differential was something in the order of \$20 million out of \$320 million, so there is a high degree of homogeneity.

Mr Stonehouse—Items listed on the RPBS are by definition not listed on the PBS.

Senator MARK BISHOP—I understand that, but 90 per cent of the RPBS is identical to the PBS in terms of the list of drugs.

Dr Johnston—I do not think we can add any more to the comments we have already made on a comparison of veterans' use of the PBS compared to the community as a whole. We are currently having some work done by the Institute of Health and Welfare. We have not done any other research of note on this subject to date.

Senator MARK BISHOP—The net of that is you cannot say that there are different patterns of usage between the PBS and the RPBS. That is the first point. The second point is that the list of drugs is in the order of being 90 per cent identical. The third point is that the list of savings identified in the portfolio budget statements is, in percentage terms, extrapolated from the savings for the PBS. Is that a correct summary of where we are?

Dr Johnston—That is correct. It would be desirable to look in finer detail to take into account the different population that we serve, compared to the community as a whole, but we do not have a basis for that analysis. The only option that the Department of Veterans' Affairs, the Department of Finance and Administration and the Department of Health and Ageing have is to assume a proportional impact.

Senator MARK BISHOP—To the extent that the veteran community is different to the general population and has different illnesses and problems and has different demands on the medical community, which are sometimes reflected in the different nature of the RPBS, is it not true then that the veteran community is more likely to be detrimentally affected by the department meeting these cost saving targets that have been designed for the general community without taking into account the special needs or the special aspects of the veteran population?

Dr Johnston—That is not our expectation at this point in time but there may be some particular dimension you think might have an impact of that nature. Our examination of the measures does not suggest to us that that would be differential in impact.

Senator MARK BISHOP—Why is that?

Dr Johnston—We have just not been able to identify any factors that we think would need to be taken specially into account.

Senator MARK BISHOP—Is that a 'neither confirm nor deny' response?

Dr Johnston—All that officials can do in advising government is to lay out assumptions of estimates and advise on possible impacts. At this point, with these measures, we have no reason to think that the impact will be different for veterans than for the community at large.

Senator MARK BISHOP—Even though—I think it is agreed ground—the needs of the veteran community are often considerably different to the needs of the general population. Do you think there will be any differential impact?

Dr Johnston—To the extent that there are safety net provisions and so on, they will still work for veterans the same as they do for the rest of the community. There might be a separate question about the acceptability of the policy or matters of that nature, but that is a question for government not for the department.

Senator MARK BISHOP—I want to refer to the savings identified for the 2003 financial year on page 23 of the PBS: \$14 million, \$11 million, \$2½ million, \$4 million, \$½ million and almost \$2 million. Are you comfortable that you will achieve those levels of savings? The reason I query that is because they have broadly been extracted from the health portfolio and the PBS. Why you are satisfied that you will achieve those savings?

Dr Johnston—I will take one in particular, and that is the ‘increased information provision to doctors by industry’. There is no reason to expect a different impact for veterans than for the community at large. These savings assume that doctors will be better informed and more careful in the way they prescribe and this will avoid unnecessary prescriptions and so on. There is no reason to think that that is not a factor working in the day-to-day decisions by GPs treating veterans than it is a factor for GPs treating other people in the community.

Senator MARK BISHOP—Are there any interactions between six measures and the savings claimed and the RPBS?

Mr Stonehouse—I am not quite sure about the meaning of the question. There certainly are interactions because they directly relate to—

Senator MARK BISHOP—We have six separate headings and we have identified six separate sets of savings. I wonder if they are all stand-alone savings and not related to each other?

Mr Stonehouse—I personally believe there are some interrelations between some of them. There are the broad headings of ‘reinforcing the commitment to evidence based medicine’, ‘reductions in pharmacy fraud’ and the use of better methods of education of doctors, patients and others involved in the pharmacy provision. To my mind, there are some interrelationships in some of those things.

Senator MARK BISHOP—I would have thought that there were significant interrelationships between those four that you identified. Fraud, industry education and restrictions on doctor shopping are all connected. Is that correct?

Mr Stonehouse—I believe that they are a suite of measures that are, to a greater or lesser extent, interrelated.

Senator MARK BISHOP—Does the department believe that realigning copayments and safety nets will reduce demand for access to these benefits in any way?

Dr Johnston—You know that the basis of the estimates is an impact on the patient contribution and an impact on usage so we are assuming that that will carry over to veterans. We are not in a position to assume a different impact so we have adopted the estimates of the Department of Health and Ageing in a proportional way.

Senator MARK BISHOP—What are those estimates in terms of levels of demand?

Dr Johnston—I do not think we have that detail.

Senator MARK BISHOP—You do not have it with you or you do not have it at all?

Dr Johnston—That would probably be a question that we would have to direct to the Department of Health and Ageing. It would be a question that they would have a view on.

Senator MARK BISHOP—It is savings in the RPBS, which is a function of DVA. You have identified the savings.

Dr Johnston—As we have explained, we have just assumed a proportional impact. We have no reason to argue that it would have a differential impact on veterans here so we would seek an answer from the Department of Health and Ageing in advising you on any such split in the estimates.

Senator MARK BISHOP—But to date they have not communicated to you reductions in the level of demand arising from the increases in the copayments?

Dr Johnston—I am not aware of us having that information.

Senator MARK BISHOP—Are you aware that it is costed into the savings?

Dr Johnston—You are aware that the government's announcement is not just a revenue measure—it is designed to impact on the community's usage of pharmaceuticals.

Senator MARK BISHOP—I certainly understand that.

Dr Johnston—I cannot answer your question in terms of the estimated differential impact or whether the Department of Health and Ageing have even chanced their arm at that. But, if you wish, that could be a question we could refer to them to see if there was anything they could add.

Senator MARK BISHOP—It makes the task difficult, when it is the DVA that administers these schemes, when the money is appropriated to the Repatriation Commission in the Appropriation Bill and the savings are in the PBS for the DVA. My questions are relatively straightforward and, I would have thought, predictable as to where the saving comes from and how it is identified, and your response is, 'We will ask the Department of Health for advice.'

Dr Johnston—I am not sure if they have a separation of the factors that you are questioning us on, but we have explained to you that we have assumed a proportional impact. We have explained to you the basis of the estimates. If you want further detail that we do not have here today, we can take that on notice. But I wish to explain that we would refer that question to the Department of Health and Ageing.

Senator MARK BISHOP—If you could refer that to the Department of Health and Ageing—the effects on levels of demand for persons who utilise the RPBS—it would be appreciated.

Dr Johnston—Sure.

Senator MARK BISHOP—Has the department analysed the relationship at all between expenditure on pharmaceuticals and expenditure on health care? Have you done any work in that area?

Dr Johnston—I think Dr Killer has already mentioned to you the work we have done with the prescriber feedback program, but, for example, in documenting that program—which, I might say, is of world standing—

Senator MARK BISHOP—I understand Dr Killer's previous response.

Dr Johnston—I do not think we have researched the downstream impact on the health of the veteran. I am not aware of any such research we could provide you with.

Mr Stonehouse—I am not aware of any research directly. We could tell you what the proportion of pharmaceutical expenditure is to hospital expenditure, for example, but I am not sure that there is any scientific relationship that we have explored in terms of that financial relationship.

Senator MARK BISHOP—All right then. Have you taken into account any reduction in demand for pharmaceuticals dispensed resulting from increased patient contributions to medicines?

Dr Johnston—As I said, that is part of the government's policy. I cannot give you a break-up, but if we take that on notice will ask the Department of Health and Ageing for advice in answering that.

Senator MARK BISHOP—I will just restate my position. It is the DVA that moneys are appropriated to; you are the organisation in the health area that has responsibility for health and welfare of veterans. The government are engaged in some cost savings; that is their business—I did not quarrel with that policy decision. When I ask for the impact on veterans, which is a discrete group, the department's response is that they have broadly accepted the figures from the department of health and really cannot give any concrete or specific response to what are relatively routine questions which my office and, my colleagues tell me, other offices are already starting to get from veterans and ESOs in a community. It strikes me as odd; it goes contrary to the whole *raison d'être* of a separate department.

ACTING CHAIR—That seems more like a statement than a question.

Senator MARK BISHOP—It is a statement that I want on the record. Veterans have \$320 million a year spent on their health. They have a separate program, separate needs, separate demands and separate histories. They are run by a separate department, and their own department cannot offer an explanation.

ACTING CHAIR—I understand, but if you want to debate the issue I think the place is in the chamber not at an estimates committee hearing when we are here to ask questions. I understand you want to get your statement on the record.

Senator MARK BISHOP—I am here to ask questions. I am not getting any response.

ACTING CHAIR—Okay, but the place to complain about that is in the chamber.

Senator MARK BISHOP—All right. Can we turn to page 137 of the PBS. In relation to the budget measure to 'reinforce the commitment to evidence based medicine', which we have been discussing, has the department done any analysis of the number of prescriptions supplied to veterans in breach of RPBS conditions?

Dr Killer—We would not be aware, as the PBS would not be aware, of prescriptions that were in breach of the specific authority laid down in the pharmaceutical schedule. The PBS and the RPBS do operate slightly differently, in that all the prescriptions for authorities that come through the RPBS go through our single unit organisation in Brisbane known as VAPAC, which is staffed by pharmacists. When a doctor rings for an authority in relation to a particular patient they are challenged in relation to the need for that drug for that particular condition. You do rely on the doctor in this scenario being honest—you will never get away from that. If a doctor is sitting there with a patient in front of them and says, 'This patient has

condition A for which they required drug B,' you certainly have to take it on their goodwill and honesty. But the RPBS is one step ahead of the PBS in that the phones are all manned by pharmacists in our arrangements. The people at the other end are professionally trained pharmacists and pharmacologists, so the doctors are at least challenged in a sense and it is not taken for granted that the request is for a drug for a condition for which the authority should not be given. Be that as it may, we could not say how many times or in what percentage of cases authority prescriptions are handed out outside the authority required. It would be impossible to say. All I am saying is that, within the arrangements of the RPBS, our arrangements are fairly tight already.

Senator MARK BISHOP—Yes, because the doctor making the decision has access to professional advice.

Dr Killer—Exactly.

Senator MARK BISHOP—In terms of my specific question, the department has not done any analysis on the number of prescriptions supplied to veterans in breach of the RPBS, so you cannot really say to me that veteran abuse is zero of PBS abuse or twice PBS abuse, can you?

Dr Killer—It would not be veteran abuse; it is the doctor who requests the authority.

Senator MARK BISHOP—I will rephrase the question: you really cannot say that abuse of the RPBS is less than, the same as or more than abuse of the PBS, can you?

Dr Killer—All I can say is that, because our arrangements involve professionals at the other end of the phone, I would be surprised if our arrangements are not better than those of the PBS for authorities.

Dr Johnston—That is in respect of the RPBS component that Dr Killer is speaking about. As we have said, in respect of the PBS component we have no reason to think veterans are any different from the rest of the community. We have had no basis on which to argue or to advise government that veterans, in respect of this item and in respect of their dealings with their doctors, are in any different circumstances from the community as a whole. We have advised government that we would be satisfied that the savings measure would impact proportionately on the veteran community.

Senator MARK BISHOP—Dr Killer, are there any drugs being prescribed in breach of the RPBS conditions that are a particular problem?

Dr Killer—I cannot answer that. All I can say is what I have said before: you rely on the integrity of the practitioner at the end of the phone. They are clearly there. They have a list of requirements for an authority drug. Ethical practitioners would only provide that drug in accordance with those requirements.

Senator MARK BISHOP—The same argument applies to the practitioners. Practitioners who are abusing the PBS, for want of a better description, are probably equally likely to abuse the RPBS.

Dr Killer—Doctors are caring people, as you know. If you have a patient sitting in front of you, it is sometimes very hard to follow a hard line—or even the correct line.

Senator MARK BISHOP—I am not so sure that is right. Taking the government's lead, they think there are many hundreds of millions of dollars of savings to be made from tightening up the evidence based approach to medicines.

Dr Killer—There could well be. There is certainly no question that in the pharmaceutical area there is considerable wastage. It is a slightly different issue.

Dr Johnston—Senator, to be careful in describing this measure from our perspective, we are not assuming it is abuse by medical practitioners; we are assuming it is ill-advised and ill-informed prescribing by medical practitioners. A better informed, evidence based approach to medicine and more active education of the medical profession by the pharmaceutical producers will, or has the capacity to, improve prescription practice. So it is not quite abuse, in the way we view it.

Senator MARK BISHOP—I understand what you are saying, but I am not so sure that is the government's position. My understanding of the government's position is that doctors have been fraudulently issuing prescriptions for a range of drugs which are not designed for particular treatments.

Dr Johnston—You are quite correct; there is a separate proposal in respect of fraud. At the top of page 38, that measure is listed, but in terms of the evidence based medicine measure, I think you will find it is primarily focused on better informed prescribing by medical practitioners. It is not notionally addressed to fraud. That is a separate measure.

Senator MARK BISHOP—So as far as DVA is concerned you do not have any evidence that doctors are not complying with the RBPS prescription requirements?

Dr Johnston—In respect of the RBPS component of their business?

Senator MARK BISHOP—Yes.

Dr Johnston—That is correct.

Senator MARK BISHOP—What does the phrase, 'the enhancement of PBS restrictions' mean? That is on page 37 of the portfolio budget statements, in line 4 of paragraph 2.

Dr Killer—I think the enhancement of PBS restrictions involves making sure that doctors use the appropriate drug for the appropriate condition. I think that is what that means really. Certainly the general practitioner electronic decision support is to make sure that, if a drug is prescribed through the decision support process, there is not going to be a drug interaction.

Senator MARK BISHOP—Could you say that again, Dr Killer?

Dr Killer—This is my personal interpretation. The enhancement of PBS restrictions would be to make sure a particular drug is prescribed for the appropriate condition in accordance with what is required in the book. For instance, it is to make sure that, if a drug is provided for hypertension, it is used for hypertension. The general practitioner electronic decision support would work such that, if a drug were prescribed, on the support process there would also be a computer list of the other drugs the patient was on so that, if there was a drug interaction, that would appear on the screen. I think that is what the electronic decision support is all about. Because quite often when you describe a drug, if you are not aware of the other drugs the patient is on, you might actually be creating a drug interaction. In a better world, were the IT support available, when you put a patient's identifier up on the screen, all the medication they are on would come on the screen and, if you prescribed an additional drug and there was a drug interaction, that warning would come up. I think that is in relation to the electronic decision support.

Senator MARK BISHOP—I was not asking about that. I was asking about the first phrase, 'the enhancement of PBS restrictions'. Do we have any evidence or knowledge that existing restrictions are not being adhered to in this area?

Dr Killer—I think the secretary has already responded: not that we are aware of.

Senator MARK BISHOP—No, not that we are aware of.

Mr Stonehouse—It is unfortunate, Senator, that the branch head responsible for this area cannot be here tonight, due to some fairly tragic circumstances. She is the lady who represents the department on this committee and she would have more detailed knowledge than some of us at this table. I apologise for that.

Senator MARK BISHOP—That happens. Is there any evidence that there is a significantly greater problem with this enhancement of PBS restrictions under the RPBS than the PBS?

Dr Johnston—The text refers to the PBS, Senator.

Senator MARK BISHOP—It does.

Dr Johnston—We have no reason to expect that we have a particular problem in respect of the RPBS component of our business, or the unique aspect of our business. Could I suggest, Senator, that, as I read this language, in effect this is indicating the way the Department of Health and Ageing administers the PBS. The PBS has triggers in prescribing various medications at which point, in effect, prior approvals are required for the further prescription of those elements. In a sense, that then equates to the extensive arrangements we have for the RPBS components that Dr Killer has outlined to you. I think you will find that, in its detail, this will be strengthening those prior approval arrangements that will be applying in respect of the Pharmaceutical Benefits Scheme. So some of the merit we see in the arrangements we have for the RPBS components will be extended to more elements of the PBS. It does not mean to say that the community will not have access to the medications; it is just that the relevant approvals will probably be strengthened so that there is appropriate scrutiny of the prescriptions.

Senator MARK BISHOP—Thank you, Dr Johnston. But, with this discussion on reinforcing the commitment to evidence based medicine, there is no evidence that DVA is aware of that there is a significantly greater problem with this under the RPBS than under the PBS, is there?

Dr Johnston—That is correct, Senator.

Senator MARK BISHOP—I ask this question and I keep referring to it because, as a proportion of savings under the PBS, RPBS savings are consistently around six per cent of the PBS savings. There is a remarkable degree of consistency there which we have both identified. However, for this measure, ‘reinforcing the commitment to evidence based medicine’, the savings are almost 13 per cent of the PBS savings—13 per cent as opposed to 16 per cent. The RPBS savings are \$35.87 million out of PBS savings of \$280.5 million, which is 12.7 per cent, almost 13 per cent. All the others are around the mark of six per cent to 6.5 per cent. I assume that there must have been more significant problems in the RPBS than in the PBS—in fact, six per cent to 13 per cent, twice as serious. Would you care to comment on that?

Dr Johnston—I think, Senator, it must be a scale effect, but without the technical information here I do not think we can answer that question. I think we are indicating to you that we are assuming a broadly proportional impact across all the measures, but I am afraid we will have to take your question on notice to confirm the basis of that calculation—unless there is something Mr Stonehouse can add.

Mr Stonehouse—No, I cannot.

Senator MARK BISHOP—I would be pleased if you could take that on notice and give us a response as to why the savings are more than double in the evidence based medicine in this area. I turn now to the next heading of ‘increased information provision to doctors by industry’. A large number of academic commentators have argued that the cause of the blow-out in pharmaceutical costs is the selling activities of pharmaceutical companies—the way they market their products and the activity of their reps. This measure seems to be an obvious conflict of interest for the pharmaceutical industry sales reps. How do you respond to that criticism, Dr Johnston?

Dr Johnston—I think I would handle this one, Senator, in the same way as a previous question. The integrity of this measure is something that the Department of Health and Ageing is responsible for. We have assumed a proportional impact and we have explained the basis of the estimates, but your question on the integrity of the measure is one that we would seek their counsel on in providing you with an answer.

Senator MARK BISHOP—Would you concede that there seems to be a degree of overlap between this provision and the previous one we were discussing, ‘reinforcing the commitment to evidence based medicine’ and ‘increased information provision to doctors by industry’?

Dr Johnston—As Mr Stonehouse indicated before, there are some interactions between these measures.

Senator MARK BISHOP—Is there a degree of overlap between these two programs?

Dr Johnston—They will have to be administered in a way that is sensible in relation to both, yes.

Senator MARK BISHOP—So there is a degree of overlap between these two measures and a range of the other measures; do you know whether that degree of overlap was taken into account when the costings were prepared by the department of health?

Dr Johnston—I do not think we can answer that today, Senator, but we can take it on notice.

Senator MARK BISHOP—When the decision was made by government to go down this path—and it obviously had impact on your department—you took the attitude that there was no reason to think that veterans’ use of pharmaceuticals and the like would be significantly different to that of the general community. Is that essentially what you are saying?

Dr Johnston—I do not think you can ask me to explain what our advice to the government was, but if you ask me the question, at this point in time we cannot give you any reason to think that the impact on veterans would be different from that on the community at large. In the way the estimates have been done, we have explained to you that that is what they imply. I cannot add much more than that at this point.

Senator MARK BISHOP—Perhaps I should ask the minister then. Does the government have any reason to believe that veterans’ usage of the RPBS is different from or the same as the general population’s use of the PBS?

Senator Hill—I could take a stab, but it would probably be better if I took advice.

Senator MARK BISHOP—Who would you take advice from?

Senator Hill—Probably appropriate sources such as the minister I am representing here tonight.

Senator MARK BISHOP—And her officials are here at this table tonight.

Senator Hill—What is the answer?

Dr Johnston—Minister, I can just say what I have already said to the senator: we are not aware of any factors we could put forward that would justify assuming an impact on veterans that would be different from that on the community at large. That is why the estimates in the budget assume a proportional impact.

Senator MARK BISHOP—Presumably, the department of health did not send someone around to you who said, ‘This is what is going to occur in the RPBS; put it in your PBS; that is the end of the story.’ I assume they consulted with you.

Dr Johnston—We had an opportunity to comment on the basis of the estimates, and the estimates are scrutinised searchingly by the Department of Finance and Administration. In looking at the reasonable accuracy or reasonableness of the estimates, nobody has seen a reason to argue for a differential impact on veterans compared to the impact on the community at large.

Senator MARK BISHOP—Did Health or DOFA ask you whether there was any reason to assume a differential impact on veterans?

Dr Johnston—We were consulted on the estimates, and we had every opportunity to point to such a differential impact if we had a basis for saying that that should be taken into account. We have no such basis.

Senator MARK BISHOP—And were you or were you not asked the question?

Senator Hill—I do not know whether it is appropriate to ask that. That is really irrelevant, I would think. What is important is the outcome, and the answer to that has been given. Who asks whom questions—

Senator MARK BISHOP—The reason I have to ask that question is that the department is engaged in lengthy savings in a discrete area that affects veterans. Their bill goes to parliament appropriating expenditures, and I ask them for the nature of the savings and the reason and they, in effect, say: ‘The department of health thinks that there is no reason to think that the veterans population is any different to the general population and, accordingly, we are going to adopt the savings. No further questions can be asked and we are happy to pass them on to the department of health.’ It defeats the purpose of having a separate examination in this area.

Senator Hill—I think you can have a separate examination. You started off by asking the opinion of these officers, but then you wanted to know whether they were consulted in the process of determining the policy and, in effect, by what means. It seems to me that that really is a matter of the internal processes of government.

Senator MARK BISHOP—Why are the estimates of the savings different in the area I have already identified?

Dr Johnston—As I indicated at the time, we cannot explain that difference. I am assuming it is a scale effect, but we will have to take that on notice and explain that to you.

Senator MARK BISHOP—All right. Does the department have any reason to suspect that any number of pharmacies are involved in fraud of the RPBS?

Mr Stonehouse—We have a fraud investigation unit that does investigate issues relating to pharmacists and other providers. I have not got the details of the individual pharmacies and I am not sure I could disclose them, to be honest.

Senator MARK BISHOP—I am not interested in the detail of Mr Smith's local pharmacy; I am interested in the general question. One of the headings again is 'reductions in pharmacy fraud'. As you said correctly, Mr Stonehouse, you do have a pharmacy fraud unit. So I am wondering what the reasons are for suspecting that pharmacies are involved in fraud of the RPBS?

Dr Johnston—Once again, the basis of the estimates is the assumed impact on the PBS component of our business, not the unique part of the repatriation pharmaceutical benefits. The HIC has made an assessment that it sees scope to enhance its fraud detection programs which apply to our PBS business as well as the community's at large. We have got no basis for arguing that it will have a differential impact on our part of the business than from the community at large. So we have accepted the HIC's estimate of the savings it expects to be able to achieve by enhancing its fraud detection programs.

Senator MARK BISHOP—I understand that. Do you have any evidence that pharmacies have been involved in fraud of that element of the RPBS which is distinct to DVA and not part of the PBS?

Dr Johnston—I think Mr Stonehouse said that we would need to take that on notice. We would be pleased to do so.

Senator MARK BISHOP—But Mr Stonehouse said that you have a pharmacy fraud unit.

Dr Johnston—We do, and we would be pleased to look at what information we have.

Senator MARK BISHOP—Who is in charge of that?

Mr Stonehouse—I will take responsibility for that. But I do not have the details with me of the amount of fraud that relates to pharmacies in the broad or that fraud which is split between the RPBS component or the PBS.

Senator MARK BISHOP—Are you aware of fraud of the RPBS component?

Mr Stonehouse—I am not aware of fraud specifically in the RPBS component.

Senator MARK BISHOP—You are not aware of specific fraud?

Mr Stonehouse—But I am prepared to take the question on notice. I understand from Dr Johnston's answer that we would take the question on notice and give you a more detailed response.

Senator MARK BISHOP—Let us have the organisational chart discussion here. What is your position within the department, Mr Stonehouse?

Mr Stonehouse—Division Head, Health.

Senator MARK BISHOP—Division Head, Health. And there is an officer in charge of the pharmacy fraud unit?

Mr Stonehouse—Yes, there is. It is located in Melbourne.

Senator MARK BISHOP—And who is that?

Mr Stonehouse—Geoff Francis.

Senator MARK BISHOP—And who does Mr Francis report to?

Mr Stonehouse—He reports ultimately to me, through one of the branch heads.

Senator MARK BISHOP—So he reports to a branch head and that branch head comes to you?

Mr Stonehouse—He actually reports to a branch head in another division. But, for the specifics we are talking about, he reports to Mr Hay in corporate services development.

Senator MARK BISHOP—So he is three or four down the chain, but as far as we are concerned you are the senior person in charge of health?

Mr Stonehouse—That is correct.

Senator MARK BISHOP—In the last 12 months, how many reports have been brought to your attention on the nature of fraud by pharmacies in the RPBS component?

Mr Stonehouse—I could not give you that figure offhand, but I will take it on notice.

Senator MARK BISHOP—Thirty?

Mr Stonehouse—I would really only be guessing, and I do not think that would be appropriate.

Senator Hill—There is no point in guessing.

Senator MARK BISHOP—Is it many, is it few, is it very isolated?

Mr Stonehouse—I get a report from Mr Francis every month. The report is about eight or nine pages long, but it covers a variety of fraud activities related to health—doctors, pharmacists, nurses and other groups—and I really do not have a recollection of the number of pharmacies involved.

Dr Johnston—The fraud detection unit, for most of its business activity, reacts to specific information about fraud—through whistleblowing activity and so on.

Senator MARK BISHOP—Yes, complaints or advice.

Dr Johnston—This measure is a quite a different approach to fraud. This is a sophisticated computer search of prescribing practice to identify cases of potential fraud for follow-up using the HIC's agents. By and large, the reports that come to Mr Stonehouse relate to the other types of fraud, which are various indications to our fraud unit that there might be some inappropriate practice and that it needs to be followed up. I think that would be correct. I am not aware of the fraud unit undertaking a systematic program in respect of pharmaceutical fraud, which is the senator's particular interest.

Mr Stonehouse—No, it does not.

Senator MARK BISHOP—I am interested in pharmacies engaged in fraudulent behaviour with respect to prescriptions for the RPBS component of the PBS.

Dr Johnston—I think it would be fair to say, Senator—and we will have to confirm this in our response to you—that there are relatively few cases of fraud detection by the fraud unit in response to particular complaints or advice that fraud is taking place. It is quite different in its intensity and scope from that undertaken by the HIC—which, as I said, is a sophisticated computer program to analyse practice and identify potential cases of fraud.

Senator MARK BISHOP—So, again, the information in this heading is really derived from Health and Ageing?

Dr Johnston—That is correct.

Senator MARK BISHOP—How many cases of fraud by pharmacies are currently under investigation by DVA, Mr Stonehouse?

Mr Stonehouse—I will have to take that question on notice, Senator.

Senator MARK BISHOP—Is it many, few, one or two?

Mr Stonehouse—Very few. I thought Mrs Barr, who was at the table a moment ago, may have had some information.

Senator MARK BISHOP—It is very few, isn't it?

Mr Stonehouse—It is very small.

Senator MARK BISHOP—In fact it is fewer than five.

Dr Johnston—We are taking that question on notice; I think we have taken it as far as we can.

Senator MARK BISHOP—It is not unreasonable to take questions on notice that go to provision of information that you cannot be expected to have. But I would have thought the divisional head would have had some idea as to how many fraud cases—

Dr Johnston—You will need to ask him, Senator, but I think he has told you that he does not have that precise information.

Senator MARK BISHOP—He has declined to answer the question.

Mr Stonehouse—I am sorry, Senator, I have not.

Senator MARK BISHOP—The question is: how many cases of fraud by pharmacies are currently under investigation by DVA?

Senator Hill—The answer is that we do not know but we will find out.

Senator MARK BISHOP—That is right: 'We do not know.'

Dr Johnston—But there are a small number, Senator. We have confirmed your expectation.

Mr Stonehouse—As Dr Johnston said, most of it is done by the HIC.

Senator MARK BISHOP—I accept that point by Dr Johnston. Going back to the information you volunteered at the outset, Dr Killer, when you were talking about the department's monitoring role in the use of pharmacies by veterans, is there any particular evidence that suggests there has been doctor shopping by clients of DVA—different from that in the general population?

Dr Killer—My experience in practice and from information provided by our local medical officers, who are general practitioners, most of the veterans are in the older age group, as you are aware, and very few of them doctor shop.

Senator MARK BISHOP—Very few?

Dr Killer—Very few, because they develop a doctor patient relationship and tend not to break their routine. They go to see the same doctor or the same practice and the same chemist.

Senator MARK BISHOP—They develop a bond and a trust?

Dr Killer—They develop a bond, over many years I think. There will always be some who doctor shop but, as a general rule, I think very few veterans are doctor shoppers. I think the doctor shoppers are in a different category. They are probably younger people, doctor

shopping for drugs. Veterans, in principle, are not doctor shoppers. They are 78-year-old individuals who develop a good relationship with their GP and their pharmacist and that is their support structure and they tend to stick by it. The other thing about veterans is that they are intensely loyal. The strong relationship with their providers would indicate fairly clearly that they are generally not doctor shoppers. That is certainly my experience as a practitioner, and it is supported by the advice I get from other practitioners.

Senator MARK BISHOP—Would you assume then that the saving that is going to occur on doctor shopping in the RPBS is significantly different from the savings from the general population in the PBS?

Dr Killer—You can see here that the savings on doctor shopping are not very large anyway.

Senator MARK BISHOP—No. It is only about \$1 million, but it is 6.48 per cent, which is the same percentage as all the others. Conceding that the savings are minor—\$1 million out of \$16 million—is it a fair comment to say that it is probably exaggerated?

Dr Killer—I am relying on anecdotal evidence.

Senator MARK BISHOP—And your experience of 40 years?

Dr Killer—I would have thought that in our category and age group doctor shopping is not as common as it is in other age groups.

Senator MARK BISHOP—Regarding facilitating the use of generic medicines, is there any guarantee that generic medicines are just as effective as the brand names, in your experience?

Dr Killer—In terms of their chemistry and physiological effect, I think the generics are probably on a par with the brand preparations.

Senator MARK BISHOP—What about in terms of their effect on users?

Dr Killer—I think we are substantially looking at the same outcomes from the generics as we are from the brand medications.

Senator MARK BISHOP—I have seen a lot of press by representatives of the AMA and a range of industry doctors who suggest that, if you switch from brand name treatments to generic medicines, there can be a range of harmful consequential effects, because they are not all the same. They say that they are different in minor aspects.

Dr Killer—In my view, that situation is overstated.

Senator MARK BISHOP—Is that right?

Dr Killer—I think in a number of preparations, you do have to be fairly careful. One preparation comes to mind. It is warfarin, which I have talked about already. That drug is used for thinning of the blood and preventing deep vein thrombosis. It is used in preventing clots developing in the heart. In this situation, it is very important to stick with the same medication. But even in this scenario a brand change could be managed adequately. If you did have a brand change, as long as you continued with the same brand and monitored the thinness of the blood, that generic could be managed, I think. So in a sense if you looked at the physiological response to the chemistry of a generic you would probably find it was very similar.

Senator MARK BISHOP—You have concentrated on physiological responses by users. Are there other responses you think would have to be considered as well?

Dr Killer—I would not be stepping outside the square to say that the main concern of the profession relates to the different appearance of the preparations, because the generics—drugs A, B and C—and even the brands may have a different appearance or a different capsule size. For older patients, this can be confusing. If you are going to use generics, you need to be very careful, as a practitioner, to spend extra time with your patient to make sure they understand the medication they are taking. It is incumbent on the pharmacist to do the same. I think generics can be used, even in older patients, but it is incumbent on the practitioner and the pharmacist to make sure the educative side with the patient is very carefully done.

Senator MARK BISHOP—Is that the job of the doctor or the pharmacist?

Dr Killer—It is the job of both. When I was in practice, my receptionist at the front desk would occasionally ring me up—particularly if there was an ethnic mix—and say: ‘I’ve just spoken to Mrs X. She’s come out; she can’t understand anything you’ve said. She doesn’t understand anything.’ She would send the patient back, and I would take the patient through it all again to make sure they understood. So it is the role of the doctor as much as it is of the pharmacist. We are both in this. We are a team together, and I think understanding the medication is a dual role. With older patients and patients with an ethnic background, you are clearly dealing with some additional issues in comprehension and you have to work a bit harder. If you were using a generic, you would have to be careful and make sure they understood exactly what they were taking and explain to them, ‘This is the drug for your blood pressure.’ It is incumbent on the pharmacist to do the same.

Senator MARK BISHOP—But that ethnic angle is not going to be so relevant to the veteran community’s users, is it?

Dr Killer—No, but many of our veterans are older, as you know—average age in their 70s—and, in the older patient, you need to be fairly careful in the use of generics. I am not saying you cannot use them but I think you have to spend a bit more time to make sure they understand the preparation.

Senator MARK BISHOP—Does the department have any idea what the level of fraud of the RPBS by overseas residents is, if any? Have you done any investigation in this area?

Dr Johnston—Not that I am aware of.

Mr Stonehouse—By overseas residents living in Australia or Australians living overseas?

Senator MARK BISHOP—This is residents in Australia obtaining drugs and medicines by prescription in Australia and remitting same for resale overseas. I am told it is common in parts of Sydney.

Mr Stonehouse—We have no real evidence of that occurring. I do recall a case, a few years ago, where I think some veterans may have been taking medications to Vietnam and disposing of them. That is my recollection. I think it is a very minor issue.

Senator MARK BISHOP—It has not come across your desk in more recent times?

Mr Stonehouse—Not in recent times, no.

Senator MARK BISHOP—So is that essentially a non-issue within the department?

Mr Stonehouse—It is not on my radar screen at all.

Senator MARK BISHOP—Is that the same for you, Dr Johnston?

Dr Johnston—That is correct.

Senator MARK BISHOP—Can I turn now to the impotence drug, Caverject. It has been reported that it has been removed from the PBS, because the government ‘has decided that other priorities should replace funding for erectile dysfunction’. Is there any proposal to remove Caverject from the RPBS as well?

Dr Killer—My understanding is it has been removed.

Senator MARK BISHOP—Can I ask you when that occurred?

Dr Killer—I think the decision was made at the last meeting of the Repatriation Pharmaceutical Reference Committee.

Senator MARK BISHOP—When was that?

Dr Killer—It would have been about two months ago.

Senator MARK BISHOP—When drugs are removed from the PBS, are they automatically removed from the RPBS or is there a separate review?

Dr Killer—They are separately reviewed by our committee. If they are taken off the PBS, the Repatriation Pharmaceutical Reference Committee looks at the drugs to determine whether they should be put on our separate list.

Senator MARK BISHOP—Whether they should remain on the separate list?

Dr Killer—If they are taken off the PBS there is no access for veterans. We review whether we should put them on our list so veterans can keep access to them.

Senator MARK BISHOP—Is Viagra still on the RPBS list?

Dr Killer—Yes, it is.

Senator MARK BISHOP—Are there any plans to remove Viagra from the RPBS?

Dr Killer—It is not my understanding.

Senator MARK BISHOP—It did not get listed on the PBS.

Dr Killer—No.

Senator MARK BISHOP—But there is no current intention to remove it from the RPBS?

Dr Killer—As you are aware, there are very strict guidelines on the provision of Viagra for veterans. Viagra is only available to veterans who have war caused impotence. So if someone is on a gold card, for instance, but does not have war related impotence, they cannot get Viagra. It needs to be related to war service.

Senator MARK BISHOP—It begs the question how you differentiate between war caused impotence and other causes.

Dr Killer—There are a number of veterans who have impotence as an accepted disability.

Senator MARK BISHOP—From war service?

Dr Killer—Yes.

Dr Johnston—But quite often impotence is related to psychological impairment and many of our veterans have difficulties of that nature—you can make the link on a reasonable basis.

Senator MARK BISHOP—The answer is that there are no current plans to remove Viagra from the RPBS.

Dr Killer—No, none at all. For those interested, there are new anti-impotence drugs coming on the market.

Senator MARK BISHOP—Are they cheaper and quicker?

Dr Killer—Well, they are more sustained.

Senator MARK BISHOP—I was not aware that maintenance was a problem with Viagra. Can we now turn to page 21 of the PBS and to table 1.2.1, 'Comparison of 2001-02 estimated actuals and 2002-03 budget appropriations'. The table does not show any dramatic change in any area except in outcome 2, where there is an increase in costs of \$295.336 million. In summary, the bulk of that increase is: spending by GPs, \$45 million; treatment by public and private hospitals, up by \$146 million; and other health care, up by \$35 million. This is all attributable on page 21 to 'Growth in numbers and/or usage rates'—if you look over to the middle part of the table you will see that. But we also know that the treatment population is declining. Can we assume that the increase is all attributable to increased usage? Can you explain that difference to me?

Mr Stonehouse—To explain it we would probably need to define each of the groups, because there are differences across general practitioners, specialists, hospitals, and so on.

Senator MARK BISHOP—If the treatment population is declining but the costs are going up by \$295 million for a smaller population, I am interested to know why the costs are going up so significantly. At estimates in February I asked a question about the increase in additional estimates for health care, and you advised that the fault in the estimates process lay in the model being used and that the estimates difference was attributable to that cause. How do you explain this increase, given that age is not said to be a factor?

Dr Johnston—Mr Farrelly will speak to that question.

Mr Farrelly—There is a variety of sources of the increase. I will just run through the components of the \$137 million. Subsistence accounts for a small amount: \$336,000.

Senator MARK BISHOP—What do you mean by 'subsistence'?

Mr Farrelly—When veterans travel they get a subsistence allowance for treatment.

Mr Stonehouse—When veterans travel for treatment, they are sometimes paid overnight accommodation, meals and those sorts of things.

Senator MARK BISHOP—Okay.

Mr Farrelly—The medical component is \$18.6 million and growth in public and private hospital usage is \$65 million. A range of other smaller items amounts to \$15.8 million; pharmaceuticals, \$14.7 million; and the nursing home subsidy, \$23.1 million. The growth is spread across those items. Taking the growth in the medical category as an example, there are three components to it: the LMOs themselves, specialist consultations and specialist services. The LMOs have increased by \$6-odd million due to fee increases for levels B and C consultations, whereas with specialist services we found, looking more closely at the numbers, that there is a large, quite significant growth in the usage of pathology and health assessments. So there seems to be growth in that area.

Dr Johnston—To come to your opening question, Senator, you are correct in your assumption that most of the change is due to a change in usage not a change in the number of veterans eligible for these services. As the table on page 21 shows, there is also an impact in the shift between high and low cost services—so a composition shift.

Senator MARK BISHOP—So growth in usage rates is \$137 million—

Dr Johnston—I am saying that would be the predominant factor there. I think that would be reasonable, Mr Farrelly?

Mr Farrelly—Yes.

Senator MARK BISHOP—And \$92 million for moving between high and low cost services?

Dr Johnston—Primarily low to high cost but—

Senator MARK BISHOP—They would be low to high. So we have a declining population but an increase of almost \$295 million over \$348 million. That is about 8 per cent per annum. Is that right? That is about right.

Dr Johnston—Sorry, I am not sure what calculation you are doing.

Senator MARK BISHOP—It is roughly 8 per cent, anyway.

Dr Johnston—Yes.

Senator MARK BISHOP—What will be the decline in the population base this year—how many thousands?

Dr Johnston—I do not have the forecast figure, but I can give you the total treatment population for the last two years, for example: in June 1999, the treatment population was 353,840; in June 2000, the treatment population was 348,996; and in June 2001, it was 345,131. So that gives you some basis, but we can take on notice the—

Senator MARK BISHOP—That is all right. That just confirms what I had read or heard elsewhere.

Dr Johnston—There is a declining treatment population.

Senator MARK BISHOP—There is a marginal decline in treatment population but it appears to be that, for a smaller population, there are significant cost increases associated in the health area.

Dr Johnston—There is the impact of the increased coverage of the gold card, a measure that was announced in the budget and has already passed through the parliament. That will work against that but it will add—

Senator MARK BISHOP—That is a fair point. Is the increased coverage of the gold card factored into outcome 2?

Mr Farrelly—Yes, it is.

Senator MARK BISHOP—It covers about another 4,000 people?

Mr Farrelly—Yes. It comes through in 2002-03 budget measures as part of outcome 2, so it forms part of the \$295 million increase.

Senator MARK BISHOP—Okay, so we are going to put on about another 4,000—I think that was the figure for the extension of the gold card in 2002—so we still have marginal decline in the treatment population overall. Allied with that, we have a significant blow-out—in the order of eight or nine per cent—in real costs in health care areas in outcome 2. Is that correct?

Dr Johnston—I am not sure we should be using the expression ‘blow-out’. There will be an estimated increase in health costs, but I am not sure that we should be using the term blow-out. That is just a small point.

Senator MARK BISHOP—Why? An increase of eight per cent is significant in any man’s language.

Dr Johnston—I think that relates to the earlier discussion we were having, which you have an interest in too—that is, having a better understanding of the impact of ageing on the veteran population.

Senator MARK BISHOP—I am making a series of simple points. The treatment population has marginally declined in recent years—a decline in the order of around three per cent—but the health care costs attached to outcome 2 in the area of health are increasing by eight or nine per cent per annum, which in the long term is a major problem.

Dr Johnston—I think we need to have more analysis to use a term like ‘the long term’ as well. It may just be the impact of the particular profile of the Second World War population working through into our health expenditures in their later years.

Senator MARK BISHOP—That could be a reason. You are entitled to speculate on that. I could speculate that uncontrolled use of the gold card and free access to private hospital care may perhaps be the key drivers, and both of those are, of course, policy decisions of government.

Dr Johnston—That is correct.

Senator MARK BISHOP—I suppose that does lead to a discussion about what work the department is doing to analyse and then isolate what I characterise as significant increases in costs in the health area?

Dr Johnston—As we were discussing earlier, an informed discussion of the trends in our health expenditures really does need some decent statistical work, and we are contracting the Australian Institute of Health and Welfare to do a study for us on that, and that might inform further discussion.

Senator MARK BISHOP—When you gave that consultancy to the Australian Institute of Health and Welfare, did you draft the terms of reference internally or did you do that in consultation with DOFA?

Dr Johnston—That is something we have done internally, although we will be pleased to provide those results to Finance and Administration.

Senator MARK BISHOP—No, that is another step. You did not consult with any other agency in drafting the terms of reference?

Dr Johnston—That is correct, Senator.

Senator MARK BISHOP—While we are talking about savings proposals, in the PBS for the 2001 year under the heading of ‘Managing health care information’, savings were identified in successive years of \$4.2 million, \$8.2 million, \$8.4 million and \$8.7 million in the 2003-04 year—a total of almost \$30 million. My question is: in the past two years what actual savings were made as a result of those savings identified in the 2000-01 budget?

Mr Stonehouse—This was the funding of the departmental management information system, our data warehouse. It is in Ms Schumann’s area. I am not sure that we can identify savings by year but perhaps Ms Schumann would like to talk about that.

Senator MARK BISHOP—In the PBS for the relevant years you did identify savings of \$4 million, \$8 million, \$8 million and \$8 million in respective years. We are now two years on. My question is: have those savings that were identified in the PBS been achieved?

Ms Schumann—We are actually in the process of attempting to quantify those savings. We are not in a position to confirm for you exactly the level of savings that has been achieved at this point but we have a broad indication and we are in the process of quantifying what that level might be.

Proceedings suspended from 9.18 p.m. to 9.31 p.m.

Senator MARK BISHOP—Ms Schumann was about to continue her response.

Ms Schumann—I was about to explain that we have not quantified the level of savings. The reason for that is that we have recently totally completed two data marts, one that relates to private hospitals and the other that relates to community nursing. The rest of our data marts—pharmacy, allied health and mental health—are in progress and have not yet been completed but are anticipated to be completed during this calendar year.

Senator MARK BISHOP—At this stage you cannot identify any hard savings because the systems are not yet established that deliver that information to you?

Ms Schumann—Only two data marts are fully complete. Essentially, how the system works is that they build a warehouse and they transfer the warehouse to data marts, and it is the data mart information that our contract managers in the states use very actively and then use in their contract negotiations.

Senator MARK BISHOP—So two data marts have not been concluded as yet?

Ms Schumann—Only two data marts have been concluded.

Senator MARK BISHOP—How many others are to be concluded?

Ms Schumann—At the moment we have six in train.

Senator MARK BISHOP—All of those six will be concluded in this calendar year?

Ms Schumann—That is correct.

Senator MARK BISHOP—When those eight data marts are established, you will be able to identify savings from the previous two years and the next two years?

Mr Stonehouse—Perhaps I can explain, Senator. There are a total of 33 data marts planned, and each data mart is an island of data, and the system becomes more and more useful as we are able to relate those islands of data to each other. At the moment we are able to use them—and we are only able to use one at the moment, which is on private hospitals—to specifically analyse the information that we have and the data we have in relation to private hospitals. We have found that quite useful in our negotiations with private hospitals, and Mr Harding will be able to talk about that more fully.

I can give you one relatively recent example, where we were negotiating with Ramsays in Queensland and we raised with them the comparison of their data for the costs on DRG99, which is intra-ocular lens implants. We were able to point out to them, by the use of the data mart, how their costs were in excess of the norm, comparing that island of data with other hospitals of similar size and complexity. It resulted in a saving and a reduction of their costs. We are using that particular island of data—that is the private hospital island—quite extensively now in our negotiations and our pricing arrangements with the private hospital area.

Senator MARK BISHOP—So we have one data mart relating to private hospitals which is up and running, being used and giving savings?

Mr Stonehouse—Yes.

Senator MARK BISHOP—You referred to 33 data marts, Mr Stonehouse, and Ms Schumann referred to eight.

Mr Stonehouse—That is her current horizon, but there will be 33.

Senator MARK BISHOP—So we will have eight done at the end of this year. When will the other 25 data marts be established?

Mr Stonehouse—Progressively, Senator.

Senator MARK BISHOP—Do we have forward plans for them?

Ms Schumann—We do. For the following two years after that, we have funds available to further that development.

Senator MARK BISHOP—At the end of calendar year 2004, current plans are for the 33 data marts to be established and working. Is that correct?

Ms Schumann—That is correct.

Senator MARK BISHOP—And we have funds allocated in the past to allow that work to occur?

Ms Schumann—We do.

Senator MARK BISHOP—Okay.

Mr Stonehouse—I should mention that not all of them relate to health. They are broadly across the department as well.

Senator MARK BISHOP—How many of the 33 relate to health?

Ms Schumann—Our intention would be that at least 75 per cent would.

Senator MARK BISHOP—I presume you started on the biggest ones first? The private hospitals would be a big one.

Mr Stonehouse—The ones that we thought would give us the most bang for our bucks.

Senator MARK BISHOP—Also on the 2001 PBS, on page 42 under the heading ‘A better medication management system’, savings were identified for better prescribing practices for the RPBS and for better health outcomes. Where is that proposal at, and have the savings been realised?

Dr Johnston—Which document are you referring to, Senator?

Senator MARK BISHOP—I am sorry, I should have made it clear that I am referring to the 2001 PBS, where, again, savings were identified at page 42. My question is: have those forecast savings been identified and achieved?

Mr Farrelly—I am sorry, Senator—the 2000-01 PBS?

Senator MARK BISHOP—Yes, on page 42 of the 2000-01 PBS, under the heading ‘A better medication management system’. The heading ‘Veterans home care’ is on page 38, the heading ‘Managing health care information’ is on page 39 and the heading ‘A better medication management system’ is on page 42. Savings were identified in each of the four

years, and my question is: for each of those years—and we can do them seriatim if you like—have the savings that were identified in the 2000-01 PBS been achieved?

Mr Stonehouse—I will start by talking about ‘A better medication management system’, and I will ask Olivia Witkowski to come forward while we are talking about that to talk about ‘Veterans home care’. The Better Medication Management System was a joint initiative between us and the Department of Health and Aged Care. It was a medication system for all Australians that linked doctors and pharmacists together through a central database and that depended upon, amongst other things, a nationally recognised unique identifier. That did not proceed.

Senator MARK BISHOP—That system did not proceed?

Mr Stonehouse—It did not proceed because of wider government decisions.

Senator MARK BISHOP—And will not proceed now in the future?

Mr Stonehouse—I do not know the answer to that, Senator.

Senator MARK BISHOP—So with reference to the savings of around \$2 million, the answer to that is, no, they have not been realised at this stage?

Mr Stonehouse—Yes.

Senator MARK BISHOP—Perhaps we could now turn to page 39, ‘Managing health care information’. There were savings identified of almost \$30 million—we have already had that discussion, have we not? That is in process.

Mr Stonehouse—That is right.

Senator MARK BISHOP—We will be able to identify next year whether we have those savings or not. What about ‘Veterans’ home care’ on page 38: savings identified of in excess of \$70 million over the four-year period? Where is that at?

Mrs Witkowski—The savings have not, at this stage, been measured.

Senator MARK BISHOP—Have the savings been achieved?

Mrs Witkowski—I cannot answer that at this stage, Senator. As Jo Schumann was mentioning earlier, one of the data marts for the departmental management information system includes the Veterans’ Home Care data mart. That should be finalised within the next couple of months and the interrogation of the veterans information that will come out of that will form part of the cost savings measure.

Senator MARK BISHOP—When we come back in November or December for another round of estimates, would you be able to advise me then, in terms of the Veterans’ Home Care program, whether the savings for 2001 and 2002 were achieved or not?

Mrs Witkowski—We would be able to give you a much better indication at that stage.

Dr Johnston—Senator, I would like to add to Ms Witkowski’s answer. There are some questions on notice in previous answers which outline in detail the evaluation strategy that the government resourced in funding this measure, which has been tendered out and the lead is being managed by the University of New South Wales. There is a comprehensive evaluation strategy, which we have described and discussed in answer to previous questions from Senator Schacht. I would suggest you look at those as well—

Senator MARK BISHOP—I do not recall asking those questions. Was it me?

Dr Johnston—No, it was Senator Schacht.

Senator MARK BISHOP—The issue that I am raising here is that in the 2000-01 PBS, savings of in excess of \$120 million or \$130 million were identified in that year and the three out years. One savings will not proceed—that was only \$2 million—and for the other two we cannot yet identify any savings at all.

Mr Stonehouse—The Veterans' Home Care program is under a great deal of scrutiny, as the secretary has alluded to. We have a formal evaluation process and a formal committee, which includes representatives of some of the coordinating departments, including Finance. It is a very serious issue in terms of achieving those savings. You might recall that this is the program that focuses on providing lower level care to people in their homes, like the Home and Community Care Service, but specifically for veterans. It is based on the savings premise that we will save money downstream.

Senator MARK BISHOP—The reason I am pressing this is: my recollection of some of the answers you gave me was that one of the justifications for the Veterans' Home Care program, if you like, was to be instant savings, as identified in the PBS. A second justification was that there would be a significant contribution to the overall reduction in health care costs. I just remind you of the earlier discussion this evening where we have identified that health care costs are still rising and my preliminary conclusion is that a lot of the savings that we have identified are just not, for reasons that are not yet clear, delivering as anticipated. That being the case, does that mean that you have to make savings elsewhere or do you get supplementary appropriations from the government or what? We are talking about serious amounts of money in terms of costs. What happens?

Dr Johnston—These are standing appropriations. The funding is available to provide the services that are required to provide health care to veterans.

Senator MARK BISHOP—So if we do not make the savings it does not really matter because they are within the parameters of the appropriations?

Dr Johnston—In terms of the continued availability of all the necessary services to veterans, there is no impact. But we, of course, as public officials are accountable for the quality of the estimates which we have put before the parliament. So we expect to be examined in detail on what evidence we can table.

Senator MARK BISHOP—Dr Johnston, you will forgive me for saying that, on the basis of this discussion and the earlier discussion about adoption of proposals from Health, it does appear to be hit and miss in the area of previously identified savings. They do not appear to have been achieved. There are certainly still doubts in my mind about the wisdom of adopting the proposals from Health. It just appears that forecast savings from last year, the year before and this year are not being achieved. What I will say is that we will have a more detailed examination of these savings in the November estimates and the estimates in February of next year so you might factor that into your thinking.

Dr Johnston—We would expect that. But could I say that on the basis of the information that is on the table there is no rigorous basis for deciding whether the savings are there yet or not. We have got a comprehensive evaluation program. We are doing further analysis of the data. You and we might be in a better position then to judge the quality of the savings and whether they have been realised or not.

Senator MARK BISHOP—Yes.

Dr Johnston—But on the evidence at this point, I think it would be inappropriate to conclude that the savings are not being made. We do not know that.

Senator MARK BISHOP—I take that point, Dr Johnston. Are the two data marts built to date mature enough to calculate savings?

Mr Stonehouse—I am just considering the question. The data marts themselves do not necessarily calculate the savings. They are used as tools to provide the savings. We would use some of the data from the data marts themselves, but it is not a calculation tool as such.

Senator MARK BISHOP—No, I did not mean to say it was a calculation tool. Let me rephrase the question. The two data marts that have been established: are they sufficiently mature to assist in the process of identifying hard savings?

Mr Stonehouse—Yes.

Senator MARK BISHOP—They are?

Mr Stonehouse—The private hospitals data mart is, and is being used on that basis. I might ask Mr Harding just to give you some examples of that, if you wish. The second data mart is in relation to community nursing and is being used now as part of our review of fees for community nurses and will provide us with a very good basis on which to calculate the appropriate level of fees and to examine the whole of our fee schedule.

Senator MARK BISHOP—That is fine, that answers that question. What did the two data marts cost to build?

Mr Stonehouse—I am not sure that I have to hand the exact costs for each of those data marts defined in that way. We can provide that on notice. There have been a lot of costs associated with the development of the whole infrastructure for the data warehouse.

Senator MARK BISHOP—Can I also draw your attention to the initiative for 2001-02 at page 29 of the PBS concerning the output pricing review. The resourcing formula you signed up to with DOFA links your resource base to the decline in the treatment population and yet the usage rate is escalating quickly which in turn must mean that you may not have the resources to manage the health care system. Is there any provision made in the agreement with DOFA for increased usage?

Dr Johnston—As you indicate, the agreement with the Department of Finance and Administration has our resourcing for variable cost components declining in line with the treatment population. In discussing and agreeing to that formula with the Department of Finance and Administration, we also referred to our own indexes, which more comprehensively measure workload and take into account different aspects of our business, the impact of ageing on some aspects of our business and so on—or at least they would reflect that—and we are satisfied that the use of the treatment population is a reasonable, simplified measure that does not do any significant injustice to our need for resourcing, given our better measures of workload.

Senator MARK BISHOP—So declining population over time and increased usage are taken into account in the formula that you have with Finance?

Dr Johnston—Broadly, yes.

Senator MARK BISHOP—So the basis on which resources are authorised to be given to you from DOFA takes into account that situation?

Dr Johnston—I will summarise the point as follows. As best we can judge workload, it is likely the workload will decline more rapidly than the treatment population on average. But you cannot be precise about these matters, so we are quite satisfied to accept the treatment population—as was the Department of Finance and Administration—as a reasonable broad indicator. But our own detailed indicators suggest that workload over the next few years may actually decline a bit more rapidly for a variety of reasons than the actual—

Senator MARK BISHOP—Are gold card claims, for example, increasing in number?

Dr Johnston—The measure announced in this last budget to increase the coverage of the gold card will impact on the treatment population, and that is taken into account in the way Finance resource our—

Senator MARK BISHOP—Okay, but if you exclude those 4,000 additional people, are gold card claims increasing in number? Are people using the gold card more?

Dr Johnston—I think you can see from our earlier discussion that usage is increasing, as we have discussed before. So in principle gold card usage is increasing, but that does not necessarily involve more work for departmental staff. Much of that is arranged through our contracts with GPs, specialists and so on.

Senator MARK BISHOP—But you pay HIC, for example, on a per usage basis?

Dr Johnston—That is correct.

Senator MARK BISHOP—So, if your usage is increasing, your payments to HIC, as an example, would also be increasing?

Dr Johnston—Other things given, although the HIC is implementing a comprehensive strategy to implement e-commerce, and we expect that to achieve significant economies in the unit cost of services provided by HIC to us.

Senator MARK BISHOP—But that is in the future?

Dr Johnston—That is in the future, and it is in the funding formula which we discuss with Finance each year.

Senator MARK BISHOP—I have had a number of representations from managers of community transport providers to the effect that their contracts with DVA are in jeopardy. The minister has issued a press release denying this, but it would be useful if you could tell us how this outcome is going to be managed in an open tender process. For example, how many community transport organisations are affected by the tender process?

Dr Johnston—I might say that the Repatriation Commission just recently reviewed the state of play on this tender exercise, and you need to understand that the process to date has to been to issue a draft tender for comment by industry, which is standard practice for us. We are now reviewing our approach in the light of those comments and once that is clarified—in consultation with providers and the veteran community—we will then progress to an appropriate tender arrangement.

Senator MARK BISHOP—So you have not yet implemented any changes?

Dr Johnston—We have not yet formally gone to tender. We have only issued a draft tender document for comment by the industry. I might say that the concern expressed by community transport providers has been a particular feature in New South Wales and not in other states. We are now in consultation with the New South Wales Department of Transport and other relevant organisations to see if there is some way we can clarify our funding arrangements

and those of various state authorities in the way community transport providers are resourced. At this stage, the commission is of the view that, subject to those discussions, we should continue community transport arrangements in New South Wales as separate arrangements and only go to tender as a new tender arrangement in respect of 'book car with driver' and the taxi voucher scheme, which also is unique to New South Wales. I would emphasise that these elements are still being discussed and we are taking careful note of the feedback we have had from the various industry players, and I think we can find a way through with an acceptable approach. I will ask Mr Stonehouse if he wants to add to what I have said or clarify or correct any details.

Mr Stonehouse—No. I think it would be no shame to say that, through the process of issuing a draft request for tender, we have discovered some things that we did not know about. That is why we do it that way, and we are reacting to that.

Senator MARK BISHOP—I have received some lengthy correspondence from the minister, and the complaints I have here relate to New South Wales as well.

Dr Johnston—I think we can find a way through that that will be acceptable to the community providers in New South Wales.

Senator MARK BISHOP—Okay, that is fine. I want to go back now to the response to question on notice No. 28 from the additional estimates on 22 February. That question related to gold card expenditure in 2000-01. I was a bit surprised to learn from that answer that you do not calculate annual figures for actual total expenditure on the different cards administered by DVA. How then do you come up with the estimates of average cost per gold card?

Ms Schumann—I have a very simple sheet that explains what I am about to say in some detail, and I can provide you with that. Essentially, we take the average cost per gold card and we divide it by the total number of gold card—

Senator Hill—Have you got that in a form that could be tendered?

Ms Schumann—Yes, I do.

Senator Hill—That would save considerable time, and that would be helpful.

Senator MARK BISHOP—Is that an explanation of how you calculate the cost?

Ms Schumann—It is indeed, right down to some detail. I think you will find it very easy to understand.

Senator Hill—Then we could move on to the next issue.

Senator MARK BISHOP—I have been trying to get that information.

Ms Schumann—I will table that for you. I have a copy, if you would like it.

Senator MARK BISHOP—I would, yes.

Ms Schumann—I think you will find it extremely easy to understand and quite self-explanatory.

Senator HOGG—That is reassuring, isn't it?

Senator MARK BISHOP—How the cost of the gold card is calculated and why the costs are going up has been an ongoing interest of mine. That box at the bottom right—

Ms Schumann—The one labelled 'Cost per DVA cardholder'?

Senator MARK BISHOP—Yes. It shows that the average cost per gold card is going to go up from \$9,350 this financial year to \$13,250 in four years time.

Ms Schumann—That is correct, but as Dr Johnston mentioned this is primarily based on some information for which at this stage we have estimates in the out years with which we are not 100 per cent comfortable. The work that will be undertaken for us by the Institute of Health and Welfare will help define for us those out year estimates, particularly in relation to public hospitals and pharmaceutical services. I say this because, as you probably would be aware, in relation to public hospitals at the moment we do not necessarily pay for every discrete service and then attribute that to the gold card per se. That means that our projections here are just that: projections. The institute is working with us to help us find these two figures more particularly and attribute them to the gold card.

Senator MARK BISHOP—Thank you. That is a useful document and I will take that away and study it in due course.

Ms Schumann—We would be happy to answer additional questions.

Senator MARK BISHOP—On this issue, would it not be useful to be able to analyse escalating costs on a cost per cardholder basis?

Ms Schumann—I am not sure what you mean.

Senator MARK BISHOP—That is a per user basis. This is essentially total expenditure on gold card divided by the number of recipients—average annual cost.

Ms Schumann—Yes.

Senator MARK BISHOP—And that is one way of looking at cost.

Ms Schumann—By type of expenditure, but we can also give you an indication in this bottom box: for example, for the year 2001 we can give you an indication of how much LMO consultations contributed towards the total cost of the gold card for that year. Does that help?

Senator MARK BISHOP—Perhaps. If we add up all of those, that gives you 8,400.

Ms Schumann—It does.

Senator MARK BISHOP—And 2001 was?

Ms Schumann—The proposed figure for 2001 is 8,400.

Senator MARK BISHOP—So that is 100 per cent of the cost.

Ms Schumann—Yes.

Senator MARK BISHOP—So you can identify it by those subgroups.

Ms Schumann—We can.

Senator MARK BISHOP—Would it be useful to be able to identify usage per cardholder? Say you and I both had a gold card: would it be useful to the department to be able to analyse my expenditure and then compare it with your expenditure and the other hundreds of thousands of people who use it?

Dr Johnston—I think you are asking questions that, in a sense, we will be exploring in the analysis with the Australian Institute of Health and Welfare. But I think the analysis at this stage will have to talk about the 'typical veteran' or the typical veteran in an age cohort, or whatever. We are waiting to see how rich a database we can pull together with the institute to analyse these sorts of questions. In effect, we have to use the institute to match the data that

we have, in considerable detail for veterans, but they need to be able to provide comparable data for the community as a whole or the relevant age profile, or whatever. We are not sure yet how comprehensive a comparison the institute will be able to build for us to enable us to analyse some of these factors.

Senator MARK BISHOP—The reason I am pursuing that point now—and I have pursued it before—is that, if you go back to the Government Actuary review of DVA health expenditure projection models, the report from the Government Actuary stated that the critical issue in terms of demand is the usage rate by members of the treatment population. It went on to say that analysis would be more instructively done by examining the number of services per member of the treatment population. Is that the type of thing that you are evaluating at the moment?

Dr Johnston—We are assuming that the study by the institute will inform that type of calculation by the Actuary.

Senator MARK BISHOP—So those issues that were identified by the Government Actuary are part of the review job that has been given to the institute?

Dr Johnston—I do not think it is explicitly part of the terms of reference.

Mr Stonehouse—The outcomes that we were expecting in the terms of reference document refer to ‘the analysis will cover expenditure, activity levels and unit price’.

Senator MARK BISHOP—Does that necessarily then extend to usage rates or do you have to infer it?

Mr Stonehouse—I think you would have to infer it, but that and some of the other issues we have raised with AIHW, I think, would give us the opportunity to look at usage of various groups.

Senator MARK BISHOP—It is not just what you call the cohort or the subcohorts; it is the usage rates by individual card holders that the actuary suggested would be a more appropriate way to analyse costs and the like. That is what I am asking you: is that point part of the review by the institute?

Mr Stonehouse—Not to that level of detail. We have done some work already on looking at high-cost users, and certainly in some time past now we did some work which suggested that a relatively small percentage of veterans use a relatively high percentage of services—and I think that is consistent across broader communities as well.

Senator MARK BISHOP—I think there is a bit of a disagreement in principle between what you are seeking to achieve and what I am suggesting. Could I ask you to provide a copy of the terms of reference to the institute that is going to be looking at this job.

Dr Johnston—We can do that, Senator. Mr Farrelly assures me that we are looking at usage in consultation with the actuary and that data that we are extracting from our own database is being shared with the institute for its work. But the critical issue is whether the institute can provide comparable breakdowns of data for the community at large. That is where we are not confident yet that the full analysis can be completed.

Senator MARK BISHOP—And that would depend on the quality of the data provided by the HIC, would it not?

Mr Farrelly—If I can make one minor clarification: we are yet to send the data to the university. The actuary is still looking at it with us. We are working with the other group that

is working with the university, and it is a combined effort to get as much data as we can, whether it is usage or activity, and to look at it from various perspectives to see what most usefully can be done.

Senator MARK BISHOP—That is fine. I understand that. Thank you, Mr Farrelly. When the Australian Government Actuary concluded the report we were just discussing, it said that it was doing a second report—and that reference is in paragraphs 4.5 and 4.8. Has the Government Actuary concluded that second report as yet?

Mr Farrelly—No. We are still working on the data with them, and we expect that that report would be available in time for additional estimates.

Senator MARK BISHOP—Turning now to veteran partnering arrangements, I read with interest your response to question No. 14 from additional estimates and a media release in more recent times. Your response indicated that Western Australian veterans have a total of only three tier 1 and tier 2 hospitals—we understand that—while New South Wales and the ACT have 176, and the average for each state is 65 tier 1 hospitals. Continuing the discussion we had at additional estimates about Western Australia and Brisbane about tier 1 private providers: is there any written agreement with Ramsays to prevent DVA from offering other tier 1 services within the Perth metropolitan area?

Dr Johnston—I think we gave you a reasonably full statement to that effect in response to previous questioning at the last estimates hearings, as I recall.

Senator MARK BISHOP—I recall that we had a lengthy discussion and I thought that the end was unresolved in that you were unwilling to commit to the fact that I alleged that there was a written agreement with Ramsays that prevented DVA from offering other tier 1 services within the Perth metro area.

Dr Johnston—I think I was a bit more careful than that, if I could say so. Of course, there is a contract and there are contractual issues in any change in the business relationship.

Senator MARK BISHOP—That is right.

Dr Johnston—We have the view that the contract does not provide a sole provider status to Ramsay Health Care in those two metropolitan areas. If veteran opinion changed and sought wider choice, for example, then we would have to have regard for that and then we would need to sit down and negotiate with Ramsay Health Care how such a change in view might be dealt with.

Senator MARK BISHOP—That is a clear answer indeed. Has DVA taken any action to enter tier 1 arrangements with private hospitals in Rockingham or Mandurah?

Mr Harding—We approached Mandurah and offered them to participate in a request for tender that went out to country Western Australian private hospitals. They declined to do that because the majority of their business is related to their public contract and they have a very small number of private beds. Therefore, the problem was how they would differentiate between veterans who would be treated through their public system versus veterans who would be treated through their private system. They are very much focused on their public system and very much about providing a very seamless service to all people entering that system. Rockingham was seen to be part of the Perth metropolitan area and outside the request for tender process for the WA country private hospital arrangement. So we have not proceeded with Rockingham or with the other metropolitan private hospitals. We would hope to re-engage with Mandurah in the near future just to follow that through, because it is about a

relationship they have with the Health Department of Western Australia. They are a very effective hospital, working with the local GPs and the nursing homes to effect a very comprehensive care system locally. But, as I said, the problem is about how they would use their very small number of private licensed beds.

Senator MARK BISHOP—The reason I ask that question is that I received correspondence from the TPI Federation in Western Australia. I believe it was also sent to the minister and she has responded. Their complaint is that veterans outside Rockingham, heading south, do not have access to the services that veterans living outside metropolitan areas in other states do. Furthermore, they stated that when the privatisation process commenced under the previous government back in 1992 or 1993—whenever it was—undertakings were given that veterans in Western Australia would have access to the same levels of service as those in the other states. They query why that has not occurred.

Dr Johnston—That is a factual issue in a sense, but it should also take into account veterans' views about the access arrangements and whether that is what they prefer. To date, the veteran community in both Perth and Brisbane have indicated a strong preference for the special status of those two hospitals. Those issues are still being discussed. The TPI Federation is pressing its views in Perth, and I am sure we will be kept informed of those views as they progress.

Senator MARK BISHOP—I take that point.

Mr Stonehouse—It might be worth mentioning, Senator, that we have just completed contractual relationships on tier 1 with St John of God hospitals in Bunbury and Geraldton.

Senator MARK BISHOP—When will they become operational?

Mr Stonehouse—From 1 June. They have just become operational.

Senator MARK BISHOP—In Bunbury and Geraldton?

Mr Stonehouse—Yes.

Senator MARK BISHOP—Were you having negotiations with tier 1 hospitals north of Geraldton?

Mr Harding—There aren't any, as far as we are aware. The ones further north would all be public hospitals, and we have an arrangement for them as tier 1 operations now. It is the same with Mandurah; it is a tier 1 operation.

Senator MARK BISHOP—So Bunbury and Geraldton are resolved, you are going to reapproach Mandurah, and Rockingham is status quo?

Mr Harding—Mandurah is already a tier 1 hospital, so veterans should not have problems accessing that hospital.

Senator MARK BISHOP—Turning again to question 18 from additional estimates in February, the figures in that table indicate that on average almost 98 per cent of DVA private hospital expenditure is attributable to gold card holders and almost 97 per cent of private hospital separations are attributable to gold card holders, yet gold card holders represent only 82 per cent of the treatment population. Is this in line with the department's expectations of levels of private hospital treatment according to the treatment population? Why is there that difference?

Mr Stonehouse—The white card holders are those who are most well. The white card only applies to people who have accepted disabilities alone and are not at the higher rates of

pension which are paid for higher levels of disability. So one would anticipate reasonably that they would require lower levels of care across the board. I think that is reflected in the cost structure that we ascribed to both the white and gold card holders. There is a reasonably significant difference in the comparative costs across the board for both those groups.

Senator MARK BISHOP—So gold card holders account for almost 100 per cent of expenditure and almost 100 per cent of separations but they are only 80 per cent or so of the treatment population. How does that relate to white card holders? I do not follow the linkage.

Mr Harding—There are two reasons. One is age; they are younger. Secondly, they do not have as many disabilities requiring hospitalisation. It relates to the other issue that you talked about before, which is blowout. The unfortunate thing about ageing is that as you get closer to death you are going to have a higher incidence of hospitalisation. That was the issue you were working through before. Unfortunately, it is between 78 and a little older that you are going to have a higher incidence. If you look at the Australian health care agreements and a number of the hospital utilisation cost studies, you will see they show that from 70 years of age onwards there is very much an exponential growth in the cost of hospital care. As you have warned yourself, in looking through studies, there is the eight per cent growth factor—and we talked about DMIS before—which is probably a minimal growth rate given the fact that there has been a significant cost increase particularly in hospitals through the nurses awards and the ageing factor. There has been a minimal increase—eight per cent is very minimal—when you take into account the ageing concept and the cost index because of the nursing awards and others that are coming through as well.

Senator MARK BISHOP—We will have this discussion when Dr Johnston's review is done.

Dr Johnston—When we have the data on the table.

Senator MARK BISHOP—I will be surprised if what you are saying is not pretty much 100 per cent correct. I must have received dozens of letters concerning the process for the negotiation of specialist fees. Is it the case that the department is negotiating a new fee for specialists under the RPPS with the AMA and specialist colleges?

Dr Johnston—We are talking with the AMA, exploring some possible approaches. The government has not yet decided what approach we should take in concluding those discussions, but we are talking with the AMA in a productive way. We will shortly be going to the government for guidance on how those discussions might be concluded.

Senator MARK BISHOP—So are your talks with the AMA exploratory at this stage?

Dr Johnston—I think that is a reasonable description, yes.

Senator MARK BISHOP—Once those exploratory discussions are concluded, you need to get some instruction from government as to how to proceed?

Dr Johnston—That is correct.

Senator MARK BISHOP—And then have formal negotiations?

Dr Johnston—Then we would hope to conclude any negotiations—that is correct.

Senator MARK BISHOP—What sort of time frame do we anticipate?

Dr Johnston—I think we need to let matters take their course. We have indicated to the AMA that we are treating this matter as a high priority and the government is considering this a matter of high priority, so we hope that we can progress the matter fairly promptly.

Senator MARK BISHOP—If they have to wait a while, it does not really matter, does it?

Dr Johnston—We are treating it as a matter of priority, Senator.

Senator MARK BISHOP—Will rising medical indemnity premiums be taken into account in these negotiations?

Dr Johnston—I would assume so.

Senator MARK BISHOP—Specialists have commented to me that the increasing number of veterans entitled to treatment in private hospitals has put considerable financial pressure on their practices as they are forced to treat an increasing ratio of veterans for fees, they say, which cause them to bear an increasingly disproportionate percentage of the cost of providing that service. Does the department acknowledge that this is a problem for specialists?

Dr Johnston—I think we have indicated that we are talking seriously with the AMA about these concerns and we are trying to find a way through the issues.

Senator MARK BISHOP—Is that a yes?

Dr Johnston—I think I would have to reread the transcript, Senator. I do not think I wanted to say yes.

Senator MARK BISHOP—No, I do not think you did.

Dr Johnston—We are in a process of preliminary discussions with the AMA and the specialist community. We are treating the matter as serious and needing prompt attention. I cannot say too much more than that.

Senator MARK BISHOP—Have any veterans contacted the department regarding the availability of specialist services?

Mr Stonehouse—Not very many.

Senator MARK BISHOP—In fact, none?

Mrs Devlin—On two occasions we have had people state that they may have problems accessing services—two occasions only in the last three months.

Senator MARK BISHOP—Is the department aware of any specialists who have decided not to treat veterans in the future because of what they see as the inadequacy of the CMBS rate?

Mrs Devlin—We have been contacted by specialists about that, yes.

Senator MARK BISHOP—How many have advised you that they are no longer going to treat veterans?

Mrs Devlin—There have only been a couple. I am not sure of the exact number that have advised us that they will not treat veterans.

Senator MARK BISHOP—I have had some correspondence. It is not a secret—it was sent to the minister, Dr Hunter, the chairman of surgical subcommittee, the manager of Gosford District Hospital and me, from a Dr John Moreton, who said: ‘This is to inform you that I will no longer be accepting patients classified as Veterans’ Affairs under my care at Gosford Hospital. I am happy to accept them as non-chargeable patients. I have ceased accepting Veterans’ Affairs rebates for all patients at my rooms and private hospitals.’ So you have had a number of similar complaints?

Mrs Devlin—Dr Moreton has actually withdrawn his service and I believe we have had one other who has said that. They are the only ones who have withdrawn—or stated that they have withdrawn.

Senator MARK BISHOP—So you have had two, including Dr Moreton. On 5 April the *West Australian* reported that five Western Australian nursing homes were recently penalised by the relevant federal agency—the Aged Care Standards Agency—for negligence in the care of their residents. Are you aware that there are any veterans in attendance at the West Australian nursing homes owned by Hall and Prior Aged Care Group?

Mr Stonehouse—Mrs Witkowski might be aware. We investigate any of those reports to determine whether veterans are present in the nursing home. That is our standard process.

Senator MARK BISHOP—I have five hospitals in that category: Burswood Private, Freshwater Bay, St Luke's, Kensington Park and Ascot Nursing.

Mr Stonehouse—Would you like us to take that on notice and give you the information?

Senator MARK BISHOP—I think the information is readily available.

Mrs Witkowski—No, we do not have it. We will take that on notice.

Senator MARK BISHOP—The question is: are there any veterans in the WA nursing homes owned by Hall and Prior Aged Care Group, which were found negligent in their care of residents? If so, how many veterans are there at Burswood Private, Freshwater Bay, St Luke's, Kensington Park and Ascot Nursing? What action has the department taken since the Aged Care Standards Agency reduced the accreditation periods of those nursing homes? I have had some correspondence from one particularly disgruntled spectacle provider concerning the process applying to the recent tender for spectacle frames. I have some questions arising from the answer to question on notice No. 5 from last time. Can you explain to me why the department advertised both the final request for tenders and the exposure draft of the tender in only two newspapers—the *Weekend Australian* and the *Sydney Morning Herald*?

Ms Devlin—We were advised that, being a national paper, the *Australian* would have the coverage. The *Sydney Morning Herald* and the *Government Gazette* were also used.

Senator Hill—Why not the *Adelaide Advertiser*?

Senator MARK BISHOP—Or the *Melbourne Age*?

Senator HOGG—Or the *Courier-Mail*?

Ms Devlin—Advice was received that that would be sufficient for this particular tender process.

Senator MARK BISHOP—The nature of the complaint from this firm in Tullamarine, Victoria is that it was advertised in the *Sydney Morning Herald* and their competitors up there were aware of it—

Senator Hill—How did they become aware of it?

Senator MARK BISHOP—Their competitors in Sydney?

Senator Hill—No, them.

Senator MARK BISHOP—The competitors in Sydney read it in the Sydney paper.

Senator Hill—And they told your constituent?

Senator MARK BISHOP—No, my constituent wrote to me and said that their competitors—

Senator Hill—Your constituent saw it in the *Australian*?

Senator MARK BISHOP—No, my constituent did not see it anywhere.

Senator HOGG—He found out late—after the fact.

Senator Hill—He had better ditch the Melbourne *Herald* and read the *Australian*, hadn't he?

Senator MARK BISHOP—He found out late, and he is critical of the tender process. He said that he was denied the opportunity to submit a tender and that the part of the process that was deficient was the insufficient advertising in all the states except New South Wales. So my question to you, Dr Johnston, is: how do you respond to the criticism of the person who wrote to me?

Senator Hill—Ms Devlin has answered that. She said that they advertised in one newspaper with national coverage and chose one of the state dailies. I would be equally distressed as a South Australian, but I know that this is a problem. Logically, it follows that, if it is necessary to advertise in daily newspapers in every state and region of Australia, it will cost a lot more money.

Senator MARK BISHOP—And that will not be done?

Senator Hill—Not in every instance, no.

Senator MARK BISHOP—What about in this public tender instance, which involves substantial sums of money? That is the complaint—that the competitors were not aware of the process because they did not have access to the advertising.

Senator Hill—They had better read the *Australian*.

Senator MARK BISHOP—They have never read the *Australian*.

Senator Hill—I do not know much about this industry, but I am amazed because those who are competitive in most fields of industry do know what tenders are coming up and they keep their ears close to the ground.

Senator MARK BISHOP—Apparently they did not in this instance and they are complaining about it.

Senator Hill—Anyway, the question has been answered.

Senator MARK BISHOP—Was any consideration given to advertising in industry publications?

Mr Stonehouse—There are a limited number of suppliers of frames and lenses for spectacles, and when we were tendering—and Ms Devlin will correct me if I am wrong—I think we wrote to suppliers.

Ms Devlin—All providers of optical services were notified by letter in October that the tender process was going to occur in March of the following year. They were written to and informed personally about that.

Senator MARK BISHOP—Did that correspondence go to Merrington's Optical in Tullamarine, Victoria?

Ms Devlin—That correspondence went to the Merrington's outlets, yes.

Senator MARK BISHOP—What are you laughing at?

Senator Hill—I am just waiting for you to acknowledge the helpful efforts made by the department to ensure that your constituent had an opportunity to tender.

Senator MARK BISHOP—I am in the process of exploring what has been the tender process and what advice has been given to applicants, and you keep interrupting. Now we have the information, I will turn to the recently released ANAO report and the issue of GST compliance. Does the DVA have any unresolved technical tax issues with the Commonwealth?

Mr Farrelly—We have reviewed the ANAO's recent report. Aside from the private ruling on GST, we believe that our control frameworks are sound and, while we could always improve our training and so on, we do not believe we have any major issues. Certainly, we are going to look in more detail at the ANAO report that was released on the 29th and make sure that that is actually the case.

Senator MARK BISHOP—Is the department aware of any technical noncompliance in its GST administration?

Mr Farrelly—There are occasionally accounts that are incorrectly paid and we rely on a comprehensive quality assurance process that is run every two months to identify areas that might have a systematic problem with GST. We ask the officers concerned to look at those specific problems and address them. While we have something like 200,000 accounts a year that go through the finance system, there will always be the odd account that is not dealt with strictly correctly, but we believe we have processes in place to manage the situation.

Mr Stonehouse—We have been advised by the ATO of a draft ruling which says that most of the services that DVA provides are GST free but which raises issues in relation to the GST status of a number of services: dietetics, occupational therapy, podiatry, speech pathology, social work, orthoptics, and some issues relating to domiciliary nursing and veterans' home care services. We are working through this with the Taxation Office. There has been a meeting held at senior level—at deputy president level—of the Repatriation Commission and we are working with the tax office to work out if there are implications for us in relation to the health GST status of some of those items.

Dr Johnston—To draw together those two pieces of information: the response that Mr Farrelly gave you was in relation to payment of the department's own accounts.

Senator MARK BISHOP—I understood that.

Dr Johnston—Mr Stonehouse is being very careful, saying that there are a range of issues we are still clarifying with the tax office in respect of some health payments.

Senator MARK BISHOP—I thank Mr Farrelly for his contribution, but I was referring to the issues that Mr Stonehouse has addressed. Does the department have any private rulings or draft private rulings on the application of the GST legislation to the department's activities?

Mr Stonehouse—Yes, that was what I was referring to.

Senator MARK BISHOP—When were they issued?

Mr Stonehouse—Late last year—6 November.

Senator MARK BISHOP—Could a copy of those draft rulings be made available to the committee? Could you take that on notice?

Mr Stonehouse—I do not have a problem with that.

Dr Johnston—We might just clear our way with the tax office on that if we can, but I do not think it will be a problem.

Senator MARK BISHOP—I am making the request to take it on notice and give us a response.

Mr Harding—I think that the rulings will give you a date of 22 March. They are the most recent rulings and, at the present moment, the tax office is reviewing them in light of further information we have provided to them. I would suggest that it would be more prudent for them to complete their consideration as they go through an appeal process. They would be seeking to make sure that what they give to us is the most appropriate ruling, having full regard to all the facts. The tax office has given a number of private rulings to other parties and they are corresponding directly with them regarding the appropriateness or inappropriateness of those rulings as well.

Senator MARK BISHOP—You made a reference to private rulings in March. Mr Stonehouse made a reference to rulings on 6 November.

Mr Stonehouse—Sorry, I obviously did not have up-to-date information in front of me, for which I apologise.

Senator MARK BISHOP—So private rulings were issued in early November?

Mr Harding—In November, the tax office was seeking to get clarification on certain issues. The rulings were actually issued on 22 March this year. The tax office and DVA are still working through whether or not there are factual errors or omissions within those rulings that require further clarification by the tax office before they issue them as the final thing.

Senator MARK BISHOP—So those rulings were issued in March. What are the consequences of those rulings?

Mr Harding—The rulings are such at the present moment: ATO is working with DVA on how to effect the implementation, if there are any changes required to systems, so that it is not a retrospective but a prospective tax adjustment if it is necessary.

Senator MARK BISHOP—So there would not be any retrospective application to DVA?

Mr Harding—No. At the present moment, the tax office wishes to work with DVA where there is a need to have some change. First of all, they are trying to clarify that they have the right understanding. From there, it is more about making sure there are systems in place to ensure there is minimum disruption to the providers and that it is not retrospective.

Senator MARK BISHOP—That is a future issue. Does it have any implications for past appropriations?

Mr Harding—No.

Senator MARK BISHOP—Because we are only going to be talking about prospective application once the systems are up.

Mr Harding—Again, the arrangement within the Commonwealth is that there is a special appropriation organised through the department of finance—Mr Farrelly might be able to explain it—but it does not actually affect the specific appropriation since it is some sort of a suspense account, if you want to call it that, where the money goes in and then is drawn again as it is claimed back.

Senator MARK BISHOP—Has the department made any estimate of the cost of updating its systems to accommodate any new procedures?

Mr Harding—At the present moment, we are trying to work with the tax office to establish what changes are actually necessary. There are some areas where, if we can streamline the paperwork, it will minimise the amount of changes that are required to our systems. That is working through the idea of having a simplified remittance advice, if you want to call it that. The more simplified that becomes, the less cost that is in terms of the DVA.

Senator MARK BISHOP—Has the department had any discussion with health providers on this issue as yet?

Mr Harding—A number of providers actually approached the Australian Taxation Office and, because of privacy reasons, the Taxation Office could not tell us that. They then proceeded to issue a number of draft rulings and, as a result of that, they then proceeded to start to have discussions with DVA. When they had better information, as of 22 March, they found out that they have to write to a number of providers to rearrange the previous rulings they have as well as to confirm where we are going in the future. So a letter is being issued by the Taxation Office to clarify the specific relationship between them and the providers about previous private rulings and when the new arrangements would come into place.

Senator MARK BISHOP—I have a few final questions on the PBS. The bottom paragraph on page 43 states:

A review will be undertaken of the arrangements for contracting hospital services under the Repatriation Private Patient Scheme. This will include the experience with the introduction of Veteran Partnering contracts for private hospital services.

What is the purpose of that review?

Dr Johnston—We are conscious that over the last two or three years we have implemented veteran partnering for private hospital contracting. We have been in extensive dialogue and negotiation with the states to put our contracting for public hospitals on a more robust basis and on a more satisfactory purchasing basis. We are at a stage, if you like, where we think we need to review, from an implementation point of view, how well we are travelling in that range of contractual approaches. We are still framing our approach to such a review. We have not actually initiated the review; we are discussing possible approaches with various interested parties and hope to progress that in the not too distant future.

Senator MARK BISHOP—So you would not have given consideration to who will the conduct the review?

Dr Johnston—No, we have not.

Senator MARK BISHOP—Is it likely to be in-house or out?

Dr Johnston—We are still talking with sister agencies and giving thought to what might be useful to us and what might be useful to others.

Senator MARK BISHOP—Any idea of the time frame for the review?

Dr Johnston—I think we need to shape it a bit more. In a sense, the more comprehensive it is and the more public it is, the more time you might want to allow for due process and consultation. If it is a fairly straightforward implementation review for the department's primary benefit, we could probably progress that fairly quickly, using one or two consultants that might have expertise in this area.

Senator MARK BISHOP—I want to ask a few questions about your answers to questions on notice in this round of budget estimates. Could you explain the difference between

pharmaceuticals listed as ‘restricted benefit’ and pharmaceuticals listed as ‘authority required’?

Dr Killer—Restricted pharmaceuticals are restricted to a particular condition. So it is a guidance for the doctor when he is prescribing. If authority is required, then a phone call is necessary to either the HIC or the department to get an authority for that item to be prescribed. So there is the necessity for a phone call.

Senator MARK BISHOP—Does that apply to gold card holders or to white card holders?

Dr Killer—It applies to everyone.

Senator MARK BISHOP—Does that apply in high-cost items—where you need to get authority to issue?

Dr Killer—The way our system works is that we have pharmaceuticals listed on the PBS, which you are aware of, and pharmaceuticals listed solely on the RPBS—our list—but if a drug is available and being marketed in Australia and a doctor can give clinical justification for its use, as often occurs in the management of cancers or leukaemias, they can write in for what we call ‘prior approval’ and a member of our Repatriation Pharmaceutical Reference Committee will look at that and see whether it is appropriate for the treatment of the particular veteran. So this is an avenue that is available to veterans through our scheme but not through the PBS.

Senator MARK BISHOP—It sounds quite beneficial.

Dr Killer—It is based on a clinical need provision of treatment. Many of these items, such as Glivec—I can mention one preparation for leukaemia—are quite expensive preparations, so they come specifically to our department and then a specialist member of our committee would look at the request.

Senator MARK BISHOP—I have a series of detailed questions arising out of questions 3, 4, 5 and 6 where you identified a whole range of medications and the like that are on the RPBS. I think I might put them on notice and ask you to give written information as to why a range of drugs, medications, oils and sunscreens are included on the list. I am sure there is good reason, but I think I will put that on notice.

Dr Killer—As you can see, there is a large number of drugs on that list.

Senator MARK BISHOP—There is; and there is a large range supplementary items like bath oil and sunscreen and laxatives which are costing millions of dollars. But I am sure there is probably sound condition for those.

Dr Killer—The way the RPRC works is that, if a new pharmaceutical is on the market, an application can be made for it to be reviewed by the committee. So not only does it review new items but it does systematic reviews of the items actually on the list and, as a result, some pharmaceuticals are taken off and often replaced by newer and better medications. So it is an ongoing review process. But if you have queries in relation to specific medications—and there are so many of them—it is probably better to take them on notice, I would have thought.

Senator MARK BISHOP—I think I will put them on notice. This is one for you, Dr Johnston. I have received representation from the RSL in Western Australia concerning a British veteran who lived in Australia for 10 years previously, served with the Australian Army in Vietnam for quite a long period of time, has been granted 100 per cent DP and the gold card and yet has been rejected for a service pension. On the face of it, it strikes me as being a bit absurd, given that the person concerned is a resident of Australia, has made it his

home and has served with our forces. I am told the person has been rejected on two separate occasions, so I raise it formally, as I have been asked to do, and I would appreciate an urgent response with advice as to remedial action of a discretionary nature which might be taken to grant residency in what seems to me to be a fairly open-and-shut case. He served in Vietnam for many years, was a member of the Australian armed forces, lived in Australia for many years, returned to Britain, then came back to Australia in recent times and has had some correspondence. His name is—

Senator HOGG—Do you want to put his name in *Hansard*?

Senator MARK BISHOP—Yes, he has asked me to do so. He is Mr P.H.J. White, Vietnam veteran, DVA WSS4051. I wonder if I could ask you to draw it to the attention of the minister to see if there is any discretionary action that exists to give this man residency status in Australia.

Dr Johnston—As you know, we are bound by the legislation, but if you can provide me with the papers we would be happy to—

Senator MARK BISHOP—I would ask you to draw it to the attention of the minister.

Dr Johnston—And we can advise you of our response, yes.

[10.50 p.m.]

Senator MARK BISHOP—That concludes my questions on health. I thank Dr Killer and the other officers. We might now turn briefly to outcome 1, compensation. Dr Johnston, on 22 February I asked on notice about the costing of exempting disability pension at the general rate only from a Centrelink means test, to which you responded that you were awaiting advice from DFACS. Has that request been forwarded and, if so, when might a response be available? I ask this because it is public knowledge that I will be moving amendments to the social security bill currently before the House and an accurate costing will be required by the government in the event that it passes in the Senate.

Dr Johnston—We provided a draft response for the minister's clearance, so it is subject to further process in the light of their reading of our draft response.

Senator MARK BISHOP—So the draft response has come and we are waiting for clearance?

Dr Johnston—That is correct.

Senator MARK BISHOP—You might just draw to the minister's attention the fact that we are waiting on that. I turn now to some T&PI issues. On 22 February I asked about the number of T&PI pensions that had been cancelled as a result of investigation into work undertaken in breach of the work test, to which you responded that there had been none cancelled but a number had been reduced. Could you take on notice, please, that I would like to know the number which have been reduced and the degree of reduction in the same period. Also on that day you told me that there were 11 appeals pending to the AAT from POWs or their widows, some relating to domicile and others to women who were divorced. Could you please advise of the policy with respect to divorced widows, either where the POW has remarried or where he has not? Also on 22 February you provided me with a list of the best program recipients, and I thank you for that. In consultation with some claims advisers in the community, it has been suggested to me that such grants ought to be made on the basis of claims processed and lodged, which I suppose raises the question of the overall effectiveness of the scheme. Has any consideration been given to such a suggestion?

Mr Maxwell—The BEST program is in fact under evaluation at the moment. That is one of the considerations I know has been factored into that evaluation process.

Senator MARK BISHOP—So that issue is under review. I refer you to an article in the *Australian* on 28 May under the title ‘Cell damage found in SAS veterans’. Can DVA comment on the research by geneticist Judith Ford referred to in that article?

Dr Horsley—We have had a preliminary look at the material that Dr Ford has provided. It is based on very small numbers, and it is difficult to make an assessment of the value of work based on such small numbers. In addition, it is clear from the documentation that was provided that the veterans have self-selected—that is, there has been a process by which a number of veterans have put up their hands and said, ‘Yes, I would like to have my blood tested.’ Given that background, it may be that the value of the testing is limited because it is known in these sorts of studies that people who feel they are sick are more likely to come forward and volunteer for such work. We have not seen the full report but, from what I have seen so far, we need to take the results of those tests with a grain of salt.

Senator MARK BISHOP—You would put it that strongly?

Dr Horsley—Yes, I would. Self-selection is a very serious flaw in epidemiological studies. If you have a group of people who are selecting themselves for testing, that can seriously undermine the value of the work, particularly when you are basing it on such a small number of cases that have not been randomly selected.

Senator MARK BISHOP—Do you dismiss this research out of hand?

Dr Horsley—No; I think we need to take it, as I said, with a grain of salt. It is work that has not been published in a peer-reviewed journal, it does not have an ethics committee approval that I am aware of, so there are reservations that we need to express at the front end of the research. We also know that research based on very small numbers, where people have volunteered to come forward and be guinea pigs, is often flawed. When a more methodical study is done and more rigorous methodology is used, sampling correctly over the entire group, such early reports often prove not to be sustained.

Senator MARK BISHOP—Do you know whether the research referred to involves serving or retired SAS personnel?

Dr Horsley—I know for certain that there were some retired ones. I do not know if there were any serving ones.

Senator MARK BISHOP—Would it matter?

Dr Horsley—It may not. One difficulty with serving personnel is that they are covered under certain degrees of confidentiality that pertain to the SAS. That may make it a little more difficult.

Senator MARK BISHOP—Are you aware of whether the ADF supported the study at all?

Dr Horsley—No, they did not support the study. It was done by the veterans themselves. That was another slight difficulty, in the sense that each veteran paid for their own tests. That would be another selection bias. You are selecting not only veterans who perceive themselves to be sick but veterans who are willing to pay X amount of money to have their own tests done.

Senator MARK BISHOP—How many were involved? Was it 28? No, that is not right. It says here, ‘An analysis found that six out of 10 SAS veterans tested had suffered

chromosomal damage,' so it was 10. They were all self-selecting and they all paid for their own medical costs?

Dr Horsley—That is the understanding I have, based on the documents that I have seen.

Dr Johnston—Just to be a bit careful with the points we are making, the critical point that Dr Horsley is making is whether this research can serve an epidemiological purpose in some broader statements about this type of circumstance. The study clearly has some deficiencies from that point of view. However, the individuals concerned may be in most unfortunate circumstances which need to be addressed in another context. The question is whether the study has value from an epidemiological point of view, which is the evidence based perspective, and the study has significant shortcomings in that regard.

Senator MARK BISHOP—I understand the point you are making. I now refer you to an article in the *Sydney Morning Herald* on 25 May.

CHAIR—I will interrupt you there. Clearly, you require more time. By prior arrangement we are going to meet again with DVA after the dinner break tomorrow, so I think we might pull stumps. Thank you, Dr Johnston, and your officials. We will welcome you back tomorrow evening at 7.30.

Dr Johnston—Thank you. I take it that we do not need to bring the Health Division staff back tomorrow; we have completed the discussion of health matters?

Senator MARK BISHOP—That is correct, Dr Johnston.

Senator HOGG—We should not assume what Senator Allison might want in this process.

CHAIR—Her questions revolve around the general theme of problems with Maralinga testing. Are you aware of what she might ask?

Senator HOGG—She said to me that she had some questions on notice which you people have answered before.

Mr Maxwell—I think they are predominantly ones that we can handle.

Senator HOGG—So long as you are aware of her requirements.

Dr Johnston—It would be Mr Maxwell and his staff that would address those issues, not the Health Division.

Senator HOGG—That is fine. I just needed to raise it with you. I would hate to see you come tomorrow night with the wrong people.

CHAIR—Thank you and good evening.

Committee adjourned at 11.00 p.m.