

Workforce Planning in the Australian Defence Force

Department of Defence

Performance Audit

Tabled 27 November 1996

Audit Report No. 17 1996-97

Abbreviations

Army 21	Army in the 21st Century (review)
AAS	Authorised Average Strength
ADF	Australian Defence Force
AFPEMS2	Air Force Personnel and Establishments Management System
APLP	Army Personnel Liability Plan
ARA	Australian Regular Army
ASRP	Assistant Secretary Resources Policy (for each of Navy, Army and Air Force)
CAS	Chief of the Air Staff
CDF	Chief of the Defence Force
CGS	Chief of the General Staff
CNS	Chief of the Naval Staff
CoC	Cost of Capability
CSP	Commercial Support Program

DESTB-A	Director, Establishments (Army)
DGR	Director-General, Recruiting
DLTP	Defence Long Term Plan
DNPM	Director, Naval Personnel Management
DOCM	Director, Officer Career Management (Army)
DPF-A	Director, Personnel Finance (Army)
DPLANS-A	Director, Plans (Army)
DPPLANS-A	Director, Personnel Plans (Army)
DWPC-AF	Director, Workforce Planning and Control - Air Force
DWSA	Director, Workforce Statistics and Analysis
ETR	Excess Tasking Report
FENM	Functional Examination of Naval Manpower
FYDP	Five Year Defence Program
HQADF	Headquarters, Australian Defence Force
MRU	Members Required in Uniform
NPEMS	Navy Personnel and Establishments Management System
PRM	Personnel and Resource Management (Division of Air Force)

RFP Resources and Financial Programming (Division)

ROSO Return of Service Obligation

SCMA Soldier Career Management Agency

WO1 Warrant Officer Class 1

Summary

1. Workforce planning refers to the processes of determining requirements for people in an organisation, and then seeking to ensure that the numbers of people and mix of skills in that organisation are as close as possible (within budget) to that required. It does not cover the processes of recruitment, training, promotion, posting or discharge, although interaction with these activities is important to workforce planning.

2. In 1995-96 the average personnel strength in the Australian Defence Force (ADF) was 82 000, including 57 000 full-time service personnel, 4600 full-time-equivalent reserves and 20 000 civilians. Actual reserve numbers were 27 000. Personnel costs absorb a large and increasing proportion of the Defence Budget: \$3863 million or 38.7% in 1995-96 and an estimated \$4019 million or 40.4% in 1996-97.

3. Workforce planning in the ADF is undertaken primarily as a single-Service task. It is complicated by a number of factors, notably the large number of different skill categories, the large number and widespread nature of work locations, and the essentially 'closed' nature of the military workforce. This recognises that experienced personnel must (with some exceptions such as those re-joining a Service or transferring from other Services) join as recruits and then gain the necessary experience. Challenges common to the management of any workforce, such as the need to balance wastage, recruiting and overall strength while responding to changing needs and a changing environment, also apply to the Services.

4. Following the report of the Personnel Policy Strategy Review ¹ (Glenn Review) completed in 1995, Headquarters Australian Defence Force (HQADF) commenced moves to attain an increased visibility on both personnel issues and workforce planning.

Audit rationale

5. Workforce planning in the ADF was chosen by the Australian National Audit Office (ANAO) for audit because of the significant cost of ADF personnel and the importance of personnel in performing the defence function. It has not been subject to previous ANAO coverage. Auditing all three Services (Navy, Army and Air Force) was intended to provide some better practice findings that could be used across the ADF.

Audit objective and scope

6. The objective of the audit was to assess the workforce planning systems used by the ADF with a view to identifying better practice and making recommendations where appropriate to promote overall effectiveness of planning systems. The main issues were

the management of the workforce planning function and determination of workforce requirements. The audit concentrated on the full-time military workforce, but also included the issue of the flexibility for military units to employ reserves or civilians where appropriate. Criteria were developed to address these issues.

Overall conclusion

7. Workforce planning is a complex task which the individual Services were pursuing diligently. With some exceptions, workforce managers were able to react to changing circumstances and provide for adequate personnel resources within budget limits. However, there was considerable scope to improve effectiveness and efficiency. In particular, the ANAO observed the use of the establishment system to reflect requirements for personnel to be inflexible, and sometimes inefficient and ineffective. The ANAO recommended a reduction of emphasis on establishment controls, together with more reliance on financial controls to manage workforce usage, while retaining central control of the military workforce structure. Potential benefits from this approach include reduction of complexity, increased ability for managers to improve effectiveness through flexible use of workforce resources, and greater ability to maintain a strategic perspective on the overall military workforce. Implementation of ANAO recommendations should also achieve savings in salary costs, as discussed later in paragraphs 19 and 24.

Key Findings

Management of the workforce planning function

8. The ANAO found that, although the approaches of the Services to workforce planning had some similarities, there were also a number of variations. Some of these can be ascribed to the specific nature of each Service but, in others, there would seem to be benefit in the Services improving coordination of their workforce analysis. The ANAO recommended that the Services consider establishing a common workforce analysis cell to improve coordination.

9. Air Force combined its personnel and resource management functions into one Division, which reduced the requirements for coordination. In contrast, Army separates its workforce planning into several distinct agencies, which added to the coordination load.

10. Performance indicators are significant aids to managing any function. Only Navy set performance indicators that attempted to measure its success in workforce planning.

Determining workforce requirements

11. Establishment control is a fundamental part of workforce planning. It is intended to define the resources a unit requires to carry out its functions effectively and efficiently. Establishment variation proposals are forwarded through the chain of command to the Service headquarters. If the variations are approved, the personnel system then strives to find the people to fill the new establishment.

12. A significant difficulty with establishment control is that the real limitation on staffing is overall funding or the availability of people rather than establishments. Nevertheless, the Services rely heavily on establishment control; e.g. variations are approved only if they are cost and rank neutral, or have very high-level direction, on the basis that adding

to the establishment directly leads to real personnel increases. Consequently, the process for varying establishments was sometimes lengthy, cumbersome and expensive.

13. There were significant numbers of vacant establishment positions. These included some 1400 positions in Army, 1300 sailor positions in Navy and 400 Air Force officer positions. Some individual skill categories were under establishment by 20% to 50%. Some others were over establishment by 20% to 30%.

14. In each Service, personnel are unavailable due to such things as advanced training, medical conditions and lengthy periods of leave. Navy estimated the cost of this overhead in 1995 as equivalent to \$100 million per year in salaries and allowances alone.

15. Establishment control tended to create inefficiencies, especially with respect to the flexible use of regulars, reserves and civilians. In addition, it did not fully control rank or trade structures. The insistence on the provision of offsets before establishment increases are processed can inhibit visibility of demand for personnel.

16. In many other organisations, including those within the Australian Public Service, the place of establishments has been downgraded in place of devolved financial controls. The ANAO concluded that ADF establishment controls were too rigid and could be partially replaced by financial controls.

17. There has been an element of rank creep (increasing proportions of higher-ranked positions) in the Services in recent years. Unless specifically planned for, this leads to a risk of uneconomical use of personnel resources. To help constrain rank creep, the ANAO recommended that the Services define the requirements for each rank. Currently, the Services do not have formal definitions of the responsibilities of each rank, although a 1995 pay case made progress towards resolving this problem.

Future requirements for personnel

18. All Services have mechanisms to predict and allow for future workforce requirements. Air Force's 'Cost of Capability' approach offers prospects of being an effective way of forming staffing estimates for new capabilities. ANAO considered this approach could also be extended to cover the staffing of project offices - those bodies that manage the introduction into service of the new capabilities.

19. The Services developed the concept of Members Required in Uniform (MRU). This refers to the minimum number of uniformed personnel (including both permanent and reserve members) required to meet and sustain the approved level of operational capability of the ADF. One factor making up MRU is structural overlay, which is the requirement, driven by the closed nature of the military workforce system, for additional people in junior ranks to provide for maintaining the strength of senior ranks in the future. Structural overlay is particularly high in Navy: some 800 to 1000 sailors, although the extent of overlay has been reduced by Navy since 1994. There remains the potential for reducing structural overlay, which currently costs some \$40 million per year for Navy alone.

20. In addition, the MRU process can define a desirable future workforce, in terms of categories and ranks, for each of the Services. The ANAO considers this MRU target should be taken into more account in adjusting the current workforce.

Strength management

21. Strength management refers to managing the current workforce to be as close as practicable to that required, within the constraints of finance, recruiting, training and wastage. This includes management of strengths for particular skill categories, as well as overall strength.

22. A key element of strength management is the prediction of wastage. Wastage prediction techniques vary considerably between the Services, and have the potential for improvement. The ANAO felt the Air Force approach was the soundest, as it took more factors into consideration, although the Navy's was also accurate.

23. The most important mechanism keeping strength close to requirements is the adjustment of recruiting numbers. Army has a sound mechanism for this process. For some Navy trades, there were substantial recruiting targets when strength was more than establishment, signalling the need for a closer connection between recruiting targets and the establishment-strength gap.

24. Navy is facing a workforce requirement which first reduces, then rises again as new ships are brought into service. Navy is proposing to slow down the reduction in numbers and start increasing numbers earlier. However, this would be achieved by retaining additional people (up to 2000 person-years) at a cost of some \$120 million, neglecting civilian staffing costs. The ANAO has recommended steps be taken to reduce this cost, and Navy has agreed in principle to this recommendation.

25. Air Force pilots have been consistently under establishment for the last ten years. The ANAO has recommended that the requirement be reviewed and, if shown to be justified, the training rate for pilots increased.

Allocation of scarce personnel

26. The Services used different ways of distributing shortages of people among affected units. The Air Force identifies skill categories that have shortages, and for these categories asks Commands to define which positions have lowest priority and hence can be left temporarily vacant. This approach seemed to be the most effective. The Army sets priorities by units, and in some cases by function, but negotiation by units and Commands is still important. Navy has an informal system of negotiation through units and Commands.

Defence comment

27. The Department of Defence stated that the report provides a good summary of how workforce planning is conducted within the ADF and makes some useful suggestions as to how the ADF might improve procedures and practices. Of the seventeen recommendations, twelve were agreed, four were agreed in principle and one was disagreed in part.

Recommendations

Set out below are the ANAO's recommendations with Report paragraph reference and the Department of Defence's abbreviated responses. More detailed responses and any ANAO

comments are shown in the body of the report. The ANAO considers that the Department of Defence should give priority to Recommendations Nos. 4, 5, 9, 11, 12, 13 and 14.

Recommendation No. 1 Para. 2.15	<p>The ANAO <i>recommends</i> that Army concentrate management of all workforce planning matters, other than resourcing and top-level policy, in Personnel Division.</p> <p>Impact: Improved efficiency through better coordination.</p> <p>Response: Agreed in principle. The spirit of the recommendation is thought to be in place currently.</p>
Recommendation No. 2 Para. 2.23	<p>The ANAO <i>recommends</i> that Air Force and Army define performance measures for their workforce planning functions, and that each Service subsequently report performance against its specific measures.</p> <p>Impact: Increased accountability for the performance of the workforce planning function.</p> <p>Response: Agreed.</p>
Recommendation No. 3 Para. 2.36	<p>The ANAO <i>recommends</i> that the Services work towards establishing a common cell for analysis of workforce planning issues.</p> <p>Impact: Improved effectiveness by better sharing of techniques, and possibly increased economy due to economies of scale.</p> <p>Response: Agreed in principle. Studies are under way to determine the appropriate degree of integration of the personnel function.</p>
Recommendation No. 4 Para. 3.59	<p>The ANAO <i>recommends</i> that each Service:</p> <ul style="list-style-type: none">(a) set an overall uniformed target strength that takes into account demands from sub-program managers, future requirements, structural constraints and financial constraints;(b) allocate personnel resources (in the form of a single monetary allocation covering regulars, reserves and civilians) to sub-program managers; and(c) increase flexibility of management by facilitating transfers of funds between personnel and related resources such as contractors. <p>Impact: This recommendation would improve the effectiveness of the workforce planning function in several ways. It would assist control in the areas of allocation of resources, supernumeraries and rank or trade structures. It would also reduce complexity, delays and possibly cost and would improve efficiency by more flexible use of regulars, reserves and civilians.</p> <p>Response:</p> <ul style="list-style-type: none">(a) Agreed - the ADF operates on this principle;(b) not agreed for reasons set out in paragraph 3.61; including the

increased complexity and cost of management and administrative processes of the total Service workforce.

(c) agreed.

Recommendation
No. 5
Para. 3.63

The ANAO *recommends* that each Service take steps to define the requirements for each rank, and conduct reviews from time to time to ensure that duties equate to rank.

Impact: Potential for improved economy through lowering of the average rank level.

Response: Agreed.

Recommendation
No. 6
Para. 3.68

The ANAO *recommends* that Warrant Officer Class 1 positions identified for downgrading or abolition be downgraded or abolished when the current occupants leave their positions.

Impact: Improved economy by decreasing the number of Warrant Officers Class 1 more rapidly than over the proposed five-year period.

Response: Agreed.

Recommendation
No. 7
Para. 3.72

The ANAO *recommends* that Services revise their guidance to workforce managers to state that militarisation of positions should be considered where knowledge, skills, discipline or deployment flexibility require a military member, or where the military option is less costly.

Impact: Improved efficiency of military units through ability to replace civilians with military members where it is more appropriate to do so.

Response: Agreed.

Recommendation
No. 8
Para. 3.76

The ANAO *recommends* that, wherever practicable, detachments are included in the establishment of the location where they are actually working.

Impact: Improved efficiency through better information on the number and type of people working in particular locations and on specific functions.

Response: Agreed.

Recommendation
No. 9
Para. 4.10

The ANAO *recommends* that Navy and Army introduce a coordinated approach to defining the costs of introducing a new capability to support, among other things, workforce planning for new projects.

Impact: Better accountability for workforce resources to be employed on new projects, possibly leading to greater economy.

Response: Agreed.

Recommendation
No. 10
Para. 4.16

The ANAO *recommends* that each Service review the process of staffing for project offices, with a view to including the cost of project office staffing in the process for defining costs of capabilities.

Impact: Better accountability for workforce resources employed in project management, possibly leading to greater economy.

Response: Agreed.

Recommendation
No. 11
Para. 4.25

The ANAO *recommends* that as an economy measure Navy take steps, such as adjusting recruiting, training or job design, to reduce the requirement for structural overlay.

Impact: Reduction of structural overlay, which presently costs some \$40 million per year.

Response: Agreed in principle.

Recommendation
No. 12
Para. 4.34

The ANAO *recommends* that each Service explicitly consider the number of Members Required in Uniform when considering desirable changes to the constitution of its workforce.

Impact: A better ability to plan for the future workforce through more explicit linkage with MRU.

Response: Agreed.

Recommendation
No. 13
Para. 5.15

The ANAO *recommends* that, to avoid excess personnel, Navy plan for its future strength to be closely aligned to predicted future requirements.

Impact: Potential savings of part of the proposed expenditure of \$120 million on personnel over the period before they are expected to be required.

Response: Agreed in principle. A closed workforce system cannot respond instantly to changing workforce requirements.

Recommendation
No. 14
Para. 5.27

The ANAO *recommends* that the Services conduct further research into the causes of, and trends behind, personnel wastage with a view to improving the accuracy of predictions.

Impact: Increased effectiveness through being able to bring the workforce closer to its desired strength.

Response: Agreed.

Recommendation
No. 15
Para. 5.42

The ANAO *recommends* that Air Force review the overall requirement for pilots, and either reduce the requirement or increase the pilot training capacity.

Impact: Increased effectiveness through increasing the number of pilots to be closer to that desired, or better setting of long-term workforce targets through acceptance that pilot numbers would remain below the desired level.

Response: Agreed.

Recommendation
No. 16
Para. 5.47

The ANAO *recommends* that each Service more actively consider Management Initiated Early Retirement and Limited Tenure Promotion in managing the workforce.

Impact: Increased effectiveness through managing the shape of the workforce, in terms of ranks and experience levels, to be closer to that required.

Response: Agreed. The morale and funding implications require further assessment.

Recommendation
No. 17
Para. 6.5

The ANAO *recommends* that Navy and Army introduce a system whereby, for each category for which overall demand is higher than overall strength, Commands nominate annually those positions that are of lower priority for filling.

Impact: Increased effectiveness through employing people in high demand in the most important areas.

Response: Agreed.

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Serving Australia - The Australian Defence Force in the Twenty-First Century, Department of Defence, 1995.

1. Introduction

This Chapter outlines the audit objectives and method, which focus on larger-scale workforce planning for the three Services.

1.1 Workforce planning refers to the processes of determining requirements for people in an organisation, and then seeking to ensure that the numbers of people and mix of skills in that organisation are as close as possible (within budget) to that required. It does not cover the processes of recruitment, training, promotion, posting or discharge, although interactions with these activities are important to workforce planning. For example, provision of recruiting targets and of information about success in meeting those targets is part of workforce planning, but not the carrying out of the recruiting function.

1.2 In 1995-96 the average personnel strength in the Australian Defence Force (ADF) was 82 000, including 57 000 full-time service personnel, 4600 full-time-equivalent reserves and 20 000 civilians. Actual reserve numbers were 27 000. Personnel costs absorb a large proportion of the Defence Budget: \$3 863 million or 38.7% in 1995-96 and an estimated

\$4019 million or 40.4% in 1996-97.

Audit objective, scope and focus

1.3 The topic of workforce planning in the ADF was chosen by the Australian National Audit Office because total personnel costs absorb a large proportion of the Defence budget and the area has not been subject to previous ANAO coverage. Workforce planning, which focuses on the larger-scale planning for acquiring the right numbers and mix of personnel, was seen as an appropriate personnel-related audit for the ANAO to conduct. It enables significant issues to be investigated without getting into the details of recruiting, training, promoting and posting. The latter remain potential future audit topics. Auditing all three Services was intended to provide some better practice findings that could be used across the ADF.

1.4 The objective of the audit was to assess the workforce planning systems used by the ADF with a view to identifying better practice among the Services and making recommendations where appropriate to promote overall effectiveness of planning systems.

1.5 Six issues were identified:

- management of the workforce planning function;
- determining workforce requirements;
- strength management;
- managing the workforce profile;
- allocating people to jobs; and
- rank structure and career planning.

1.6 The audit focused on the first two of these issues. The 'managing the workforce planning function' topic was considered essential to understanding workforce planning, and 'determining workforce requirements' was felt, based on some international audit reports, to offer the best prospects for adding value. The audit also made some observations on the other four issues.

1.7 The audit concentrated on the full-time military workforce, but also included the issue of the flexibility for military units to employ reserves or civilians where appropriate. Criteria were established for each of the six issues. These are listed at [Appendix 1](#).

Conduct of the audit

1.8 The preliminary study for this audit was conducted between September 1995 and December 1995. The efficiency audit commenced in January 1996, and field work was conducted between then and early August 1996. This consisted of:

- reviews of previous reports;
- discussions with workforce planning staff;

- discussion with representatives of selected units and Commands in Melbourne, Wagga Wagga, Sydney, Williamstown and Darwin;
- analysis of files; and
- analysis of Defence records on expenditure and on workforce. ¹

1.9 Previous reports assessed included performance audit reports of military workforce systems in the UK and the USA. These indicated lines of inquiry, but did not reveal any better practice against which the ADF performance could be considered. The most notable of the Australian reports was prepared for the Minister of Defence in 1995 by the Personnel Policy Strategy Review (Glenn review). This report recommended, among other things, an increased central visibility of workforce planning, changes to personnel policies to aid retention, and also improved mechanisms for managing retention.

1.10 Two consultants were engaged by the ANAO to provide expert commentary and criticism of audit issues papers. They were Brigadier (retired) Ian Hearn of IJC Consultancy, who has experience with military workforce systems, and Mr Rodger Morton of Workforce Planning Consultants, whose experience is mostly in private sector workforce planning.

1.11 Issues papers were provided to the Services for comment in August 1996, and the proposed report was provided to the Department in September for comment. The audit was conducted in conformance with ANAO Auditing Standards and cost \$289 000.

2. The Workforce Planning Function

This chapter identifies the main functions that make up workforce planning, and who performs them in each of the Services. Some observations are made about the Army organisation of workforce planning. The chapter also suggests more centralisation of the conduct of analysis in support of workforce planning. Performance indicators have either not been defined or not been measured.

2.1 Workforce planning in the Australian Defence Force is primarily a single-Service issue. The chief of staff of each Service is required to 'raise, train and sustain' his arm of the ADF. Recruiting is a function under HQADF, and there are also interactions with respect to joint training, staffing of joint units, and central management of some data. HQADF has now commenced moves to attain an increased visibility and provide input at the strategic level on workforce planning issues.

The nature of workforce planning

2.2 Workforce planning is complex. It needs to address fluctuating wastage and recruiting rates while keeping the overall workforce cost within budget and maintaining the ability to support future Defence initiatives. Other complexities arise from the dispersed nature of the workforce, the multiplicity of various skills, and the need in Navy to balance sea and shore duties.

2.3 An Ernst & Young report identified 116 stakeholders in Army's personnel process. ² A review within Air Force's Directorate of Workforce Planning and Control (DWPC) identified 152 processes within that directorate alone. The Army Manpower Plan noted that 'the relationship between financial planning and management, personnel planning and management and the manpower planning process is complex'. The ANAO considers the key functions of workforce planning are:

- *Current Requirements*: Determining the workforce required to carry out current tasks efficiently.
- *Requirements records*: Maintaining records of current workforce requirements for each unit - by rank and skill.
- *Future Requirements*: Estimating future workforce requirements - by rank, skill, and time when needed.
- *Financial bids*: Translating personnel requirements into financial bids, and preparing cases for the funding of the personnel required.
- *Funded personnel*: Translating funds actually provided into numbers of people who can be employed.
- *Wastage*: Estimating wastage rates.
- *Analysis of rank structures*: Deciding whether the rank structure within each skill category is sustainable, i.e. can produce the rank levels required in the future.
- *Recruitment etc.*: Estimating numbers to be recruited, trained and promoted in the near term.
- *People records*: Keeping records of numbers of people employed, by location, availability rank and skill.
- *Staffing priorities*: Setting priorities for filling positions when demand for people exceeds supply.

2.4 These functions are listed as far as practicable in the order in which they are addressed in this report. Table 1 links the functions with the key agencies only - for example, areas such as personnel computing and personnel finance have not been included. Where an agency carries out the function for a particular Service, the relevant abbreviation (A for Army, N for Navy and AF for Air Force) is inserted in the table.

2.5 Table 1 brings out the complexity involved, and indicates that significant liaison between agencies is necessary for the system to work effectively. It also indicates that there is a great deal of similarity in the way in which the Services perform workforce planning.

2.6 In each Service, responsibility for management of the military workforce is split between many agencies, such as recruiting (under HQADF), and the respective training Command, personnel division, executive sub-program for planning, and the Command for which the member serves.

2.7 Many committees also have an influence on workforce planning. The Chiefs of Staff Committee considers personnel issues from time to time, and the Defence Program Management Committee affects personnel issues through its resource allocation and monitoring function. Late in 1995 the Defence Force Personnel Policy Committee was reconstituted as the Defence Personnel Committee, which met for the first time in early 1996. This committee considers overall personnel strategy and policies, as well as resources. In each Service there are several committees that consider workforce issues. These include the Chief of Staff's Advisory Committee, programming and planning committees and working-level committees to advise on specifically workforce issues.

2.8 As noted earlier, HQADF is commencing strategic workforce planning, which implies a less detailed involvement in the issues canvassed in this report. Nevertheless, HQADF states it is

becoming involved in most of the functions listed above.

Comparison of how each Service conducts workforce planning

2.9 Air Force alone among the Services combines its workforce and resource management into a single division, Personnel and Resource Management (PRM). Air Force states this arrangement works well and reduces coordination overhead. For example, its Manpower Estimates Review Group has not needed to meet since PRM was formed in 1993 as issues are resolved through normal staff communication within the Division. Air Force has directorates of Functional Review (DFR) and Management Studies (DMS) which contribute to management improvement, including better use of workforce assets.

2.10 Navy concentrates its workforce management within its Personnel Division, but resource management comes under the Deputy Chief of Naval Staff Division.

The Army asset-liability split

2.11 Army distinguishes between management of its military workforce liability (the requirement for personnel) and the asset (the personnel on strength). These two aspects are managed in two different divisions. This division of responsibility extends from Army Office through Commands and sometimes to units. Management of the asset is carried out by the Directorate of Personnel Plans - Army (DPPLANS-A). Management of the liability is carried out by two directorates in General Staff Division: Directorate of Plans (DPLANS-A) and Director of Establishments (DESTB-A). In Air Force and Navy, all these functions are handled by a single directorate. However, DPLANS-A does handle a range of planning matters other than personnel, and DESTB-A also covers equipment and materiel establishments as well as personnel.

2.12 Table 1 indicates that the separation between management of assets and of liabilities is not always helpful. Most notably, the analysis of rank structures needs to consider both the asset and the liability. In addition, the financial cycle from submitting budget proposals through to allocating funds to specific personnel areas also involves both concepts.

Table 1 Key Agencies and Key Functions in Workforce Planning in the ADF

Function	Force Development	Materiel Division	Analysis and Advice	Workforce Plans	Establishments	Units and Commands	Resources Planning	Posting Agencies	Personnel Planning	Category Sponsors	Training Command	Recruiting
Current requirements			A, AF	N, A, AF	A	N, A, AF			A			
Requirements records				N, AF	A	N, A, AF						
Future requirements	N, A, AF	N, A, AF		N, A, AF		N, A, AF						
Financial bids		N, A, AF		N, A, AF		N, A, AF	N, A, AF		A			

Funded personnel				N, AF			N, A, AF		A			
Wastage				N, AF				N, A, AF	A			
Analysis of rank structures				N, AF	A				A	N, A		
Recruitment etc				N, AF				N, A, AF	A		N, A, AF	N, A, AF
People records						N, A, AF		N, A, AF				
Staffing priorities				A		N, A, AF		N, A, AF		N		

Notes:

N (A, AF): This function is performed by an agency of this type for Navy (Army, Air Force).

Force Development: Director-General, Force Development for Land, Sea or Aerospace.

Analysis and Advice: The Army directorate of Management Development and the Air Force directorates of Functional Review and of Management Services.

Workforce Plans: Directorates of Naval Personnel Management, of Plans-Army, and of Workforce Planning and Control-Air Force.

Establishments: Director of Establishments - Army (for other Services, this function is with workforce plans).

Posting Agencies: Directorates of Naval Officer Postings, Sailors Career Management and Officer Career Management (Army), Soldier Career Management Agency, and the Directorates of Personnel- Airmen and Personnel-Officers (Air Force).

Personnel Planning: Director of Personnel Planning - Army (for other Services, this function is with workforce plans).

Category Sponsors: Includes Heads of Corps for Army.

Table prepared by ANAO from observations.

2.13 Previous reviews (e.g. Army's Review into Army's Workforce Accounting Processes, 1995) have proposed that Army consolidate its personnel management in one Division. However, Army feels the personnel task is so big, with 65 000 people spread over 400 establishments and 417 trades, that the task should be split, and the asset-liability split is the best.

2.14 The ANAO view is that a large job is made more difficult by splitting it between Divisions and thereby increasing the coordination load. This liaison includes a bimonthly meeting of fourteen agencies to coordinate personnel liability and asset management. This group is co-chaired by DPLANS and DPPLANS. A sub-group of seven agencies also meets in the intervening months to analyse data on recruiting, training and finance. In contrast, Air Force has reduced its working-level formal meetings to twice a year. The ANAO considers that it would be more efficient for Army's General Staff Division to retain responsibility only for resourcing decisions and providing top-level policy advice, with all details concerning workforce planning being handled by Personnel Division.

Recommendation No.1

2.15 The ANAO *recommends* that Army concentrate management of all workforce planning matters, other than resourcing and top-level policy, in Personnel Division.

Impact

2.16 Improved efficiency through better coordination.

Response

2.17 Agreed in principle. The ANAO focused on the complexities of the split between personnel liability planning and personnel asset planning. Army previously rejected a recommendation by the Review into Army's Workforce Accounting Processes that DESTB-A be located in Personnel Division because of its equipment responsibilities. Nevertheless, the spirit of the recommendation is agreed and is thought to be in place currently.

Other variations between the Services

2.18 The other variations noted in Table 1 are:

- the involvement of different areas in the analysis of category structures;
- the existence of specific directorates to provide analysis and advice in Army and Air Force; and
- the involvement of different areas in staffing priorities.

2.19 These variations are discussed later in the appropriate sections: respectively paragraphs 3.35, 3.55 and Chapter 6.

Performance indicators for workforce planning

2.20 Of the three Services, only Navy had developed performance indicators for its workforce planning directorate. These are:

- comparisons [of actual results] with past plans, and the trend in the actual sea-shore posting ratio compared with the target ratio;
- manned billets versus establishment and mismatches of rank and category against actual incumbents;
- under or over spend of manpower guidance; and
- percentage and number of staff expressing high satisfaction with work within the directorate.

2.21 These performance measures seem appropriate. As at July 1996 DNPM had not completed reporting against the objectives.

2.22 Army has issued a staff instruction on the workforce planning process. This document allocated responsibility and defined activities, but did not specify performance indicators. In the case of Air Force, the RAAF Plan indicates overall functional responsibilities. Air Force also defined 'management objectives and performance indicators' for its workforce planning directorate, but they were more in the nature of a set of tasks than performance indicators.

Recommendation No.2

2.23 The ANAO *recommends* that Air Force and Army define performance measures for their workforce planning functions, and that each Service subsequently report performance against its specific measures.

Impact

2.24 Increased accountability for the performance of the workforce planning function.

Response

2.25 Agreed. Air Force has a number of indicators used to judge the success of workforce planning. The process will be further formalised and enhanced. Army considers the intent of the recommendation is already being met, but will provide for more systematic reporting.

Modelling and analysis

2.26 Each of the Services conducts modelling and analysis of the workforce. Some models provide checks that the workforce will remain within budget for the current year; others provide longer-term analyses of wastage trends and the rank structure of particular categories. Analysis based on these models is used to make decisions on such things as recruitment levels and changes to ranks or categories of positions. This section considers some of the modelling and analysis activities of the Services and makes recommendations for improvement through more centralisation.

2.27 Models could be used to provide analyses of policy changes such as the introduction of the Military Superannuation Benefits Scheme and Open-Ended Engagement (OEE). The ANAO was unable to find any assessments of such changes except for one Navy review that commented that OEE may have made Navy workforce planning more difficult by increasing the variability of wastage, as members became more able to leave in response to market demands. However, the Navy review did not comment on the reduction in average wastage since the introduction of OEE.

Navy

2.28 Navy uses a suite of models developed in-house called 'Modelling of Manpower Systems'. The ANAO observed that some components of this system were complex, without documentation, and had minor errors. They had been developed sequentially by several individuals who used different approaches to similar calculation tasks.

Air Force

2.29 Air Force uses models to track strength against the approved strength and to analyse and predict wastage. Analyses are carried out of each category to decide whether particular establishment changes should be approved, and to set recruiting targets for the forthcoming year.

Army

2.30 SCMA has analysed wastage by rank, and time in service. However, wastage analysis as a whole is the responsibility of DPPLANS-A, which uses a forecast wastage figure prepared by the Directorate of Workforce Statistics and Analysis (DWSA) in the Budget and Management organisation, which in turn employs an economic consultant.

2.31 DPPLANS-A also analyses specific trade structures for their sustainability. These analyses are used to review a specific establishment variation, or provide information requested by a Head of

Corps.

2.32 DPLANS-A, with support from DPPLANS-A, DPF-A and DESTB-A, considers overall future workforce numbers and costs, i.e. planning the overall size of the Army to meet agreed capability requirements, FYDP resource constraints and other targets. DESTB-A has also led a review of Warrant Officers that required workforce analysis input.

2.33 As noted in paragraph 2.14, seven Army agencies meet to analyse data on recruiting, training and finance. There may be advantages in having a single agency to analyse a range of workforce issues. Army states that expertise for this type of analysis is held only in DPPLANS-A, which is charged with the responsibility for workforce analysis.

General conclusions

2.34 The ANAO observed that each of the Services was performing analyses of similar types - e.g. of the sustainability of trades, estimating wastage and determining the recruiting requirement. In addition, DWSA conducts an annual Functional Activities Definition survey to find out how many personnel in each Service are involved in activities defined as combat, combat-related, support, etc. A survey is necessary for this purpose, as current databases do not contain information on the function of each position in the required format.

2.35 The Services had consulted one another on the approaches they were each using. However, the ANAO did not observe any instance of one Service adopting a computer program or other method of analysis from another Service. In addition, Defence's personnel posting cycle leads to a risk that officers with sole expertise may be lost from a small analysis group. The ANAO recognises differences between the Services in some workforce management issues and in the databases from which data for analysis must be extracted, but nevertheless feels that a common analysis agency would aid efficiency and effectiveness of the workforce analysis task. The recently-established Directorate of Personnel Plans in HQADF may be a suitable location for such an agency.

Recommendation No.3

2.36 The ANAO *recommends* that the Services work towards establishing a common cell for analysis of workforce planning issues.

Impact

2.37 Improved effectiveness by better sharing of techniques, and possibly increased economy due to economies of scale.

Response

2.38 Agreed in principle. There are some areas where a common approach would yield benefits, but the appropriate responsibilities of each Service need to be retained. Some aspects of workforce analysis, such as macro-statistics reporting, are already performed on a tri-Service basis. Studies and analyses under way will shape the nature of aggregation of workforce planning for the three Services.

Civilians and reserves

2.39 Unlike ADF workforce management, the management of civilian staffing is generally under the control of the sub-program managers, who are allocated a budget for civilian staff. Commands are allocated a budget for civilians that they can use as they wish, subject to certain objectives and policy

guidelines provided to sub-program managers. However, delegations for recruiting were usually held in Defence Centres, which some officers consulted thought inappropriate. Funds for civilian casual labour are also devolved to Commands.

2.40 Commands are also allocated a budget for reserves. Reserve numbers must also remain within an establishment.

Resources for workforce planning

2.41 Since organisation of workforce planning within the three Services is not identical, it is difficult to compare resources for like functions. In addition, the full-time military workforce is centrally managed, but civilians and reserves are managed at a sub-program level, with only the recording of establishment variations performed centrally. The ANAO's estimate of the number of people involved full-time in central management of workforce planning is as follows:

Navy (DNPM):	26
Army (DPLANS-A -workforce component)	4
	15
FB-A	10
Total Army:	29
Air Force (DWPC-AF)	24

Personnel databases

2.42 The ANAO did not examine any of the Service personnel databases in detail. These databases are used primarily for personnel management, but are also a vital source of information for workforce planning. Brief comments for each of the Services follow.

2.43 The main Navy database is NPEMS (Navy Personnel and Establishments Management System), which contains details on all Navy billets, including their history and their occupants. Some errors were noted. For example, trainee ranks can be listed as part of the trained force. This may be due to the large number of people inputting data to NPEMS, with data entry processes not providing automatic error checking. Duplicate entry of information on resignations, completion of basic training etc. is undertaken by DNPM staff into their own system, as well as input into the overall NPEMS system. This allows DNPM to cross-check overall validity of NPEMS.

2.44 There are at least eleven personnel-related computer systems in Army. They link together to form the Army Personnel and Establishments Management System. Army has received tenders for a single system - ACMIS - to replace many of these.

2.45 The main Air Force database is AFPEMS2 (Air Force Personnel and Establishments Management System). Air Force notes that AFPEMS is a critical system that impacts strongly on workforce management.

All figures quoted in this report have been derived from Defence sources.

Ernst & Young, *Final Report to Personnel Division, Modelling of Business Processes*, May 1995 (Army document).

3. Requirements Determination

Workforce requirements are set through the process of defining establishments. There are a number of inefficiencies involved with this process. It is sometimes complex and costly, does not fully control rank structures and contributes to lack of flexibility in the use of personnel resources. The ANAO considers it could be improved by concentrating more on financial controls than establishment controls.

Introduction

3.1 The establishment for each ADF unit is intended to define the personnel resources required to carry out that unit's functions effectively and efficiently. Establishment control refers to the processes of reviewing and amending establishments. This is assisted by the ability to compare like functions across the organisation. Establishment control can also act as a constraint to inefficient use of resources by, for example, constraining rank creep (increasing proportions of higher-ranked positions).

3.2 For each Service, establishment variation proposals are forwarded to the workforce planning agency. If the proposal is approved, the personnel system strives to fill the establishment. Establishments are therefore closely controlled; e.g. variations are approved only if they are cost and rank neutral, or have very high-level direction, on the basis that adding to the establishment directly leads to real personnel increases.

Nomenclature

3.3 Nomenclature varies between the Services. The Navy term for establishment is 'complement', and positions are called 'billets'. In this report the terms 'establishment' and 'position' are used unless referring specifically to the Navy.

3.4 The Services also use different terms to describe the various categories of skills, e.g. pilot, cook, storeman. In Navy, the term 'categories' is used for both officers and sailors; Army refers to officer 'corps' and to other rank 'Employment Category Number (ECN)'; Air Force uses officer 'primary specialisation' and airmen 'mustering'. In this report, we use the term 'category'.

Processes

3.5 In each Service, the process of regular establishment review of both civilian and military positions by establishment inspectorates within each Service was abolished in the early 1990s. Civilian establishment control was devolved to sub-programs.

3.6 Military establishment review was replaced in Navy by the Functional Examination of Naval Manpower (FENM) process. FENM reviewed each person's job, except for jobs at sea and at HQADF. FENM found that most positions were justified. The report went to sub-program managers to implement rationalisation; i.e. it was not imposed from above.

Navy states FENM has given managers a useful way of continuing to review their organisations. Air Force also instituted a program of functional review, but no such process was instituted by Army.

3.7 Minor changes to military positions, i.e. those that do not vary capability and have offsets available, are forwarded through the chain of command to the relevant authority (DNPM, DESTB-A or DWPC-AF) for staff action. For Army, such changes require staffing comments from heads of Corps, DPPLANS and DPLANS. Similarly, Navy requires comments from category sponsors before making changes that involve changes to categories. In the case of Air Force, these decisions are handled by DWPC, although not until specialists at the relevant Command have examined each proposal.

3.8 Air Force's Training Command has been given the delegation on a trial basis to complete its own minor establishment variations under the following business rules:

- there must be offsets (neutral cost or savings);
- no increase in the officer/airmen ratio;
- the structural impact must be verified; and
- civilianisation must be planned.

3.9 For civilians, authority has been delegated to sub-programs and sub-program components, and so procedures vary. Changes to civilian establishments require that funds must be available and changes to establishment advised to the workforce planning agency.

3.10 In each Service, the process of raising and disbanding units requires considerable coordination, with the involvement of authorities such as Personnel, Materiel and Logistics Divisions as well as relevant Command Headquarters and possibly the Chief of Staff. When agreed by the Chief of Staff or his delegate, changes are recorded by the workforce planning agency and then promulgated widely.

Observations on establishment control

3.11 The ANAO observed the following difficulties with establishment control:

- establishments are not an accurate description of available resources;
- establishment control does not control supernumeraries;
- the establishment control process is sometimes lengthy, cumbersome and expensive;
- establishment control contributes to lack of flexibility with respect to the use of regulars, reserves and civilians;
- the offset requirement in particular creates inefficiencies;
- establishment control can inhibit visibility of demand for personnel; and
- establishment control does not fully control rank structures.

3.12 Set out below is a discussion of these difficulties and a proposed solution that focuses more on financial control than establishment control, and introduces the idea of managing to an overall workforce target rather than a set of unit establishments. Discussion related to minor recommendations is deferred to the end of the chapter.

Establishments are not an accurate description

of available resources

3.13 The ANAO observed that in practice other factors, such as financial constraints or recruiting limitations, do not allow all establishment positions to be filled. For example, Army was 370 people in excess of funded strength at a time when it had 1407 establishment positions vacant. Navy had 1332 vacant sailor billets in June 1996. Even if there were sufficient recruits, the workforce budget is insufficient to fill the authorised naval strength. Air Force was 415 officer positions under establishment at 1 June 1995. For civilians, there is also a gap between the Average Staffing Levels and establishments.

3.14 Although there is a shortage of trained personnel in the Navy, there are more trained personnel than billets. Personnel are unavailable due to such things as advanced training, medical conditions and lengthy periods of leave. Navy estimated the cost of this overhead in 1995 as equivalent to \$100 million per year in salaries and allowances alone.

3.15 The ANAO was advised that sometimes Commands confused people with positions; that is, the acquiring of a position was confused with the acquiring of a person to fill that position. We were also advised of situations where establishments had been varied to seek to acquire a particular skilled person, but then units were told that there were no such people available to post into the newly created position.

Establishment control does not control supernumeraries

3.16 Another way in which establishment fails to define resources is in the creation of supernumerary positions. These are created by posting authorities to handle particular personal requirements, such as those undergoing training, as well as various forms of leave or other reasons for absence. They also allow for those performing special short-term tasks and those who have been trained but have no position available. Navy and Army have expressed concern at the high level of supernumeraries.

3.17 Air Force is now instituting a system to monitor supernumerary positions centrally (rather than attach the positions to particular establishments) and define the reason for each supernumerary (e.g. advanced training). Navy also monitors supernumeraries and has taken steps to reduce their level.

The establishment control process is sometimes

lengthy, cumbersome and expensive

3.18 An audit analysis of a selection of establishment changes showed significant variation in the time to process. Some changes were processed quickly, others took more than a year. Units consulted by the ANAO also differed in their opinions on the timeliness of the establishment variation process. The length of time taken and the need to rely on other agencies beyond the unit's control can lead to normal posting cycles being missed.

3.19 The ANAO also found that establishment variations were very frequent - they could

be in excess of one per week on average for a large unit. In 1995 Navy handled in excess of 1200 establishment variation requests, Army approved some 500 establishment variations and Air Force approved some 800-900 establishment variations. Some affected many units. All required staffing through a number of agencies, from unit to formation to Command and usually to the Service headquarters. This consumes significant staff resources. Some of this effort would be required in any case to justify the decision, but the need to staff the proposal through multiple levels would add to the cost.

Establishment control contributes to lack of flexibility

with respect to the use of regulars, reserves and civilians

3.20 Many managers consulted expressed the view that all personnel - regular, reserve and civilian - should be managed as a total asset. The 'Total Force' concept is also raised in *RAAF 2000*.¹ Indeed, this was the consensus view at the opening interview for this audit, which led to inclusion of the topic of the civilian workforce. However, there were some inflexibilities with regard to this ideal.

3.21 The Department had a flexible policy on the movement of funds between various categories of expenditure. With the consent of Resources and Financial Programming (RFP) Division, funds could be transferred between any of the program discretionary funding categories, which include salaries, fuel, supplies and other running costs. In 1995-96 RFP did not reject any such request. However, from many comments made to the ANAO in the course of the audit, it appeared that this policy did not lead to equivalent flexibility of funding for local management.

3.22 Those consulted commented in many cases about the usefulness of being able to interchange between regulars, reserves and civilians where appropriate. But there were also many concerns about the amount of flexibility available.

3.23 The 1996 Government decision to enhance combat capabilities by redirecting \$125 million per year from cash-limited administrative expenses (which include, among other things, Defence's civilian workforce and other personnel-related costs such as postings, medical and training costs) has limited to some extent the flexibility that had been available.

The offset requirement in particular creates inefficiencies

3.24 For each Service, offsets are required before an establishment change can be processed. The problem is that positions no longer required are sometimes identified before a requirement for a new position is identified. If the redundant position is handed back, it cannot then be used as an offset for a future requirement. In these circumstances, units and Commands are understandably reluctant to hand back positions. One comment was that personnel could be concealed in 'hollow logs'.

3.25 The respective Chiefs of Staff can command that positions be created, leaving it to subordinates to identify an offset. In addition, the Chief (or Vice Chief) of the Defence Force can create positions within HQADF that must then be filled by one of the Services. It is not easy to achieve offsets for these positions from the Services.

Navy

3.26 Requirements for which an offset could not be found have in the past been met by the use of temporary billets. Navy now seeks to control this by requiring an offset. Some comparable billet must be temporarily barred for the duration of the temporary billet required. This also seems a complex process. For example, changes to Naval Aviation were achieved by a complex mechanism of creating and disestablishing both temporary and permanent billets, and transferring billets from temporary to permanent and vice versa. This would have been much simpler if Naval Aviation were given a workforce budget within which it could control its own workforce expenditure. Similar complex arrangements were noted elsewhere.

3.27 Other 'work-arounds' include the use of training billets, so that the task required is performed by someone doing consolidation training.

3.28 Where offsets were not available, the requirement could not be progressed. DNPM maintained a list of requests for which an offset could not be found, which at November 1995 contained 158 entries accumulated over the previous twelve months.

Army

3.29 Redundant positions may remain occupied or they may be transferred to a pool of unoccupied positions in the unit or its headquarters, which provides some flexibility. These Temporary Manpower Pools are established at Commands and centrally. During the financial year, they can be used to provide establishment cover for essential positions.

3.30 Temporary positions are handled through a 'short-term manpower pool' of about 40 positions, which is used for short-term projects.

3.31 Reductions due to the Force Structure Review, the Commercial Support Program (CSP) or other centrally-mandated changes cannot be used as offsets. In these cases, positions are abolished as soon as they are vacated.

Air Force

3.32 Redundant positions may remain occupied; or they can be allocated a low manning priority and hence be unfilled; or they may be transferred to an unoccupied 'pool' position in the unit's headquarters, which provides some flexibility. Air Force states the latter is the most likely result. These unoccupied positions awaiting disestablishment can then be used as offsets for new positions identified. There is a risk of double counting when positions no longer on the establishment are later claimed as offsets.

Concluding comment

3.33 These processes are cumbersome and artificial. They may contribute to the lengthy intervals required to complete establishment variations.

Establishment control can inhibit visibility of

demand for personnel

3.34 Air Force has a strongly-enforced policy of not allowing establishment variation requests (known as Excess Tasking Reports or ETRs) without an offset. Only when Commands can offer an offset is the ETR forwarded to Canberra. Air Force Office expects that Commands will hold potential offsets against requirements and maintain lists

of requirements for staffing as a register of ETRs is no longer held centrally. The ANAO observed that, where offsets were not available within the locality, there was a reluctance to pursue the matter; therefore there may not even be visibility of demand at Command level. This issue was not so significant for Army, where there is a process for requesting additional resources, or for Navy, where a collection of billet requests is maintained.

Establishment control does not fully control rank structures.

3.35 Previous comments in this section have referred to over-control in the establishment system. There is one area, namely control of rank structures, where a better system of control might be applied.

3.36 Establishment control seeks to constrain rank increases and retain the sustainability of each category. (Sustainability refers to the ability to produce the numbers required at senior ranks, normally achieved by maintaining sufficient numbers at junior ranks.) Such control involves, in the case of Army and Navy, category sponsors or Heads of Corps. This sometimes limits changes desired by units and Commands. However, control of rank structures has not been entirely successful, in that separate reviews have been required in each Service to adjust ranks and trades, and there has been some 'rank creep.'

3.37 For example, the proportion of Army Warrant Officers grew from an estimated 7% of other ranks in 1980 to 13% in 1994, while the proportion of privates declined from about 60% to 41%. Although total Navy personnel has reduced over the last ten years to July 1996, the number of Navy officers has increased, raising the proportion of officers from 14.8% to 19.2%. Similarly, Air Force officer numbers declined only slightly over the last five years, leading to an increase in the proportion of officers from 17.2% to 21.2%. At the same time the proportion of corporals among other ranks increased from 25% to 35%.

3.38 These changes occur for a variety of reasons, including reductions in the need for lower-ranked military personnel arising from CSP or other organisational reviews, and changes to technology, such as increased automation.

3.39 No Service has formal definitions of the responsibilities of each rank, although the pay structure review has made progress to this end. Navy is conducting a comparison of the responsibilities of various captain billets. Billets that require less responsibility can be civilianised or downgraded; the review will also determine billet priorities. This process may later be extended to other ranks. Army is reviewing its Warrant Officer Class 1 positions, and this review may also be extended later to lower ranks.

The way ahead

3.40 The ANAO considers that the difficulties discussed above can be eased by adopting a more strategic approach to overall workforce planning and giving sub-programs more flexibility in using overall workforce resources, as outlined below.

Strategic approach to workforce planning

3.41 The overall supply of military personnel is controlled centrally. Currently, Services attempt to meet a target which consists of the sum of individual unit establishments, while taking into account budget constraints. Service-wide issues such as rank structures and Members Required in Uniform (MRU) are addressed by constraining individual

establishments. The Services could, instead, use current unit establishments, desired rank structures and future requirements such as MRU to develop a global workforce target in terms of numbers for each rank and skill. Setting such a global target, which is not necessarily the sum of unit establishments, would fit in more easily with the move to strategic workforce planning recommended in the Glenn report.

Devolution of workforce budgets

3.42 The Australian Public Service has moved over the last 20 years, and especially since the introduction of the Financial Management Improvement Program, away from a reliance on establishment control to a reliance on cash limits for controlling personnel resources. Within those cash limits, agencies have great flexibility to specify the positions they wish to fill.

3.43 The ANAO considers there is also scope for increased devolution of workforce management in the ADF. One mechanism to achieve this is to give sub-programs a single budget to cover the whole workforce: full-time and part-time, military and civilian. Under this approach, the Services would manage recruitment, retention and promotion so as to fill all positions in their global workforce target. In circumstances where military positions were unable to be filled, Commands would be able to employ alternative means of completing the mission. Such an approach would give to sub-program managers similar scope to that given to non-Service programs, whereby if the nominated Service is unable to fill a position with a military member, the program can request funds to fill the position by other means.

3.44 Emphasising a budget constraint may also act to limit a sub-program's use of supernumeraries (as they would fall within the overall budget), to constrain requests for new or upgraded positions and to constrain requests for filling low-priority positions.

3.45 Setting a single workforce budget for all personnel - regular, civilian and reserves - would aid flexibility, efficiency and the 'all of one company' concept. It would be consistent with the Defence statement that 'At the highest policy level a decision in principle has been taken and endorsed ... to support a more devolved management structure within the Defence organisation as a whole. That covers both the military and civilian sides of the Department'. ² The ANAO accepts that priority should be given to meeting workforce targets for military personnel. At the same time, setting a single workforce budget would aid efficiency in that civilianisation of positions would not be constrained by the concern that a civilian position or salary funds might not be available after the military position has been abolished, and would also enable overlapping of civilian recruitment action. It would also enable a change from civilian to military where this could be justified.

3.46 Extensive devolution to Commands of the ability to set all positions, military and civilian, is likely to cause difficulties in controlling the overall military workforce target. It would be better to retain central control of military establishments and the global workforce target, but still leave sub-programs with the responsibility of managing their total workforce within an allocated budget. This would retain most of the benefits from devolution while being simpler to implement.

Ability to handle devolution

3.47 Sub-programs appear to be willing and able to handle an increased role in workforce planning. Some officers expressed a desire for more devolution of establishment control to units and Commands, which is already happening in a de facto way. Some units adopt temporary informal working arrangements without formal establishment change, and these arrangements are sometimes later formalised. In addition, the workforce allocated to each Service's Materiel Division for distribution among projects is an example of formal devolution.

3.48 The employment of civilians and reserves is already under the control of the sub-program managers. Commanders can use these resources as they wish, subject to constraints such as budgets and the availability of suitable reserve members willing to serve.

3.49 Air Force's Training Command has been given partial devolution of some aspects of military establishment functions on a trial basis from 1 September 1995. Indications are that the trial is going well.

3.50 The ANAO observed that in some cases fiscal pressure and workforce ceilings had impelled in workforce planning units and Commands to find ways of working better, and the increased 'ownership' that goes with self-evaluation has led to effective results. Navy's Functional Examination of Naval Manpower (FENM) was based on this premise. Under this process, units reviewed the need for each person's job, and the results could be used by the unit or its Command to make decisions between workforce priorities.

3.51 The CSP process has also encouraged establishments to analyse the way they do business, with potential for identifying savings. One Defence manager said to the ANAO: 'With CSP, units suddenly noticed they were not as smart as they thought they were, and could make huge savings where previously every minor cut was defended.'

3.52 These observations lead to the view that Commands, and possibly units, are capable of handling additional responsibility for managing their own workforces. There is a view in Service headquarters to the contrary, based on extra workload for Commands and on the risk of lack of control; i.e. some current Command proposals are unacceptable. But Commands currently review their means of operating and where appropriate prepare detailed submissions to seek establishment variations. On the control issue, the ANAO recognises that central control over the military workforce would remain.

Management of offsets

3.53 The combination of the setting of a global workforce target (paragraph 3.41) and the devolution of the workforce budget to sub-programs could replace the current offset control. First, because each sub-program would have a limited budget, it would be constrained from trying to add too many positions, and encouraged to disestablish positions where practicable. Second, the Service headquarters can consider whether the change the sub-program is seeking is consistent with the global workforce target, and on that basis allow or disallow the proposed change. Together, these controls would constrain both the size and shape of the military workforce without explicitly seeking offsets.

Management information system support for devolution

3.54 Central visibility of workforce requirements is essential. Therefore the implementation of any devolution of responsibility for workforce control would be

effective only if supported by a management information system that allows distributed input and provision of reports to all relevant agencies. Similarly, there would be a continuing need for central visibility of funds expenditure and appropriate systems to support sub-program managers in the execution of devolved responsibility.

Assistance to Commands and units

3.55 Some units state they are under so much pressure that they do not look ahead to review their function, or conversely that pressure of reviews is detracting from day-to-day management. There are therefore advantages in providing assistance to units and Commands in workforce reviews. This may help in relating the resources of a unit to the extent of services the unit provides; at present there is no explicit way of measuring this relationship.

3.56 Air Force's five regionally-based Management Services Teams provide training and advice on quality management to bases and Commands. These groups have assisted, for example, with training staff to undertake an Air Force review of the organisational structure of its bases. The Director of Management Development in Army Office has offered consultancy. Work study officers are also available, as well as TAFE and reserve experts.

Conclusion

3.57 Giving Commands more responsibility for workforce management would address most of the difficulties mentioned in paragraph 3.11 in the following ways:

- it explicitly addresses the allocation of resources;
- it would control supernumeraries by allocating their cost to the sub-program for which they work;
- it would reduce the complexity, delays and possibly cost of the establishment control process;
- it would increase the flexibility of use of regulars, reserves and civilians;
- by focusing on a bottom-line financial constraint, it would eliminate the need to account for offsets;
- it would increase the visibility of the demand for workforce from sub-programs; and
- by managing to a global workforce target it would facilitate control of rank or trade structures.

3.58 In addition, it supports the principle of program management by allocating firmer control of resources to sub-program managers.

Recommendation No.4

3.59 The ANAO *recommends* that each Service:

(a) set an overall uniformed target strength that takes into account demands from sub-program managers, future requirements, structural constraints and financial constraints;

(b) allocate personnel resources (in the form of a single monetary allocation covering regulars, reserves and civilians) to sub-program managers; and

(c) increase flexibility of management by facilitating transfers of funds between personnel and related resources such as contractors.

Impact

3.60 This recommendation would improve the effectiveness of the workforce planning function in several ways. It would assist control in the areas of allocation of resources, supernumeraries and rank or trade structures. It would also reduce complexity, delays and possibly cost and would improve efficiency by more flexible use of regulars, reserves and civilians.

Response

3.61

(a) Agreed. The ADF operates on this principle.

(b) Not agreed. The devolution of funding for regular personnel to sub-programs is not consistent with the ANAO's acceptance of the need to maintain central control of many workforce issues such as rank/trade sustainability. Personnel are not recruited, trained and employed in one sub-program, but rather managed to meet the requirements of the whole Service, e.g. geographic stability in Navy. While the recommendation would increase the flexibility to use regulars, reserves and civilians in a mix convenient to the sub-program manager, it would compound the difficulties of career managers. It would also increase the complexity and cost of the management and administrative processes of the total Service workforce. If allocation of workforce resources were to be more formally distributed below program level as a single quantum encompassing regulars, reserves and civilians, there would be practicality limits on interchanges between the three various components. The inherent time lags associated with changes to numbers of regular personnel, in particular, would severely frustrate attempts to either increase their availability by investing more resources at sub-program level, or, if they were not available in required numbers, to realise the notional monetary saving represented by their absence in order to pay more civilians (or reserves, if available).

(c) Agreed. Related developments include the Commercial Support Program and civilianisation. Other initiatives have been pursued (e.g. in Air Force) to distribute workforce allocations to sub-programs in total numerical (i.e. interchangeable) terms, including arrangements to maximise flexibility between workforce funds allocations for components such as contractors, consultants, reserves and APS staff. Such initiatives are constrained by APS mobility and staffing, some limitations on CLAE classifications and the substantial lead-times required for interchanging military and civilian members.

ANAO comment

3.62 The ANAO proposal outlined in paragraph 3.46 refers to funding of the total workforce, acknowledging that central control of the military workforce would remain. A commander's total workforce budget would then be used to supplement the allocated military workforce in a manner most suitable to that commander. Time lags involved in the normal posting process would give a commander scope to make alternative

arrangements if a military position could not be filled. It is accepted that the proposal could increase the complexity of some elements of workforce administration, and there would remain practical limits on the extent of interchange between regulars, reserves and civilians. Nevertheless, it addresses the problems observed by the ANAO, with advantages such as flexibility of use of regulars, reserves and civilians, and better resource control.

Recommendation No.5

3.63 The ANAO *recommends* that each Service take steps to define the requirements for each rank, and conduct reviews from time to time to ensure that duties equate to rank.

Impact

3.64 Potential for improved economy through lowering of the average rank level.

Response

3.65 Agreed. The Services have conducted reviews of this nature in recent years, and further reviews are planned. There may be scope to consider whether tri-Service definitions of the representative levels of duties and responsibilities for each rank would be beneficial.

Related Issues

The Army review of Warrant Officer Class 1 positions

3.66 Army feels that a rank imbalance has developed, which is now being addressed by a review of all Warrant Officer Class 1 (WO1) positions. This is likely to be followed by reviews of other senior ranks. The review identified 132 positions for possible downgrading or abolition. However, action is on hold awaiting the outcomes of the *Army in the 21st Century (Army 21)* report. In any case, Army proposes to spread the abolition of positions over at least five years in order to preserve promotion opportunities.

3.67 The ANAO is not convinced of the need to delay downgrading action. Even if *Army 21* identifies some changes to positions, steps should be taken to start the reduction of overall WO1 numbers. Nor is the ANAO persuaded of the need to phase in changes over an extended period, merely to preserve promotion opportunities, if the jobs to which people would be promoted cannot be justified. A reasonable approach would be to downgrade or abolish at the expiry of the current occupants' tours of duty.

Recommendation No.6

3.68 The ANAO *recommends* that Warrant Officer Class 1 positions identified for downgrading or abolition be downgraded or abolished when the current occupants leave their positions.

Impact

3.69 Improved economy by decreasing the number of Warrant Officers Class 1 more rapidly than over the proposed five-year period.

Response

3.70 Agreed. The implementation of the WO1 review outcomes is planned over a five-year period.

Militarisation of civilian positions

3.71 The ANAO was informed that militarisation of civilian positions was difficult. We also noted draft Army guidance that 'where a civilian could possess the required knowledge and skills, the additional cost of creating an Australian Regular Army (ARA) position is not justified and the position should be civilian' and a directive by Air Headquarters that the use of civilian positions to create Service positions is unacceptable. However, there are other issues such as discipline, command and deployment flexibility that may require a Service position. In addition, Service personnel may be less costly than civilians in particular circumstances.

Recommendation No.7

3.72 The ANAO *recommends* that Services revise their guidance to workforce managers to state that militarisation of positions should be considered where knowledge, skills, discipline or deployment flexibility require a military member, or where the military option is less costly.

Impact

3.73 Improved efficiency of military units through ability to replace civilians with military members where it is more appropriate to do so.

Response

3.74 Agreed. Militarisation will be implemented in appropriate circumstances.

Detachments

3.75 In some cases, particular functions are established as detachments from a larger unit. They are then 'responsive to' units to which they are attached, but formally under the command of their parent unit. From a workforce point of view, this can be confusing, especially when such detachments are across Service lines. At the very least, such distinctions do not give a full picture of the resources used at a unit. Navy states it has taken recent action to address this issue.

Recommendation No.8

3.76 The ANAO *recommends* that, wherever practicable, detachments are included in the establishment of the location where they are actually working.

Impact

3.77 Improved efficiency through better information on the number and type of people working in particular locations and on specific functions.

Response

3.78 Agreed. This is largely occurring. Where military requirements necessitate the retention of command or control of the detachment by its parent body, its re-establishment under local authority will not be practicable.

1

RAAF 2000 - *Our Flight Plan for the Future*, September 1991 (Air Force Document)

2

Not Dollars Alone: Review of the Financial Management Improvement Program. Report of the House of Representatives Standing Committee on Finance and Public Administration, September 1990, p. 68.

4. Future Requirements

This chapter considers planning for future workforce requirements. These requirements usually arise from proposed equipment acquisitions. The chapter also addresses the Members Required in Uniform process, which can affect future workforce requirements.

General planning processes

4.1 To plan how future requirements will be met, Navy has established a 'futures database.' This database defines as far as possible all future requirements for billets on naval ships. Specific positions on current ships planned for decommissioning are allocated to specific future positions on a new ship. Similar provisions apply to shore positions.

4.2 Army develops annually its Army Personnel Liability Plan (APLP), which provides guidance on Army's workforce across the Five Year Defence Program (FYDP) (and the Defence Long Term Plan). Commands and project teams submit proposals for future increases or decreases in personnel. These proposals are staffed and the results included in the APLP, which is issued mid-year. The ANAO felt that the consolidation of future requirements in the APLP was helpful to workforce planning. However, the document is complex, with unclear matching of resources to requirements.

4.3 To support planning for future workforce requirements, the Air Force personnel database AFPEMS has a module that includes approved future workforce requirements. Air Force also has a workforce plan that defines the establishment for current and future years, to five years in advance. Authorised future changes are not a direct part of the plan, as they are migrated to AFPEMS once authorised. The workforce plan is specific to positions, and therefore attracts comment and criticism from affected Air Force units. It will later be expanded to include strength figures.

Workforce for new capabilities

4.4 Navy and Army state there is no authority to recruit particular skilled people without an approved project. Air Force attempted to anticipate demand for Air Surveillance Operators for the Jindalee Over-the-horizon Radar Network and Airborne Early Warning and Control projects. The ANAO has recommended above that there should be an overall centrally-determined target structure that would take into account future requirements.

4.5 Navy project management staff consulted by the ANAO felt there was no single authority to make decisions on workforce requirements for new capabilities and the current system of multiple inputs was inefficient. It also meant that there were no clear cost-benefit analyses to support decisions.

4.6 One solution would be to have a clear process to define the cost-capability trade-offs in project management. One possibility is the Cost of Capability system recently introduced by Air Force.

4.7 The Air Force recognised that the need for accurate forecasts of additional costs associated with new capabilities is becoming more important. This was because the Portfolio required the program to absorb any unanticipated costs of new capabilities itself. In addition, benefits of savings have been difficult to trace. Air Force therefore introduced the concept of cost of capability (CoC) in September 1995. Cost of capability is defined as the incremental resource variations associated with the introduction of a new capability. The idea of CoC is that authorities such as Air, Logistics and Training Commands are accountable for the staffing and cost estimates that they make.

4.8 The concept of a coordinated approach to estimating future costs of equipment, such as the Cost of Capability process, is laudable. Given the recent nature of the reform, and that it goes beyond workforce planning, the ANAO did not attempt to assess how it is working in practice.

4.9 The ANAO found no Army project with significant workforce implications that was sufficiently advanced to have made workforce change projections, and so did not evaluate the current status of workforce planning for future projects in Army.

Recommendation No.9

4.10 The ANAO *recommends* that Navy and Army introduce a coordinated approach to defining the costs of introducing a new capability to support, among other things, workforce planning for new projects.

Impact

4.11 Better accountability for workforce resources to be employed on new projects, possibly leading to greater economy.

Response

4.12 Agreed. Steps are being taken to assess and develop the Air Force cost of capability methodology and apply it to the capability development process.

Workforce for project management

4.13 A fixed number of personnel were allocated to Navy's Materiel Division for project management. However, the demand has now exceeded this number. Therefore additions to project management offices have to be managed in the same way as other complement variations, i.e. by seeking offsets. The release of resources in a project that is winding down does not necessarily meet the growth in demand for resources of new projects. Thus the billet requirement tends to grow.

4.14 Air Force project office staffing is under the control of Air Force's Materiel Division, which has 300 uniformed project personnel. Subsequently, additional staff were requested for the project pool. The Chief of the Air Staff has agreed to the establishment of up to 145 positions (80 uniformed and 65 civilian) to be in a separate temporary pool. Offsets for the manning of individual project offices can sometimes be found from other project offices within Materiel Division. Where this is not possible, squadrons can volunteer to

give up positions.

4.15 There are two perspectives to management of project office staffing. One is that devolution of control of staffing to the respective materiel division is consistent with program management principles, and aids efficiency of the staffing process. The other is that project staffing should itself be part of the Cost of Capability process mentioned above, and hence argued from a 'zero-based budget'. The ANAO considers that, on the whole, the latter approach would be more likely to encourage economy of use of project staff while ensuring that essential requirements for staffing are met.

Recommendation No.10

4.16 The ANAO *recommends* that each Service review the process of staffing for project offices, with a view to including the cost of project office staffing in the process for defining costs of capabilities.

Impact

4.17 Better accountability for workforce resources employed in project management, possibly leading to greater economy.

Response

4.18 Agreed.

Members Required in Uniform (MRU)

4.19 Members Required in Uniform (MRU) is the minimum number of uniformed personnel (including both permanent and reserve members) required to meet and sustain the approved level of operational capability of the ADF. The principal baseline from which MRU is determined is the Force Structure. Together with preparedness requirements derived from Government-approved strategic guidance, this leads to the number of personnel required in uniform to meet and sustain the approved level of operational capability. MRU was conceived as a means of determining the prudent extent, and viable candidates for, the Commercial Support Program. In particular, by identifying core positions in non-core areas, MRU seeks to ensure that the Commercial Support Program is not taken to the point where Defence has lost its ability to deploy for and sustain operations. Conversely, MRU may identify positions that have the potential to be commercialised.

4.20 For each Service, MRU is calculated by adding up components that typically include (nomenclature varies between the Services):

- operational force;
- allowance for rotation and reinforcement;
- other essential military positions;
- casualty factor;
- structural overlay;
- training force; and

- ineffectives.

Navy

4.21 As indicated above, a component of MRU is structural overlay, which derives from the closed nature of the military workforce. It may occur, for example, that Navy requires more petty officers. But these people cannot be recruited directly. With few exceptions (such as those rejoining the Navy or those transferring from other navies) they must join as recruits and then gain the necessary experience. To support the petty officer requirement there must also be billets for more junior sailors so that the petty officers can eventually be produced. The excess over the numbers otherwise required to meet other MRU components in the junior ranks is the structural overlay. Navy's calculations vary depending on assumptions made, but suggest a structural overlay in the region of 800 to 1000. This costs some \$40 million per year. Structural overlay almost exclusively refers to sailors - structural overlay for officers is about eleven.

4.22 Many shore billets are maintained for structural, rather than professional reasons. Navy noted that most (414) Writer ¹ billets can be justified only on the grounds of providing structural overlay, which peaks at the lower ranks. It is planned to reduce the number of structural overlay Writer billets from 65 per cent to 57 per cent of the total. This large overlay is consistent with there being a large proportion of Writers performing non-Writer tasks.

4.23 MRU calculations inferred that Navy included in its structural overlay an excess over requirements for higher ranks. This can occur only if there is promotion occurring beyond the requirements of vacant core billets. The ANAO sees no need for such overlay just to provide promotion opportunities.

4.24 The *Navy Manpower Study 2010* referred to one possible scenario that involved removing structural overlay by the year 2010. The ANAO considers that efforts should be made to reduce it before then. Recognising that most structural overlay refers to the difficulty in getting the required number of experienced mid-level sailors, some possible approaches might be:

- redesigning initial training, including on-the-job training, so that sailors can develop the required level of expertise earlier;
- emphasising the recruitment of sailors with sufficient maturity to accept responsibility earlier;
- increasing lateral recruitment of suitably skilled people;
- taking measures to increase retention of skilled personnel; and
- redesigning jobs so that they can be done by less experienced staff.

Recommendation No.11

4.25 The ANAO *recommends* that as an economy measure Navy take steps, such as adjusting recruiting, training or job design, to reduce the requirement for structural overlay.

Impact

4.26 Reduction of structural overlay which presently costs some \$40 million per year.

Response

4.27 Agreed in principle. However, savings in the order of \$40 million are not achievable as structural overlay is an inherent feature of a closed workforce system which must position itself to expand to meet the future requirements of the Service. If the work performed by military members who constitute the structural overlay was undertaken by civilians, significant savings are unlikely to result as they would be derived from the difference between the cost of military and civilian personnel, in circumstances where the work is geographically dispersed across Australia. This is not an option because structural overlay exists to maintain the necessary number of members in uniform. Navy will continue to review the size of the structural overlay required during any planning period, and reduce it as circumstances permit.

Army

4.28 MRU calculations for Army will not be finalised until changes proposed under the *Army 21* project are accepted. This is expected to occur by the end of 1996. Some initial calculations have been made.

4.29 Army states that structural overlay - requiring more people in junior ranks to support the requirement for more senior ranks - is very small. In Army's initial estimate of its MRU, structural overlay was only some 15-20 positions and was restricted to two small trades. The result for the new *Army 21* structure cannot be exactly determined now, but the overlay is expected to remain small.

Air Force

4.30 Air Force has been the first Service to finalise its MRU estimates in accordance with assumptions acceptable to HQADF. The Air Force MRU material sighted was well-structured and comprehensible. Information was clearly presented, with an effective use of graphs and diagrams.

4.31 The uniformed workforce requirement for the components described earlier adds up to 21 970, well above Air Force's current establishment, and is unlikely to be achievable in the near future. The MRU was reduced to 17 133 by considering overlaps between these components.

4.32 Air Force has compared the rank-specialisation composition of the MRU with that of the current establishment. There are 2455 positions in MRU but not in the establishment, and 2850 positions in the establishment but not in MRU. Where the current workforce is in excess of MRU, then the area may be considered for CSP or civilianisation. Air Force states that plans for the realignment of the current Air Force with MRU are being developed and implemented within constraints such as resource availability, CSP and civilianisation, and the long time scales associated with significant workforce changes. For example, Air Force has no plans to increase permanent staffing for areas (such as Airfield Defence Guards) where additional people could not be productively used during peacetime. Instead, Air Force states, reserve capability will be further developed.

4.33 The ANAO did not observe during the audit any influence that the MRU calculations had on current Air Force workforce planning, but Air Force now states that some 216

positions will be progressively migrated to trades needed for MRU. Navy has considered MRU requirements in planning its recruitment strategy, but only to a small degree; i.e. any changes are only to be introduced slowly. It has been recommended above that each Service continue to take into account future requirements when managing overall strength. The ANAO feels that the MRU should be one of the factors considered. For this purpose, it would be useful for each Service also to compare MRU with current strength.

Recommendation No.12

4.34 The ANAO *recommends* that each Service explicitly consider the number of Members Required in Uniform when considering desirable changes to the constitution of its workforce.

Impact

4.35 A better ability to plan for the future workforce through more explicit linkage with MRU.

Response

4.36 Agreed. Each Service currently considers MRU as part of its workforce planning process.

5. Military Strength Management

This chapter covers the processes of managing the total uniformed strength of each Service so that it meets the budget allocated. This requires good predictions of wastage and the setting and achieving of appropriate recruiting targets. The Services also need to bring the actual strength in some skill categories closer to the required strength.

Managing the workforce to the budget

5.1 The processes involved in managing the workforce to the budget are broadly similar, but the Services have different ways of executing the details.

General features

5.2 The budget, including that for personnel, is set only after consultation with resource users throughout each Service. Working-level groups are set up to review bids and bring them to higher management. Service bids are then submitted to the Defence Program Management Committee (DPMC) in May each year.

5.3 Expenditure within the current year is monitored by the respective Directors of Personnel Finance in close consultation with workforce planning staff. Significant departures of planned strength from expected strength can lead to adjustments to recruiting targets. If there is an expected underspend in expenditure on personnel, Resources and Financial Programs Division is informed. This occurs via a quarterly report and frequent informal communication. The DPMC also receives a quarterly report on progress.

Air Force

5.4 Air Force manages to an average authorised strength, based on staff-years. DWPC-AF generates a distribution of ranks which ASRP applies to determine costs. The process is quite accurate: the actual 1995-96 achievement was within 0.16% of the forecast made in the previous fiscal year.

Army

5.5 In the past, Army has had difficulty managing its personnel budget, with consistent underspends of up to \$30 million occurring. Accuracy is expected to improve for 1995-96, with a predicted overspend of \$7 million.

Navy

5.6 Navy has two measures of target personnel strength for permanent naval personnel - the average personnel funding level (APFL) and the Authorised Average Strength (AAS). APFL is expressed in dollars, AAS in numbers. In 1993-94 Navy managed APFL to within \$400 000 or 0.1%. In 1995-96 the comparative figure was \$1.2 million or 0.23%.

5.7 The use of AAS as a means to control resource allocation is ineffectual. This is because, even if the AAS of 15 059 for 1994-95 was met, personnel expenditure would have exceeded budget by about \$10 million. In that context, division of the AAS into training force and trained force would seem superfluous. In the current funding climate, both the complement and AAS would appear to be unachievable goals, and therefore of little use for forward planning purposes. The Navy has now recognised this by increasing the emphasis on achieving authorised personnel funding and focusing less on achieving the allocated staff-year targets.

5.8 Although the Navy cannot afford to reach AAS, due to funding constraints, the main limitation appears to be a failure to meet recruiting targets, with the Navy returning some \$10 million in salary funding. Navy had a good record achieving its recruiting targets up to April 1994. Since then, there have been recruiting shortfalls of up to 20 per cent. DGR routinely advises DNPM of success or otherwise in meeting recruiting targets. In early 1995 it was the Navy's aim to reach full strength by Christmas 1997.

Managing the peaks and troughs of future Navy requirements

5.9 The gap between current staffing guidance and the Defence Long Term Plan (DLTP) requirement, based on new capabilities, widens after 2001. Navy considers that this widening gap is unmanageable.

5.10 The current guidance proposes a fall from the current baseline MRU of 15 078 to 14 604, with numbers remaining at this level into the next century. In contrast, the DLTP shows a fall until 2001 to 14 500 and an increase over the subsequent four years to 15 400. Navy claims that it would have difficulty growing at 200 members per year as required; an increase of 120 (0.8%) is considered the maximum possible in a year.

5.11 This view is based on historical achievement; during the late 1980s, considerable recruiting effort was expended to produce a growth of only 100 per year. In addition, Navy states the initial reductions proposed by the DLTP are likely to make it even harder to increase recruiting to that necessary.

5.12 Navy is proposing to slow down the reduction in numbers and start increasing

numbers earlier. This would mean that growth would vary between 30 and 130 per year. However, this would be achieved by having some 2000 person-years available before they are needed to operate new capabilities. Any project slippages could compound the problem. The cost of this additional staffing would be approximately \$120 million, ignoring civilian staffing costs.

5.13 Navy pointed out that the global changes were made up of changes to a number of categories, some of which were increasing, some decreasing. The ANAO noted that it was planned to change these categories very gradually. For example, for Storemen the excess of 43% above MRU was to be reduced over ten years, and for Writers the excess of 134% above MRU was to be reduced over twelve years. In both cases, a steady recruitment into the category was proposed.

5.14 The ANAO considers Navy could achieve, or come close to achieving, the DLTP requirement with its still-modest growth target of 200 per year. An inability to increase intake from 1500 (the amount required to maintain a steady state) to 1700 would seem to imply an inadequate ability to respond to fluctuations, whether arising from wastage or increased requirements.

Recommendation No.13

5.15 The ANAO *recommends* that, to avoid excess personnel, Navy plan for its future strength to be closely aligned to predicted requirements.

Impact

5.16 Potential savings of part of the proposed expenditure of \$120 million on personnel over the period before they are expected to be required.

Response

5.17 Agreed in principle. Navy plans for its future strength to be as closely aligned as possible to future requirements, but a closed workforce system cannot respond quickly to changing workforce requirements. Navy is undergoing significant structural change, and work will be contracted out or civilianised where it is not required for respite from sea service, does not require military skills or is not required for structural purposes. In this context, periodic changes in the number of military members in various categories (which must be managed smoothly) will only represent a saving of a small proportion of the \$120 million identified by the ANAO.

Wastage predictions

Air Force

5.18 In analysing wastage, Air Force attempts to consider those who cannot resign because of return of service obligations (ROSO) or fixed-term engagements. This is difficult, as information on ROSO has to be obtained manually. For airmen, the process is to:

- identify those eligible to depart, taking into account ROSO and re-engagement constraints;
- look at the 1994-95 trend for each skill category (the previous 3-4 years of data

cannot be used for projections because of redundancies and the technical trades restructuring); and

- add judgmental factors such as external demand for skills.

5.19 For officers, there is a good historical database on wastage. After analysing trends, a judgmental factor is added as for airmen. Eligibility to resign depends mostly on ROSO. Trends are monitored at least quarterly. The Australian Bureau of Statistics assists with trend analysis. Recently, considerable analysis has been done of key categories such as pilots and air traffic controllers. This has included the analysis of wastage by time in service, and the effects of ROSO. In July 1995 Air Force estimated that wastage for 1995-96 would be 8.0%; actual wastage was 9.0%.

Navy

5.20 Navy's overall prediction of wastage has been quite accurate. For example, in July 1995 a wastage of 2035 was predicted for 1995-96; the actual figure was 2045. The predictions for each month of the year were also quite accurate; Navy uses a historical weighting factor for each month to predict the pattern of wastage.

5.21 Exit surveys of those leaving the Navy have only just been introduced and therefore there is incomplete understanding as yet of why people leave. Navy felt open-ended engagement had increased the wastage rate, but there is some evidence to the contrary. Therefore, there is a clear need for Navy to understand and, if possible, control wastage; at the moment recruiting is the only effective means of controlling numbers and immediate workforce expenditure.

5.22 Formal notifications to resign were not used to assist predictions of wastage until about April 1996. Navy had previously considered such notifications unreliable as about 35% of sailors change their minds.

5.23 Navy states that extensive time at sea is a factor that leads to high wastage, especially among senior sailors who are more likely to have family commitments. The ANAO examined this by conducting a comparison of wastage rates against sea-shore ratios for the 29 sailor categories. The overall result showed only a slight correlation of 0.25. Consideration of individual ranks showed that the major effects were at Able Seaman (0.47 correlation) and Leading Seamen (0.26 correlation). Higher ranks actually had a very slight negative correlation. However, for two large and important categories, Combat System Operator and Marine Technical, it was the case that a high sea-shore ratio combined with high wastage. Navy could investigate the causes of wastage further.

5.24 There was also little evidence for the connection claimed by Navy between undermanning and wastage. Here the overall correlation was 0.04.

Army

5.25 Army has recently recommenced exit interviews of people leaving the Army. Figures on wastage and recruiting are updated by DPPLANS-A monthly. Adjusting personnel strength to meet the annual budget is difficult because of inaccurate predictions of wastage. Such predictions 12 months ahead of time have varied as follows:

Period	Date of	Wastage	Wastage
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	Estimate	Estimate	Outcome
1993-94	May 1993	8.39%	10.25%
1994-95	April 1994	11.01%	13.67%
1995-96	April 1995	14.05%	12.82%

5.26 The variation in wastage caused difficulties in late 1995 when a reduction in wastage meant that Army exceeded its strength, and hence recruiting had to be abruptly reduced. Army noted that wastage from trained other ranks soldiers peaked around October 1994; however, it forecast increased wastage for 1995-96 based on economic forecasts. Possible approaches to improving wastage predictions include analysing wastage for individual categories, ranks or age groups.

Recommendation No.14

5.27 The ANAO *recommends* that the Services conduct further research into the causes of, and trends behind, personnel wastage with a view to improving the accuracy of predictions.

Impact

5.28 Increased effectiveness through being able to bring the workforce closer to its desired strength.

Response

5.29 Agreed. Work is currently conducted by the Services. Measures are also under way to put in place a personnel research element within HQADF Personnel Division.

Managing the workforce profile

Strengths versus establishments

5.30 Some strengths varied quite substantially from requirements. Some of the largest variations are set out in Table 2. Reasons include increases in wastage and difficulty in recruiting.

Table 2 Requirement and Strength for Selected Categories

Service	Category	Requirement	Strength	Difference
Navy	Air Defence Officers	78	101	+23
	Pilots	111	91	-20
	Combat System Operators	735	614	-121
	EW Linguist	187	121	-66
	Marine Technical	2056	1741	-315
	Electrical Technical	142	105	-37

	(submarine)			
Army	Crew Commander (AFV)	245	199	-46
	Plant Operator	106	82	-24
	Op Info Sys and Radio	224	150	-74
	Aircraft Technician	243	194	-49
	Tech Electro Telecom	192	246	+54
Air	Aircraft Technician	1288	1558	+270
Force	Avionics Fitter	353	177	-176
	Cook	316	379	+73
	Flight Engineer	126	110	-16
	RAAF Police	427	378	-49

Sources: Quarterly Report of Navy Manpower, 30 June 1996; List of Army Courses, July 1996; Air Force Mustsit (Mustering Situation) Report, June 1996.

Navy

5.31 Adjusting recruiting is the major method of controlling variations of strength from complement. Recruiting targets for other ranks for 1996-97 were mostly consistent with the strength-complement gap. However, there were substantial 1996-97 recruitment targets for the Marine Science, Radio Operator, and Electrical Technical categories when these were over strength at June 1996. In addition, storemen and writers were recruited despite the long-term requirement for these categories being much lower than at present. The ANAO feels that there should be a closer connection between recruiting targets and the required strength. Navy explained that recruiting targets were being constantly reviewed to achieve better responsiveness to the separation rate.

Army

5.32 The main instrument in managing the workforce profile is to respond to shortages or excesses in particular skill groups by adjusting the recruiting targets. Army has documented the process. The aim is to get each category as close as possible to 100% of manning as funding and training capacity allow. DPPLANS also considers the rank structure of the trade in question. Where shortfalls are primarily at a higher rank, the recruit entry target is, where practicable, lowered in favour of increasing the target for entry at a higher rank. The process generates an appropriate allocation of recruits by trade.

5.33 In performing the analysis, DPPLANS estimates wastage based on recorded departures for a first estimate and then considers input by SCMA based on later knowledge of departures. It may be better first to seek from SCMA the latest estimate of actual wastage before commencing the process.

5.34 For officers, the situation is not as clear. Officers have longer training times (especially in the case of Australian Defence Force Academy entrants) and they are more widely employable, as there are many tasks that require generalist officers rather than specific training. For each of the Army Corps (infantry, artillery etc.) the balance between

strength and establishment seems reasonable, except in the medical corps, where Army is having difficulty recruiting doctors.

Air Force

5.35 Adjusting recruiting is the major method of controlling variations of strength from establishment. For nine musteringings, recruiting targets for 1995-96 exceeded predicted wastage, at the same time as the strength of the musteringings exceeded the establishment. For 1996-97 the targets set seemed generally reasonable when compared with the strength-establishment gap. Some oddities, such as recruiting Aircraft and Avionics trades only at the lower skill level of mechanic (as opposed to fitter), were due to previous decisions having allowed the trade to get out of balance in that too many people had been advanced in skill level compared with requirements. Air Force reviews its recruiting targets quarterly.

5.36 Analyses are carried out of each category and mustering for two purposes. One is to decide whether particular establishment changes should be approved. The other is to determine the recruiting targets for the forthcoming year. Both of these are partially determined by the concept of structural health. However, this is a difficult concept to define. It relates primarily to appropriate ratios of the various ranks within a category or mustering. The objective is that there are sufficient people in each lower rank to provide enough contenders for promotion, and conversely that there are adequate promotion opportunities for serving members. Complicating factors include the possibility of lateral recruitment, and highly variable wastage. In these circumstances, Air Force has not yet been able to explicitly define the parameters within which a particular mustering or category could be considered as 'healthy'.

5.37 For officers, the problem has been one of the corps as a whole being under strength. Action was taken to bring relevant Air Force authorities together to improve officer recruiting. With difficulty in recruiting, the decision was taken to increase targets for specialisations where candidates were available, in order to increase the overall officer numbers at the expense of balancing the specialisations.

5.38 The Air Force workforce distribution report is a useful summary combining the strength and establishment of the various specialisations and musteringings, together with the extent to which people are employed away from their primary qualification. In the case of pilots (see below) it indicates the complexity of a situation where in June 1996 there were 638 pilots for some 500 positions requiring pilots. Despite this apparent excess, there were 98 vacant pilot positions because of overhead factors. These factors account for pilots who are non-effective, in jobs not necessarily requiring a pilot, fulfilling United Nations and similar requirements, in the process of transferring between positions or unavailable due to training and similar purposes.

Pilots case study

5.39 Air Force has been short of pilots since at least 1986. Air Force therefore attempted to increase pilot output to 65 per year, but this target was not reached. It was reduced to 55, and then to 45 as a result of the Force Structure Review and consequential reductions in pilot training capacity. In the period to 1994 these targets were not reached either. An initiative to identify ground posts to absorb increased numbers of junior pilots was not implemented because the numbers of pilots were not available from the training system.

Over the years 1986 to 1996 the figures were as in Table 3 below. The intention was to raise the training rate to 55 pilots in 1995-96.

Table 3 Pilot Strengths, Establishments and Training Rates

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Establishment	767	849	841	694	811	765	753	813	781	720	736
Manning	665	746	662	597	599	648	676	682	668	644	638
Gap	102	103	179	97	212	117	77	131	113	76	98
Training target	65	65	65	65	65	65	55	55	45	45	55
Trained	61	59	38	86	38	43	53	48	28	17	52

Note: Establishment and manning at end of the financial year in question.

Source: Air Force data.

5.40 Training targets for pilots had increased from 45 to 55 a year in response to wastage increasing from 58 for 1994-95 to 89 for 1995-96. These figures show that the training target (which was constrained by training capacity) was always less than the gap between requirements and manning, and was reduced in the early 1990s despite the continuation of the pilot shortage.

5.41 Air Force states that the shortage has been dealt with by such measures as substitution with other aircrew where possible in staff appointments requiring operational aircrew experience. Air Force might review the total requirement for pilots, taking into account MRU requirements and the steps taken over the last ten years to cope with the pilot shortage. If a substantial gap between requirement and strength remains, there would be a need to take steps to increase the intake of pilots.

Recommendation No.15

5.42 The ANAO *recommends* that Air Force review the overall requirement for pilots and either reduce the requirement or increase the pilot training capacity.

Impact

5.43 Increased effectiveness through increasing the number of pilots to be closer to that desired, or better setting of long-term workforce targets through acceptance that pilot numbers would remain below the desired level.

Response

5.44 Agreed. Within the bounds of resource availability, Air Force strives to achieve a workforce with the composition, training, readiness and sustainability needed to meet its mission. Since pilots are a primary component of that workforce, significant effort is consistently applied to the management of numbers, employment and training of these members. A specific study of flying training syllabus needs and possible alternative training methods, for all ADF pilots, is currently under way. The outcomes will indicate

the prospects for increased pilot training efficiency and capacity in the future. However, because of long training lead times (up to three years from induction to minimum operational standard in some roles), a quick solution is not possible.

Other mechanisms for workforce control

5.45 Changes to legislation in 1995 introduced the concepts of management-initiated early retirement (MIER) and limited-tenure promotion (LTP). The first enables reduction in staff and the second enables people to be retained for a specific period and then retired. Therefore they offer additional levers for the control of the workforce. However, these mechanisms are used within each Service's personnel area and are not influenced by workforce management considerations.

5.46 Between the gazetting of the regulations in late 1995 and the end of June 1996, these provisions had been used very infrequently. Details are below:

	MIER	LTP
Navy	0	2
Army	1	0
Air Force	2	0

Recommendation No.16

5.47 The ANAO *recommends* that each Service more actively consider Management Initiated Early Retirement and Limited Tenure Promotion in managing the workforce.

Impact

5.48 Increased effectiveness through managing the shape of the workforce, in terms of ranks and experience levels, to be closer to that required.

Response

5.49 Agreed. The availability of these two personnel control mechanisms is welcomed, as is the effort to maximise their administrative effectiveness. The morale and funding implications of these tools require further assessment.

6. Allocation of Scarce Personnel

This chapter considers the issue of allocation of personnel where strength is insufficient to meet requirements, and proposes a solution based on devolving the problem to Commands and units.

6.1 As noted above, it is very common that the strength in a particular category is less than the establishment. The Services have adopted different approaches to dealing with this problem.

6.2 Air Force introduced a 'Lowest Staffing Priority' system to cope with differences between strength and establishment. This requires Directors-General and Commanders to identify a number of positions for identified categories that, with least consequence, can be left vacant if strength fails to meet requirements. The nomination of specific positions is usually left to subordinate formations. This method of allocating shortfalls appears effective and is also consistent with earlier recommendations on devolution of responsibility to Commands.

6.3 For some Navy-wide shortages of categories, there have been exercises to 'spread the hurt' across all establishments for specific categories such as cooks and stewards. However, there is currently no information system on individual priorities for billets. Category sponsors also provide advice on allocation of priorities. In practice, commanding officers deal with posting agencies to try to negotiate postings. If these agencies cannot assist directly, the Commanding Officer can approach the functional Command. Vessels can also issue an URDEF (urgent defect) based on workforce shortages, but this mechanism is not available for shore establishments.

6.4 Army staffing priorities are defined in the Army Personnel Liability Plan (APLP). These priorities are expressed mostly by unit, but in some cases by position. Other than the few positions singled out for 'must be manned', priority within units is not specified in the APLP. Priorities such as these can be used by posting staff to make individual decisions for particular trades, but with the danger that an entire low-priority unit may be severely affected. In practice, commanding officers deal with posting agencies to try to negotiate postings. If these agencies cannot assist directly, the CO can approach the functional Command. There are also formal ways for units to express deficiencies, namely the Operational Readiness and Capability reports from units to Commands.

Recommendation No.17

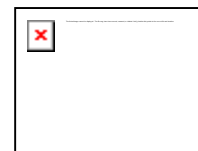
6.5 The ANAO *recommends* that Navy and Army introduce a system whereby, for each category for which overall demand is higher than overall strength, Commands nominate annually those positions that are of lower priority for filling.

Impact

6.6 Increased effectiveness through employing people in high demand in the most important areas.

Response

6.7 Agreed. Army currently has such a system in place, and Navy is continuing to develop its system.



Writer is the title given by the Navy to its clerical category.

Appendix 1 - Audit Criteria

1. The Workforce Planning Function

1.1 Directives, strategic plans, guidelines etc. exist and are consonant with top-level policy.

1.2 Performance information requirements are defined. Performance against these requirements is reported to higher authorities. Action is taken to correct deficiencies shown by these reports.

1.3 Resources used in workforce planning are appropriate to the task

1.4 Responsibilities for workforce planning are well defined and relate to the functions that have to be carried out.

1.5 Workforce planning is adequately coordinated with overall planning and with other personnel functions within the Service.

1.6 There is appropriate tri-Service communication and coordination.

1.7 Databases and management information systems on workforce are comprehensive, relevant, up to date and easy to use.

1.8 Line managers understand the system to the extent necessary for their job.

1.9 Appropriate analyses are carried out of proposed changes to workforce planning policies

2. Requirements Determination

2.1 Systems exist to define the right collection of personnel resources for each unit. (Establishments) This refers to numbers, ranks, skills and personnel attributes.

2.2 There are mechanisms for timely adjustments to Establishments, and regular reviews of requirements.

2.3 There is a system for taking into account future requirements. This system reflects both confirmed and expected force structure changes, and Members Required in Uniform considerations.

3. Managing the overall strength

3.1 The budget provided for the workforce is met closely. Any variations from budget that are not recoverable are communicated to management early in the financial year.

3.2 Systems are in place for attempting to predict wastage. Actual wastage is close to wastage predicted 12 months earlier. Available mechanisms to control wastage are used appropriately.

3.3 Recruitment targets are defined and passed to recruiters well before recruitment action is required

3.4 Achievement of recruitment targets is communicated in time to make required adjustments, e.g. to varying other recruitment targets and adjusting training courses.

3.5 Training resources are adequate, or can be readily expanded, to meet maximum wastage rates experienced over the last five years.

3.6 Current training capacity is taken into account in workforce planning.

4. Managing the workforce profile

4.1 Variations from desired strength by rank and skill are low.

4.2 Action is taken to adjust recruitment, training and promotion rates to bring shortfalls or excesses into line.

4.3 Systems are available to predict consequences of adjustments to wastage, recruiting, training and promotion.

4.4 Systems exist for reflecting future changes to requirements in current recruiting, training and promotion activities.

5. Allocating people to jobs

5.1 A high proportion of positions (especially high priority positions) are filled.

5.2 A high proportion of positions are filled by people who meet the job requirements.

5.3 A low proportion of members are in supernumerary jobs (i.e. without a formal position).

5.4 The level of posting and locational stability meets the CDF directive.

6. Rank Structure and Career Planning

6.1 Rejections of variations to establishment on rank structure grounds are justified.

6.2 Few positions have to be added to maintain a suitable rank structure.

6.3 Promotion policies do not inhibit workforce flexibility.

6.4 Management of careers within each of the various career specialities:

- there is an appropriate balance between 'equity' - approximately equal promotion prospects - and meeting needs of the speciality;
- there is flexibility for suitable individuals to move between specialities; and
- specialities are appropriately defined (neither too narrow nor too general).

6.5 There are agreed definitions of requirements for each rank

Appendix 2 - Performance Audits in the Department of Defence

Set out below are titles of the main performance audits by the ANAO in the Department of Defence tabled in the Parliament in the past three years.

Audit Report No.5 1993-94

Explosive Ordnance

Audit Report No.11 1993-94

ANZAC Ship Project - Monitoring and Contracting

Audit Report No.19 1993-94

Defence Computer Environment

Supply Systems Redevelopment Project (Preliminary study)

Audit Report No.27 1993-94, Report on Ministerial Portfolios, includes:

US Foreign Military Sales Program (Follow-up audit)

Explosives Factory Maribyrnong (Preliminary study)

Audit Report No.2 1994-95

Management of Army Training Areas (Follow-up audit)

Acquisition of Additional F-111 Aircraft (Preliminary study)

Audit Report No.13 1994-95

Australian Defence Force Housing Assistance

Audit Report No.25 1994-95

Australian Defence Force Living-in Accommodation

Audit Report No.29 1994-95

Energy Management in Defence

ANZAC Ship Project Contract Amendments (Preliminary study)

Overseas Visits by Defence Officers (Preliminary study)

Audit Report No.31 1994-95

Defence Contracting

Audit Report No.8 1995-96

Explosive Ordnance (Follow-up audit)

Audit Report No.11 1995-96

Management Audit

Audit Report No.17 1995-96

Management of ADF Preparedness (Preliminary study)

Audit Report No.26 1995-96

Defence Export Facilitation and Controls

Audit Report No.28 1995-96

Jindalee Operational Radar Network Project

Audit Report No.15 1996-97

Management of Food Provisioning in the Australian Defence Force

Audit Report No.17 1996-97

Workforce Planning in the Australian Defence Force