

The Auditor-General  
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Performance Audit

# **Army's Workforce Management**

Department of Defence

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Canberra ACT  
27 March 2017

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Defence titled *Army's Workforce Management*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink that reads 'Grant Hehir'.

Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

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# Summary and recommendations

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## Background

1. The Australian Army is the largest of the three armed services, with some 30 000 permanent personnel and 13 500 active reservists. Army enlisted around 3400 permanent personnel in each of the last two financial years, while losing 3302 permanent members in 2014–15 and 2962 permanent members in 2015–16. Army has employee expenses of some \$4 billion per year.
2. Every member of Army is classified into an employment category (or military trade): there are 32 categories for officers and 67 categories for soldiers. Two categories are currently classified as critical, and eight are classified as serious.
3. Army's workforce demand is set by the Defence White Paper and the Budget, and is further detailed in classified preparedness directives from the Chief of the Defence Force and the Chief of Army.

## Audit objective and criteria

4. The audit objective was to assess the effectiveness of Army's workforce management. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:
  - Army has an effective workforce planning framework; and
  - Army has managed its employment categories, including serious and critical categories, effectively.

## Conclusion

5. Army has established a framework for the strategic management of its workforce, but has not been effective in addressing persistent personnel shortfalls in some key specialist employment categories or aligning its establishment with government funding.
  - Army has in place the key components of an effective strategic workforce planning framework. Army workforce planning is conducted in the context of Defence's overarching workforce planning framework, and is supported by a strategic workforce plan and Defence People Group's centralised workforce analysis cell.
  - Army's organisational structure (establishment) contains more positions than are approved by Government. Army has made repeated attempts to correct this problem, without success.
  - Army's monitoring and analysis of its employment categories informs its workforce planning. The monitoring indicates that 61 of Army's 99 categories are healthy. Army has ten categories that have either serious or critical workforce issues and require direct management attention.
  - The ANAO's review of two critical and two serious categories indicates that they exhibit a number of common features, including longstanding personnel shortfalls and ineffective review processes. Remediation plans for two of the selected categories were put in place

following interventions by the Chief of Army and the affected Regiment. Army should also consider interventions for the other serious and critical categories, and review the application of standard career and posting processes to its specialist personnel.

## Supporting findings

### Workforce Planning and Systems

6. Army conducts strategic workforce planning in the context of Defence's overarching workforce planning framework. Army has contributed to the development of key Defence strategic workforce processes, including the recently approved Defence Strategic Workforce Plan. The workforce planning documents identify the key workforce risks as well as initiatives to address them. Key risks identified by Defence include attracting and recruiting women and Indigenous entrants, Officer candidates and Other Ranks for technical and specialist roles.

7. The first strategic workforce plan for Army was released in 2013, and Army intends to develop a new plan in 2017.

8. Defence and Army have invested, over a number of years, in a specialised workforce analysis cell. The analysis produced by the cell is used to inform Defence and Army management about the current and future state of their workforce. Defence is seeking to improve the internal coordination of workforce analysis.

9. Defence's project to redevelop its ageing personnel systems is over budget and behind schedule.

10. In the last 15 years, Army has created an organisational structure (establishment) that contains more positions than the Average Funded Strength approved by Government. Since 2009, Army has made repeated attempts to correct this problem, without success. The Chief of Army has directed that the issue be resolved by January 2019.

11. Army's civilianisation target under the Strategic Reform Program 2009 was agreed as 457 personnel. Army provided evidence that 270 positions were civilianised, including the transfer of 81 military personnel to civilian positions.

12. Defence People Group and Army have also conducted reviews as recommended by the First Principles Review 2015, to achieve a different balance between military personnel and public servants in Defence's workforce. The number of ADF positions in non-Service Groups was subsequently reduced by 163, and the number of administrative positions in Army was reduced by 56.

### Workforce Management

13. Defence People Group's workforce analysis cell produces a biannual Employment Category Status Report. The report provides an overview of Army's workforce and is an important input to assessing the health of Army's workforce. The latest analysis indicates that 61 out of 99 Army employment categories are healthy, 15 are marginally unhealthy, 21 are unhealthy, and two are extremely unhealthy.

14. In four case studies of serious and critical categories examined by the ANAO, Army's monitoring processes were found to have identified issues, but review and remediation efforts



over the last several years have been ineffective. The case studies indicated that targeted action plans and progress reviews are necessary to address longstanding issues in specialist categories; and that intervention at a senior level can provide additional impetus. There is also scope to review the application of standard career management and posting processes to specialist personnel, in order to address longstanding shortfalls in key specialist categories.

## Recommendation

**Recommendation No.1** That Army:

### Paragraph 3.55

- (a) develop targeted action plans and progress reviews which are conducted in a timely manner, with appropriate deadlines and monitoring, for serious and critical employment categories; and
- (b) review the application of standard career and posting processes to its specialist personnel.

**Defence's response:** *Agreed.*

## Department of Defence response

15. The Department of Defence response to the report is provided below, and its covering letter is reproduced at Appendix 1.

Defence welcomes the ANAO audit report on Army's Workforce Management and notes that the recommendation provides an opportunity for Army to focus on remediating areas of long term workforce risk. The report correctly identifies the difficulties Army has faced in addressing specialist workforce areas due to common factors such as unsustainable rank structures, lengthy review processes and the lack of targeted action plans.

At the time of the audit, Army was aware of some of the concerns identified in the report, and has been making progress in aligning its workforce management processes with the agreed capability outcomes. Defence is confident that the identification and classification process for both critical and serious employment categories in Army remains robust. The area that requires more attention is the co-ordination of action plans to ensure long term workforce risks can be addressed. This often requires the support of a number of Defence and external agencies including structures, recruiting, training, employment management, career management and remuneration.

In order to address the audit report's recommendation, Army has allocated additional staff to the Directorate of Workforce Management. This directorate is responsible for establishing and managing Army's training, remuneration and workforce requirement to deliver capability.



# Audit Findings



# 1. Background

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## Introduction

1.1 The Australian Army is the largest of the three armed services, with some 30 000 permanent personnel and 13 500 active reservists. Army enlisted around 3400 permanent personnel in each of the last two financial years, while losing 3302 permanent members in 2014–15 and 2962 permanent members in 2015–16. Army has employee expenses of some \$4 billion per year.

1.2 Every member of Army is classified into an employment category (or military trade): there are 32 categories for officers and 67 categories for soldiers. Two categories are currently classified as critical, and eight are classified as serious.<sup>1</sup>

1.3 Army's workforce demand is set by the Defence White Paper and the Budget, and is further detailed in classified preparedness directives from the Chief of the Defence Force and the Chief of Army.

## Audit approach

1.4 The audit objective was to assess the effectiveness of Army's workforce management. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Army has an effective workforce planning framework; and
- Army has managed its employment categories, including serious and critical categories, effectively.

1.5 The audit method included discussions with staff involved in establishing Army's personnel requirements, managing Army personnel and analysing personnel data; review of Defence documentation; and visits to units and headquarters affected by shortages of specialist personnel. The ANAO also reviewed four employment categories to assess the effectiveness of Army's workforce management. The categories are not identified in this audit report, to avoid the release of detailed information about Army's capability.

1.6 The ANAO previously audited workforce planning by the Department of Defence (Defence) in 1996 and 2005, and audited Navy's recruitment and retention of specialist skills in 2014.<sup>2</sup>

1.7 The audit was conducted in accordance with the ANAO's auditing standards at a cost to the ANAO of approximately \$310 000.

1.8 The team members for this audit were Dr Patrick O'Neill, Jed Andrews and Michelle Page.

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1 Definitions of these categories are:

- A serious category is experiencing a shortfall in numbers of personnel that could *moderately* limit the range of strategic options available to achieve Army's mission over the long term.
- A critical category is experiencing a shortfall in numbers of personnel that could *severely* limit the range of strategic options available to achieve Army's mission over the long term.

2 Previous ANAO audits of Defence workforce planning:

- *Workforce Planning in the Australian Defence Force*, ANAO Report No.17 1996–97;
- *Workforce Planning [across 86 agencies]*, ANAO Report No.55 2004–05;
- *Recruitment and Retention of Specialist Skills for Navy*, ANAO Report No.17 2014–15.

## 2. Workforce Planning and Systems

### Areas examined

The ANAO examined: whether Army takes a strategic approach to workforce planning supported by appropriate planning documents, analysis and systems; Army's management of its workforce against its planned establishment; and the implementation of Army civilianisation initiatives.

### Conclusion

Army has in place the key components of an effective strategic workforce planning framework. Army workforce planning is conducted in the context of Defence's overarching workforce planning framework, and is supported by a strategic workforce plan and Defence People Group's centralised workforce analysis cell.

Army's organisational structure (establishment) contains more positions than are approved by Government. Army has made repeated attempts to correct this problem, without success.

### Does Army take a strategic approach to workforce planning?

Army conducts strategic workforce planning in the context of Defence's overarching workforce planning framework. Army has contributed to the development of key Defence strategic workforce processes, including the recently approved Defence Strategic Workforce Plan. The workforce planning documents identify the key workforce risks as well as initiatives to address them. Key risks identified by Defence include attracting and recruiting women and Indigenous entrants, Officer candidates and Other Ranks for technical and specialist roles.

The first strategic workforce plan for Army was released in 2013, and Army intends to develop a new plan in 2017.

2.1 Defence workforce planning has four levels: strategic; Service or Group; Job Family; and capability. The ANAO reviewed Defence's workforce planning as it relates to Army.

#### *Preparedness*

2.2 Each year, the Chief of the Defence Force issues a classified Preparedness Directive that sets out the required deployment capability of each of the armed services. For Army, further detail of required preparedness is provided by a classified Chief of Army Preparedness Directive. These documents set out the capabilities required of Defence by Government, in terms of types of military units and their required readiness and sustainability, across a number of contingency scenarios.

2.3 The ANAO reviewed the reporting associated with the directives. The reporting indicates that Army advises the Chief of the Defence Force quarterly of its achievement against the Preparedness Directives, including workforce deficiencies.

#### *Defence Strategic Workforce Plans*

2.4 Defence produced its first Strategic Workforce Plan in 2007, moving from the previous annual workforce plan to a more strategic approach with a ten-year outlook. Each key result area in this first Strategic Workforce Plan was supported by a number of action items. Defence

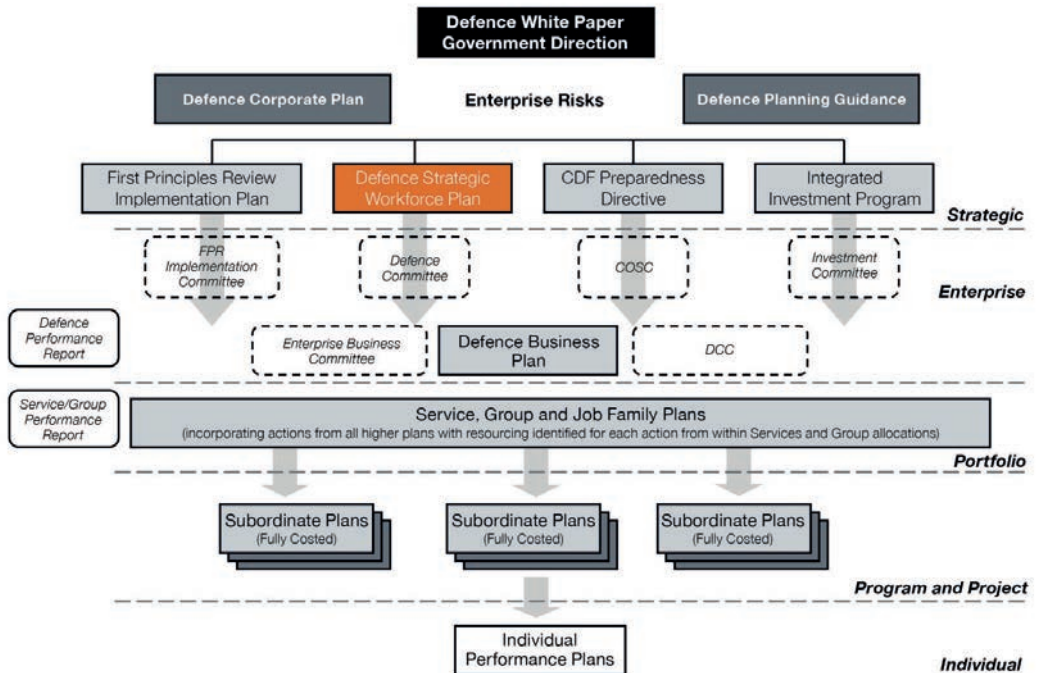
reviewed the outcomes in 2010, and found that while its intent was sound, the plan was not completely implemented due to changing circumstances and priorities. As a result, not all of the action items were ‘fully delivered’.

2.5 Defence developed its second Strategic Workforce Plan in 2010, for the period 2010–20. This plan articulated a Defence Workforce Planning Cycle, with subordinate plans to be developed by Defence Services and Groups, including Army. The plan included 18 action items and 26 research tasks. Defence reported most of the action items as discrete tasks that were largely completed by the end of 2010, while three actions were postponed for consideration during the expected 2014 White Paper process.

2.6 Defence released its third Strategic Workforce Plan, for the period 2016–26, in response to an undertaking in the Defence White Paper 2016. This plan was approved by the First Principles Review Implementation Committee in October 2016. It is supported by detailed analyses of various parts of Defence’s workforce, and includes ten initiatives that have been developed to address workforce risks.

2.7 The *Defence Strategic Workforce Plan 2016–26* is intended to inform the development of subordinate workforce plans, including for Services, Groups and Job Families. It notes that ‘workforce shortages impact on the delivery of Defence’s capability’. Figure 2.1 shows Defence’s strategy, planning and governance framework.

**Figure 2.1: Defence’s strategy, planning and governance framework, 2016**



Note: COSC—Chiefs of Service Committee; DCC—Defence Capability Committee

Source: *Defence Strategic Workforce Plan 2016–26*.

2.8 Defence's May 2016 supporting analysis for the *Defence Strategic Workforce Plan 2016–26* made a number of key points about Army's workforce:

- Over the period 2011–12 to 2014–15, Army recruiting achieved, on average, 88 per cent of its targets. Underachievement was relatively larger in the officer workforce and hard-to-fill technical soldier categories.
- The separation rate for soldiers had recently returned to the long-term average of 11–12 per cent. This followed a two-year period of elevated separations from November 2012 to 2014 when the separation rate was between 13 and 14 per cent. The elevated separation rate was caused by larger-than-normal-sized cohorts of soldiers reaching the end of their initial employment contract and leaving. The separation rate for officers was relatively stable at about 7.5 per cent, largely due to consistent annual recruiting.
- The female participation rate increased from 10.1 per cent in July 2012 to 12.1 per cent in July 2015. Army's target was 15 per cent by 2023. Among a number of initiatives to realise the target, all employment categories were opened to women from 2016, and the recruiting target for women was increased from 840 in 2015–16 to 1060 in 2016–17.<sup>3</sup>
- Indigenous representation in Army's permanent workforce was 1.5 per cent as at July 2015, against a target of 2.7 per cent by 2018. Army had appointed Indigenous Recruiting Officers and mentors.<sup>4</sup>
- 23 per cent of Army's workforce had a Culturally and Linguistically Diverse background, with the largest subset (12 per cent) being those not born in Australia.
- Army's workforce was slowly ageing due to changes in retention behaviour driven by changes to personnel policies over the last decade. Over the period 2005 to 2015, the percentage of Australian Defence Force (ADF) personnel who were aged over 40 increased from 18 per cent to 23 per cent. The percentage aged over 50 increased from 3 per cent to 7 per cent over the same period.

2.9 Defence also acknowledged in its supporting analysis for the *Defence Strategic Workforce Plan 2016–26* that 'attracting and recruiting women and Indigenous entrants, Officer candidates and Other Ranks for technical and specialist roles remains a challenge'.

### *Army workforce planning*

2.10 In 2009, Army produced an *Army People Plan 2009–18*. The plan identified Army's six strategic personnel themes and set out initiatives to attract, recruit, develop, retain and transition the people that Army needed in order to provide the range of capabilities outlined in the Defence White Paper 2009.

2.11 Army produced its first strategic workforce plan in 2013, for the period 2013–21. This plan sought to provide a comprehensive outline of the Army workforce planning cycle, assist Army staff

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3 In August 2016, the Chief of Army advised Defence Force Recruiting that an Army priority was to meet its 'annual female supply target to support Army being well on the way to reaching a 25% participation rate by 2025'. The 2016–17 female recruitment target was raised to 1400.

4 By December 2016, Indigenous representation in Army's permanent workforce was 2.3 per cent. Army advised the ANAO in December 2016 that the target of 2.7 per cent by 2018 can be achieved with the implementation of the ADF Indigenous Employment Plan, which was presented to Defence's Enterprise Business Committee in December 2016. Army's current Indigenous participation target is 5 per cent by 2025.



in understanding their own place in the process, and explain the interaction with other Defence and Army documents.

2.12 Army's annual overall plan, now known as the Army Modernisation Plan, includes an annex that is intended to provide the current version of Army's People Plan. It considers the external and internal environment affecting Army personnel, the strategic personnel functions (attract, recruit, develop, retain), and provides guidance on Army's Employment Category Reviews.

2.13 Army advised the ANAO in December 2016 that it intends to develop a second Army Strategic Workforce Plan in the first half of 2017.

## Is Army's strategic workforce planning supported by appropriate analysis and systems?

Defence and Army have invested, over a number of years, in a specialised workforce analysis cell. The analysis produced by the cell is used to inform Defence and Army management about the current and future state of their workforce. Defence is seeking to improve the internal coordination of workforce analysis.

Defence's project to redevelop its ageing personnel systems is over budget and behind schedule.

### *Workforce analysis*

2.14 Defence has had a centralised workforce analysis cell since about 2000. This cell is currently located in Defence People Group, and has provided regular as well as ad hoc modelling and analysis to each of the Services.<sup>5</sup> In the early years, a Memorandum of Understanding between Defence People Group and each Service outlined the delineation of responsibilities. At the end of 2016, the cell comprised 21 military and civilian staff.<sup>6</sup>

2.15 In December 2014, Defence People Group considered that the current approach to workforce modelling was becoming fragmented, and could no longer be characterised as a shared service. For example, over the previous two years, Air Force Personnel Branch had progressively taken responsibility for all Air Force workforce modelling. Defence advised the ANAO in December 2016 that:

There is no formal agreement between People Group and the individual Services regarding the coordination of workforce modelling. ... The close working relationship and rotation (posting) of key staff between People Group and Army Headquarters has helped to ensure close alignment and coordination of workforce modelling between People Group and Army Headquarters; a similar working relationship also exists between People Group and Navy Headquarters. People Group has been working with Air Force over the last 12 months to improve the coordination and alignment of work.

5 The ANAO's 1996 audit recommended the establishment of a centralised workforce analysis cell to serve each of the Services. *Workforce Planning in the Australian Defence Force*, ANAO Report No.17 1996–97, pp. 12–14.

6 At the end of 2016, the Army workforce analysis cell had 3 ADF personnel.

## Personnel systems

2.16 The *Defence Strategic Workforce Plan 2016–26* notes that:

Defence's systems (in particular, processes and technology) do not support a consolidated view of the future workforce demand by size and skills at category and occupational levels. Furthermore, emerging requirements, such as those identified through the Integrated Investment Program, are not captured at category and occupation level. Without articulation of the future skills required by the workforce, Defence's ability to determine how these skills will be acquired, developed and maintained is limited.

2.17 Defence's personnel management system, known as Personnel Management Key Solution (PMKeyS), is the means by which Army counts and manages the number of personnel needed by corps, category, rank, and where necessary, skill, education and experience. Defence also has separate systems for the payment of Reserves and allowances.

2.18 Some years ago, Defence introduced a number of enhancements to its workforce reporting systems:

- 2005: a Management, Analysis & Reporting Solution (MARS) was developed for Defence users to access and analyse personnel information at multiple levels.
- 2009: a new high-level reporting system—Human Resource Metric System (HRMeS)—was developed for use in assessing performance, progress and compliance in the areas of people strategy, human resources issues and projects.

2.19 In 2013, Defence migrated its personnel data to a Human Resources Data Warehouse.<sup>7</sup> However, Defence People Group has had difficulty in keeping the data warehouse software up-to-date, and support for the version currently in use expired at the end of 2016. As at November 2016, Defence had not decided whether the data warehouse would continue as a separate system or be migrated to a new platform (see next paragraph).

2.20 Since 2012, Defence has been working towards the replacement of its largely-bespoke personnel systems with a suite of software produced by Oracle.<sup>8</sup> The new system, known as Defence One, is intended to provide both transactional and analytical capabilities on a single modern software platform. The release of the first two phases is experiencing budget and schedule issues, including:

- Release 1a of the project will replace the 21-year-old military payroll system (ADFPAY). As at November 2016, Defence had spent \$85 million of the \$89 million project budget, and received an additional \$23 million to implement legislated changes to ADF Super. The project's overall status was 'red', attributed by Defence to delays in obtaining additional funding, with go-live delayed from March 2017 to later in 2017.
- Release 1b of the project is to provide a modern analytical reporting function for Defence. In 2013, Defence analysis showed that the proposed commercial-off-the-shelf system would provide only 50 per cent of the existing reporting capability, and that more than half

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7 Previously, Defence's workforce modelling and analysis relied on an ageing set of underlying databases that had limited flexibility to meet future needs. The integration of data with other sources was often difficult, which created issues with providing timely and accurate workforce information.

8 Under Corporate Project 2080 Phase 2B, Personnel Systems Modernisation Project.

of the end-state capability would need to be custom-built. In May 2015, a review confirmed that there was a significant gap between the current and proposed data warehousing functionality, and Defence's project board directed the project to ensure that there was no loss of reporting capability. Defence advised the ANAO in December 2016 that no decision had yet been made regarding the future platform for personnel reporting.

### *Personnel data*

2.21 In mid-2016, Defence People Group's workforce analysis cell for the first time included the individual readiness status and the medical status of Army personnel in its regular reporting. The reporting indicates how many Army personnel are deployable or not, at a given time.<sup>9</sup>

2.22 The ANAO observed some differences between personnel data held centrally and at units. For example, as noted in Box 1 below, one of the reasons for categorising Army helicopter pilots as no longer a serious category in 2016 was that data remediation had identified that Army had more pilots than previously reported.

#### **Box 1: Data quality in Army's aviation workforce**

In 2016, Defence People Group's workforce analysis cell identified issues with the quality of personnel data in the aviation workforce. The cell identified a number of issues relating to the accuracy of the PMKeyS data, the primary source of Defence's personnel data. These issues included:

- incorrect classification of some personnel as either training or trained pilots; and
- incorrect reporting of some personnel as either pilots or non-pilots.

Army has been using this data for reporting on the aviation workforce at the strategic level, as well as informing annual recruiting targets and training numbers. Based on this data, the Chief of Army classified aviation pilots as a serious category in 2014 and 2015, citing an 'asset gap'. In 2016, pilots were removed from the serious category list. The primary reasons for this decision were: 'low separation rates, high training success rates and data remediation identifying that Army has more pilots than previously reported'.

Separately, an Employment Category Review in 2016 reported that the 'management of the [aviation pilot workforce] relies on the integration of disparate data and information from across a range of systems ... [and] many bespoke spreadsheets managed by individuals and not integrated into a coherent whole.' As at January 2017, Army was still verifying and remediating the aviation workforce data, with the inaccurate data still being used and reported in December 2016.

9 The ADF's Medical Employment Classification (MEC) system rates personnel as: Fully Employable and Deployable (MEC 1); Employable and Deployable with Restrictions (MEC 2); Rehabilitation (MEC 3); Employment Transition (MEC 4); or Separation (MEC 5).

## Is Army managing its workforce against its planned establishment?

In the last 15 years, Army has created an organisational structure (establishment) that contains more positions than the Average Funded Strength approved by Government. Since 2009, Army has made repeated attempts to correct this problem, without success. The Chief of Army has directed that the issue be resolved by January 2019.

2.23 The funded size of Army's full-time workforce is set by Government using a measure called Average Funded Strength.<sup>10</sup> Army develops its workforce demand (the number of required positions) to meet capability requirements based on this measure.

2.24 Army manages its workforce having regard to three separate, but related, considerations. These are:

- positions (establishment);
- actual personnel numbers; and
- a budget, expressed in terms of average personnel numbers (Average Funded Strength).

2.25 The Army's establishment is the collection of all permanent and temporary positions in the organisational structure. Trained personnel are posted to these positions by rank and employment category. Establishment is the figure that Army uses as the basis for its force structure. Army considers its establishment to be the primary mechanism for planning and capability purposes.

2.26 In the last 15 years, Army has created some 500 to 1500 establishment positions over and above the agreed resourcing from Government. Army attributes the fluctuation in numbers, in most cases, to the growth in demand created by major new initiatives such as Enhanced Land Force (2003) and the Hardened and Networked Army (2004).

2.27 Army has made repeated attempts since 2009 to align its establishment with its Average Funded Strength, but these attempts have stalled or failed. Where establishment reductions have been made, these are overshadowed by actual establishment growth associated with force structure changes such as Plan Beersheba (which established 1040 positions)<sup>11</sup> and other force structure changes (which established 435 positions). These initiatives did not include offsets.

2.28 Army reported in November 2016 that:

Initial analysis of the implications of the Force Structure Review and the First Principles Review is that by 2020 the Army's establishment could be as much as 1,800–2,000 positions over entitlement.

2.29 In 2016–17, therefore, Army had a force structure that Defence would be unable to finance if Army achieved full recruitment and filled its establishment. Defence defines its

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10 Average Funded Strength is the average number of full-time equivalent permanent force members and reservists on Continuous Full-Time Service paid over a number of pay periods commencing from the start of a financial year. In 2016–17, Army's Average Funded Strength is approximately 30 693.

11 A key outcome of Plan Beersheba was to create sustainable brigades for continued operations. Plan Beersheba organised Army into three combat brigades, based around a ready, readying and reset capability cycle. Army documents indicate that if the *ready* and *readying* brigades were brought to full strength, the *reset* capability would be filled to only 52 per cent.

workforce as ‘hollow’ when its establishment (Army: 31 721) is greater than the funding available to fill it (Army: 30 693). This can result in the overestimation of the capability Army can achieve, and the setting of incorrect goals for recruitment, training and career management.<sup>12</sup>

2.30 Since 2004, Army has used its Army Personnel Establishment Plan annual planning cycle as the primary mechanism to manage the gap between the numbers of trained personnel and its establishment. The principal determinant for the distribution of trained personnel is the Chief of Army’s Staffing Priorities. The plan is used to identify which positions are priorities to fill and which positions are to remain vacant, in accordance with Army’s capability needs and requirements, for the following Career Management Cycle.<sup>13</sup> This process can be time-consuming and is used to manage, in the short term, the gap between actual personnel and the establishment.

2.31 Army has noted that a large excess of unaffordable establishment positions:

- represents a failure to prioritise capabilities;
- represents a failure to accept the limitations of a 30 000 strong Army;
- puts at risk the Army’s ability to modernise expeditiously.<sup>14</sup>

2.32 The *Defence Strategic Workforce Plan 2016–26* also notes that ‘major flaws exist in demand planning which is the foundation for workforce planning’, and that ‘failure to develop and apply a consistent approach for future workforce demand increases workforce risk across all elements of the People System, leading to capability deficiencies’. The supporting documentation for the *Defence Strategic Workforce Plan 2016–26* notes that Army’s ability to grow is affected by the unaffordability of its current establishment. In 2012, the Chief of Army Senior Advisory Committee noted that Army’s establishment should be managed within one per cent (approximately 300 positions) of the approved size of the workforce (Average Funded Strength). Currently, Army manages an establishment that is more than four per cent (approximately 1300 positions) higher than the approved workforce size.

2.33 Defence advised the ANAO in December 2016 that:

The Chief of Army has directed that the Army is to align its establishment to the [Average Funded Strength] guidance by January 2019. During the implementation of this plan, the Army will rebalance its current workforce to meet directed capability within allocated resources, as directed by the Government, [the 2016 Defence White Paper] and associated guidance.

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12 A number of compounding factors further affect the gap between establishment and Average Funded Strength, including:

- some 15 per cent of Army’s trained workforce is not deployable; and
- 14 per cent of Army positions are vacant, and 11 per cent of positions are not filled by trained personnel of the required rank and/or category.

13 Positions are classified in PMKeyS according to one of three categories (first or second priority, or directed vacancy), and are either filled or remain vacant accordingly.

14 Army, internal discussion paper, November 2016.

## Did Army implement its civilianisation target under the Strategic Reform Program 2009?

Army's civilianisation target under the Strategic Reform Program 2009 was agreed as 457 personnel. Army provided evidence that 270 positions were civilianised, including the transfer of 81 military personnel to civilian positions.

2.34 In recent years, a number of reports have recommended that Defence should civilianise some of its non-deployable military support personnel, to achieve savings and provide a more flexible and adaptive workforce. This process involves converting military positions to civilian positions, which are considered to be some 30 per cent less costly.<sup>15</sup>

2.35 In May 2009, when the Government launched the Strategic Reform Program<sup>16</sup>, it asked Defence to consider converting 1100 military support positions to Australian Public Service positions. Defence estimated that civilianisation of positions would save some \$367 million over a decade. In March 2010, Defence advised the Government that further work had indicated that options for workforce reform were not as great as originally envisaged. The Defence Committee set the civilianisation target for the whole of Defence at 707 positions, and Army's target at 457 positions.

2.36 In September 2016, Army provided evidence that 270 positions were civilianised, including the transfer of 81 military personnel to civilian positions (under section 72 of the *Public Service Act 1999*).<sup>17</sup> Although higher achievements were reported in some Army documents<sup>18</sup>, Army was not able to provide definitive evidence supporting these achievements.

2.37 Army advised the ANAO in December 2016 that its Australian Public Service establishment of 1021 positions exceeds the Full Time Equivalent allocation of 824 for 2016–17, and that:

further civilianisation activities cannot be considered until the existing establishment is reduced to funding allocation.

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15 See, for example:

- Defence, *2008 Audit of the Defence Budget* [Pappas Review], 3 April 2009, pp. 186–91;
- Defence, *The Strategic Reform Program 2009: Delivering Force 2030*, May 2009, pp. 19–20;
- Defence, *First Principles Review: Creating One Defence*, 2015, pp. 55–8.

16 The Strategic Reform Program was established as part of decisions outlined in the Defence White Paper 2009. Over the decade to 2019, the Strategic Reform Program was intended to provide \$20 billion in savings for reinvestment in the Defence capabilities set out in the White Paper.

17 Defence advised the ANAO in December 2016 that these transfers represented an estimated annual direct cash saving of \$3.9 million on a 2015–16 price basis. The calculated savings excluded overhead costs such as health, housing, removals and training.

Recruitment to a further 18 positions was cancelled due to a public service recruitment freeze in 2013, and six other positions were disestablished without replacement.

18 381 positions were reported as civilianised in a 2012 Chief of Army Directive, and 462 positions were advised by Army in December 2016.

## Has Army made progress in implementing the workforce recommendations from the First Principles Review?

Defence People Group and Army have also conducted reviews as recommended by the First Principles Review 2015, to achieve a different balance between military personnel and public servants in Defence's workforce. The number of ADF positions in non-Service Groups was subsequently reduced by 163, and the number of administrative positions in Army was reduced by 56.

2.38 The First Principles Review 2015 identified overlap between Defence's enabling workforce and the ADF's corporate workforce. Two of the six key recommendations related to achieving the right workforce balance:

- ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce; and
- manage staff resources to deliver optimal use of funds and maximise efficiencies.<sup>19</sup>

2.39 The First Principles Review also observed that:

the incidence and scale of overlap and redundancy (paying 30 per cent more for Australian Defence Force personnel) is self-evidently inefficient.<sup>20</sup>

2.40 The First Principles Review reported that there were over 4300 postings of ADF personnel to non-Service Groups<sup>21</sup> in Defence, which, according to the Review, 'costs around \$300 million annually over and above what it would cost to fill the roles with public servants.'<sup>22</sup> The Review identified three reasons for using military personnel in civilian roles: the ADF personnel bring to bear specialist military knowledge; they are trained in tasks necessary for their career development; and they may be in need of respite from ADF duty.

2.41 Recommendation 4.2 of the First Principles Review was that 'Defence employ Australian Defence Force personnel in non-Service roles only: when it is critical to achieving capability; and for a minimum of three years to achieve best value for money from the premium paid'. In response to this recommendation, Defence conducted two reviews.

### *Capability review*

2.42 Defence People Group led a review of ADF positions in non-Service Groups. The review of all but one Group was completed by October 2016, and the results are shown in Table 2.1.

19 The key recommendations were supported by seven specific workforce recommendations. Defence, *First Principles Review: Creating One Defence*, 2015, pp. 7, 9, 54–62.

20 Defence, *First Principles Review: Creating One Defence*, 2015, p. 58.

21 Defence's non-Service Groups are all Groups except Navy, Army and Air Force. They are: Vice Chief of the Defence Force Group; Capability Acquisition and Sustainment Group; Chief Finance Officer Group; Chief Information Officer Group; Defence Executive Support Group; Defence People Group; Defence Science and Technology Group; Estate and Infrastructure Group; and Strategic Policy and Intelligence Group.

22 Defence, *First Principles Review: Creating One Defence*, 2015, p. 57. Defence People Group analysis subsequently updated this number to 4864 by July 2015.

**Table 2.1: Review of ADF positions in non-Service Groups, 2016**

| Group                                   | Previous demand | Revised demand | Difference  |
|---|-----------------|----------------|-------------|
| Chief Finance Officer Group             | 5               | 0              | -5          |
| Chief Information Officer Group         | 497             | 472            | -25         |
| Defence Executive Support Group         | 326             | 318            | -8          |
| Defence People Group                    | 407             | 351            | -56         |
| Defence Science and Technology Group    | 10              | 7              | -3          |
| Estate and Infrastructure Group         | 190             | 146            | -44         |
| Strategic Policy and Intelligence Group | 713             | 698            | -15         |
| Vice Chief of the Defence Force Group   | 268             | 261            | -7          |
| <b>Totals</b>                           | <b>2416</b>     | <b>2253</b>    | <b>-163</b> |

Note: The difference was composed of positions that were either disestablished or transferred back to the Services.

The review of the Vice Chief of the Defence Force Group excluded a number of elements that had been reviewed recently; these were: Joint Health Command, Joint Logistics Command, ADFA and Garrison Health, and the Joint Capability Management and Integration Division.

The review of the Capability Acquisition and Sustainment Group is to be completed in March 2017.

Source: ANAO analysis of Defence documentation.

2.43 The review of the non-Service Groups identified 163 positions that were not required to be filled by military personnel, but also identified 35 military positions for which resourcing has not been provided by the Services; the resourcing of these positions was to be negotiated between the Services and the Groups. The review also resulted in the return of funding for 85 personnel to the Services: 30 to Navy, 8 to Army and 47 to Air Force.

2.44 Navy's internal feedback on the review process included this comment:

... the review has not delivered the results contemplated by the [First Principles Review], and has offered little assistance to the Services in finding the [Average Funded Strength] offsets envisaged in [the 2016 Defence White Paper] to meet future capability requirements.

### *Review of the posting tenure in non-Service Groups*

2.45 The First Principles Review observed that a relatively short three-year rotation of military personnel into the enabling workforce 'adds more inefficiency and cost especially if it is a poor fit for role'. The First Principles Review also questioned whether the current posting arrangements actually provide best value to the ADF, and whether the goals of training and respite could be better achieved in some other way.

2.46 Defence completed a review of the ADF posting tenure in non-Service Groups in September 2016, proposing that the aim should be for 50 per cent of senior postings to non-Service Groups to be for a minimum of three years. The First Principles Review Implementation Committee rejected this approach. Defence prepared a revised paper in November 2016, which recommended that the Services aim to achieve a minimum three-year tenure for 90 per cent of senior (Colonel and above) postings to non-Service Groups, particularly the Capability Acquisition and Sustainment Group. The First Principles Review Implementation Committee accepted this recommendation.



### *Finance and pay personnel*

2.47 The First Principles Review listed a number of specific examples of overlap between Defence's enabling workforce and the ADF's corporate workforce, including the following examples in Army:

- 190 Army finance and pay personnel in addition to the 1400-strong finance workforce in Defence and the Defence Materiel Organisation [now Capability Acquisition and Sustainment Group].
- Over 900 administrative personnel in Army in addition to the 2500 in the enabling workforce.

2.48 In September 2016, Defence advised the ANAO that the 190 Army finance and pay personnel were subject to an Employment Category Review of the Royal Australian Army Pay Corps. In November 2016, the Employment Category Review made some major findings:

- [Pay Corps] personnel currently provide a specialised capability to Army and the ADF. From a command perspective, there is strong support for the retention of the finance officer capability and its expansion to include contracting.
- These personnel no longer engage in the payment of salaries, but in the management of operational budgets, maintenance of financial accounts, assurance of adherence to financial policy, provision of financial management advice to Commanders, compliance and governance, local procurement, contract management, management of the cash imprest accounts, and the payment of the deployed force's bills; the Corps name is misleading.
- Personnel of all ranks have been deployed in every major deployment undertaken by Army.

2.49 Army advised the ANAO that the results of the Employment Category Review will be finalised in the first half of 2017.

### *Administrative personnel*

2.50 Army has 900 administrative personnel belonging to the employment category 'Operator Administration' in the Royal Australian Army Ordnance Corps. Positions for this trade were reviewed as part of a Unit Establishment Review in 2015. This review concluded with a Chief of Army Directive in 2016, which reduced Operator Administration from 898 positions to 842, a reduction of 56 (6.2 per cent), with effect from January 2017. Army considers this component of the First Principles Review implementation to be complete.

2.51 Defence data indicated that there were 1030 personnel in the category as at May 2016, with a future establishment of 947 positions by July 2025. Army advised that in the period 2011–12 to 2015–16, 428 Operators Administration were deployed on domestic and international operations.

## 3. Workforce Management

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### Areas examined

The ANAO examined whether Army monitors its employment categories and remediates workforce shortfalls in specialist categories effectively.

### Conclusion

Army's monitoring and analysis of its employment categories informs its workforce planning. The monitoring indicates that 61 of Army's 99 categories are healthy. Army has ten categories that have either serious or critical workforce issues and require direct management attention.

The ANAO's review of two critical and two serious categories indicates that they exhibit a number of common features, including longstanding personnel shortfalls and ineffective review processes. Remediation plans for two of the selected categories were put in place following interventions by the Chief of Army and the affected Regiment. Army should also consider interventions for the other serious and critical categories, and review the application of standard career and posting processes to its specialist personnel.

### Areas for improvement

The ANAO has recommended that Army develop targeted action plans and progress reviews which are conducted in a timely manner, with appropriate deadlines and monitoring, for serious and critical employment categories; and review the application of standard career and posting processes to its specialist personnel.

3.1 Army has used employment categories for more than half a century to manage the recruitment, training and career progression of its officers and soldiers. As at September 2016, Army had 99 employment categories. The *Manual of Army Employment* outlines the Army Employment Category Management process, with the aim being to ensure that employment categories are:

- aligned to Army's capability requirements;
- structurally sustainable and achievable; and
- correctly remunerated and compliant with relevant Defence Force Remuneration Tribunal Determinations.

3.2 Categories that are experiencing significant workforce shortages are classified by Army as either 'serious' or 'critical'.<sup>23</sup> Army's definitions of these categories are:

- A serious category is experiencing, or is anticipated to experience, a shortfall in numbers of personnel at the required skill and rank levels, to the extent that it could *moderately* limit the range of strategic options available to achieve Army's mission over the long term.
- A critical category is experiencing, or is anticipated to experience, a shortfall in numbers of personnel at the required skill and rank levels, to the extent that it could *severely* limit the range of strategic options available to achieve Army's mission over the long term.

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23 The Chiefs of Service Committee is the approving authority for all Defence critical employment categories. Chief of Army is responsible for approving Army's serious and critical employment categories.

## Does Army actively monitor its employment categories?

Defence People Group's workforce analysis cell produces a biannual Employment Category Status Report. The report provides an overview of Army's workforce and is an important input to assessing the health of Army's workforce. The latest analysis indicates that 61 out of 99 Army employment categories are healthy, 15 are marginally unhealthy, 21 are unhealthy, and two are extremely unhealthy.

### *Monitoring employment categories*

3.3 Defence People Group's workforce analysis cell produces a biannual Employment Category Status Report that provides an overview of the health of Army's workforce. The report provides an assessment of all 99 Army employment categories through a comparative scoring system across six areas, including recruitment, training, separations and sustainability. A higher score indicates that an employment category is less healthy. Table 3.1 shows the assessment of Army's employment categories as at August 2016.

**Table 3.1: Status of Army employment categories, 2016**

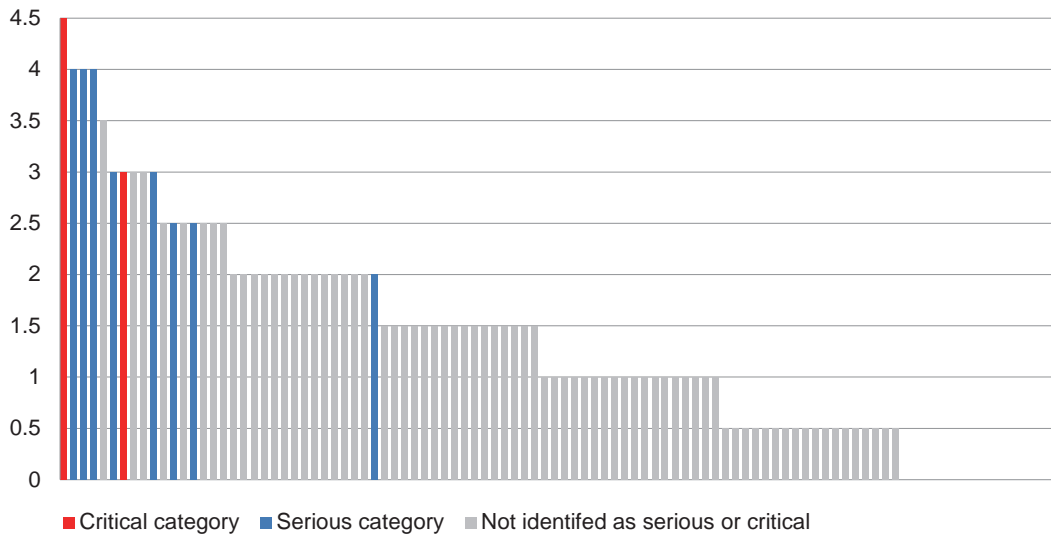
|                                      | Healthy   | Marginally unhealthy | Unhealthy | Extremely unhealthy |
|--------------------------------------|-----------|----------------------|-----------|---------------------|
| Officer categories <sup>a</sup> (32) | 21        | 10                   | 1         | 0                   |
| Soldier categories (67)              | 40        | 5                    | 20        | 2                   |
| <b>Total</b>                         | <b>61</b> | <b>15</b>            | <b>21</b> | <b>2</b>            |

Note a: The officer ranks were assessed by Army as green/amber/red, whereas the soldier ranks were assessed as healthy/marginally unhealthy/unhealthy/extremely unhealthy. To enable an overall assessment by the ANAO, for officer ranks, green has been taken to mean healthy, amber has been taken to mean marginally unhealthy, and red has been taken to mean unhealthy.

Source: Defence, *Employment Category Status Reports*, Officers and Other Ranks, 2016.

3.4 Fifteen of Army's 99 employment categories had no identified issues across the six areas. Figure 3.1 shows the comparative health ranking of Army's 99 employment categories in 2016. In that year, most of the serious and critical categories received high scores in the Employment Category Status Report, as would be expected, with one of the two critical categories receiving the highest score of 4.5. Army makes additional judgments (for example, based on the capability impact), so that a high score does not automatically lead to classification as a serious or critical category.

**Figure 3.1: Comparative health ranking of Army employment categories, 2016**



Note: Each column represents an employment category. The space on the right of the figure represents the 15 categories for which no issues were identified.

Source: ANAO analysis of Defence data.

3.5 Army's largest employment category is Rifleman. In July 2016, this category contained 4073 personnel, or 106 per cent of the requirement. Army considered this category to be healthy in recruitment, training, separations, sustainability and predicted future shortfalls, while it was considered marginally unhealthy due to an excess of personnel against the requirement. The large cohorts of Privates in recent years were expected to create some instability within the next 2–4 years, but reduction of the inflow to a sustainable level was expected to see this employment category improve considerably, with gaps at higher ranks expected to be filled within five years if adequate promotions occur.

### *Sustainability of employment categories*

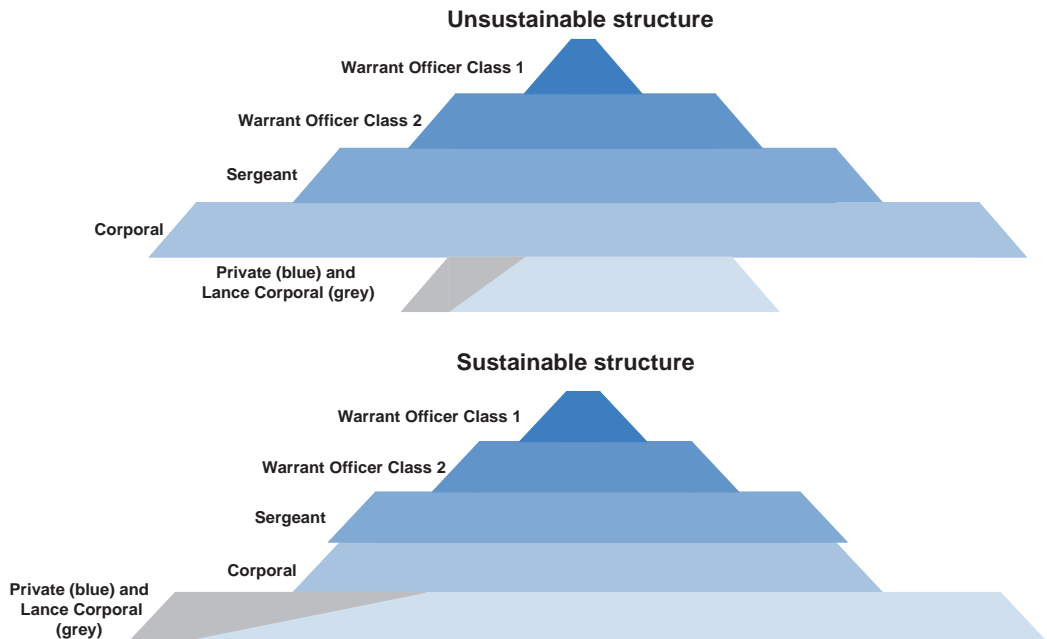
3.6 Army considers an employment category structurally unsustainable if the supply of trained personnel is not expected to meet the required demand over the medium-to-long term.<sup>24</sup> As at September 2016, Army considered 18 per cent of its 99 employment categories to be structurally unsustainable, with 15 per cent of employment categories unsustainable because of their rank structure—for example, there were not enough positions at lower ranks to feed into the higher ranks, based on the categories' recent workforce behaviours and career model. These structurally unsustainable categories included 23 per cent of Army's trained personnel. Army advised the ANAO that categories that associate trade skills and competencies with rank have a tendency to have unsustainable structures. This is due to the tension that can arise between a workforce requirement for junior ranks, and the business requirement for experienced technicians.

24 Army bases its assessment of the sustainability of employment categories on historical data relating to key workforce areas such as establishment, promotions, separations and time-in-rank.

3.7 In the long term, the effective functioning of an employment category depends on the establishment of a sustainable rank structure. Figure 3.2 shows an example of an employment category that has been restructured by Army, illustrating:

- a significant rebalancing at the ranks of Private, Lance Corporal and Corporal;
- a large reduction at the rank of Corporal, following years of shortfall in personnel at this rank; and
- a smaller reduction at the rank of Sergeant.

**Figure 3.2: A restructured employment category, unsustainable to sustainable**



Note: For comparison of the two structures, the rank of Lance Corporal (grey) has been included in the base rank (Private) numbers.

Source: ANAO analysis of Defence documents.

3.8 Army records indicate that, as of 2015, there remained shortages across most employment categories, especially at the ranks of Corporal and Sergeant. In 2016, the overall workforce situation remained fairly consistent with that reported in 2015.

## Has Army effectively remediated workforce shortfalls in specialist categories?

In four case studies of serious and critical categories examined by the ANAO, Army's monitoring processes were found to have identified issues, but review and remediation efforts over the last several years have been ineffective. The case studies indicated that targeted action plans and progress reviews are necessary to address longstanding issues in specialist categories; and that intervention at a senior level can provide additional impetus. There is also scope to review the application of standard career management and posting processes to specialist personnel, in order to address longstanding shortfalls in key specialist categories.

3.9 The *Manual of Army Employment* outlines the process for managing categories that are considered serious or critical, with a focus on remediation delivering 'dedicated' and 'holistic' solutions. To manage its serious and critical employment categories effectively, Army must recruit and retain personnel with specialist and technical skills in the context of a competitive labour market. The Defence White Paper 2016 stated:

Should particular critical skills requirements emerge, Defence will use targeted employment strategies to ensure it recruits and retains people with those critical skills.<sup>25</sup>

3.10 From 2010 to 2016, Army classified 20 employment categories as either serious or critical. Over this period, six of these employment categories (30 per cent) have remained serious or critical.<sup>26</sup> Two employment categories were classified as serious for four years before being reclassified as critical in 2015.<sup>27</sup>

3.11 To assess the effectiveness of Army's strategies and management approach for serious and critical categories, the ANAO, in consultation with Army, chose two critical and two serious categories for review. The categories have not been identified, to avoid the release of detailed information about Army capability.

### Case Study 1

3.12 In September 2016, this category was 81 per cent filled against demand. Army provides some 20 per cent of these trained personnel for roles elsewhere in Defence.

3.13 This category was classified as serious from 2010 until 2014. In 2014, Army reported that the category had shown 'significant improvement', following a 20 per cent increase in trained personnel. However in 2015, Army reclassified the category as critical, reporting 'no improvement [and] ... significant recruiting underachievement'. Defence advised the ANAO that it considered it appropriate to upgrade the category to critical after it 'became more aware of the impacts of the [personnel] shortages on postings and therefore Army/Defence capabilities'.

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25 Defence, Defence White Paper 2016, p. 154.

26 Some categories, such as Medical Officers (Doctor) have presented long-term issues for Defence for more than a decade. Army inflow is enough to stem losses, but insufficient to grow the workforce to meet Army's demand.

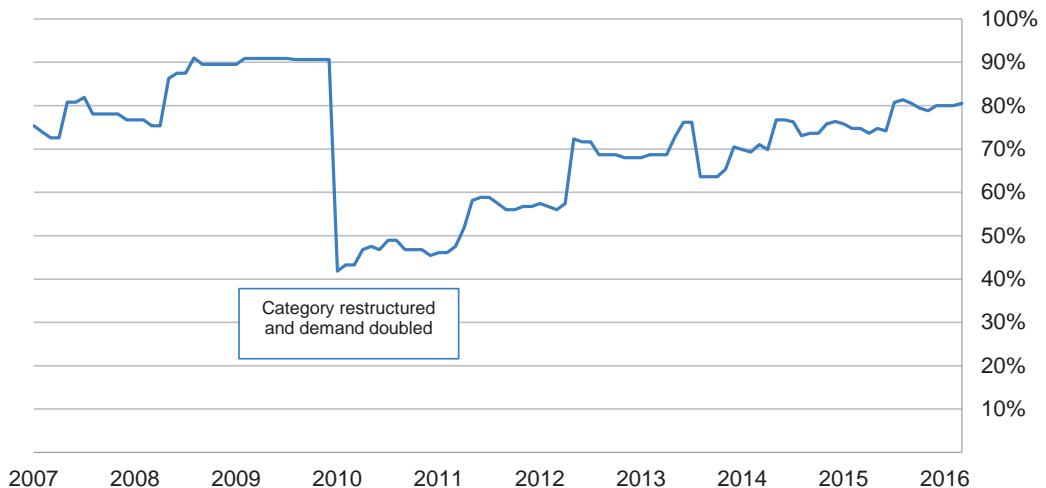
27 Army did not classify any of its employment categories as critical from 2012 to 2014. As at November 2016, the ADF had 10 categories classified as critical (eight in Navy and two in Army).

3.14 In 2010, the category was significantly restructured following a body of work completed between 2007 and 2009. This restructure:

- doubled the number of trained personnel required by Army (prior to the restructure, the trade was staffed at 91 per cent);
- permitted direct entry of recruits into the trade; and
- introduced the recruitment of junior-ranked personnel (Private, Lance Corporal, and Corporal).

3.15 Figure 3.3 shows the supply of trained personnel as a proportion of demand from July 2007 to September 2016. In 2010, Army doubled the number of trained personnel required. This increase in demand was not filled by trained personnel until January 2016, some six years later. In September 2016, Army still had a 19 per cent shortfall of trained personnel.

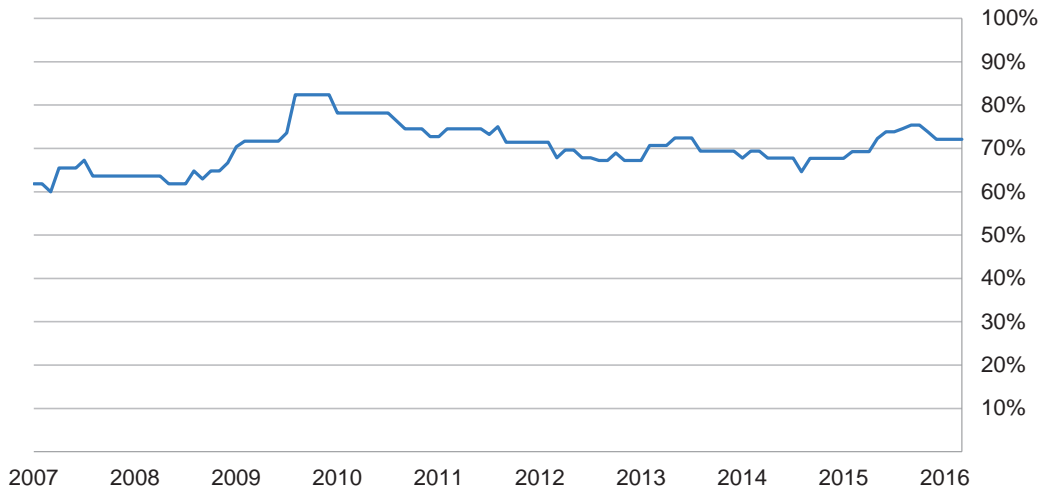
**Figure 3.3: Case Study 1, supply of trained personnel as a proportion of demand, July 2007–September 2016**



Source: ANAO analysis of Defence documents.

3.16 Figure 3.4 shows the supply of trained personnel at the senior soldier ranks as a proportion of demand. These ranks have remained reasonably stable. From September 2014 to September 2016, the senior ranks averaged a shortfall of some 30 per cent against demand.

**Figure 3.4: Case Study 1, supply of senior soldiers as a proportion of demand, July 2007–September 2016**



Source: ANAO analysis of Defence documents.

3.17 Since July 2010, the rank of Sergeant has had the largest shortfall in this category, averaging a shortfall of 45 per cent against the demand. A Unit Establishment Review in 2016 increased the demand for Sergeants slightly, with effect from January 2017.

3.18 At the time of the audit, Army was reviewing this employment category for the second time in a decade. The review has been under way for three years without significant progress, notwithstanding a number of recommendations, courses of action and feasibility reviews. Issues faced by the review have included structural issues with the category and internal differences about current and future workplace requirements. In December 2016, Army provided the ANAO with an update on the review’s progress:

An Occupational Analysis was completed by Defence People Group in Sep 2016 to better understand the employment requirements of the category. Army is in the process of updating its training requirements and employment continuum as a result of the ongoing [Employment Category Review].

3.19 Army completed the first review in 2008; the outcomes of that review were intended to remediate the capability. Army reported in 2015 that the 2008 review had ‘not ... achieved’ this outcome. Army highlighted in 2012 that the current structure of this employment category ‘ensures long term un-sustainability of the ... workforce’ and that it was a ‘Serious Category trending towards Critical Category status.’ In 2015, Army analysis rated the trade as ‘extremely unhealthy’ with an unsustainable future establishment. In September 2016, Army had vacancies at every rank in this category except Private and Warrant Officer Class 1.

3.20 Table 3.2 identifies a number of key issues affecting this category.



**Table 3.2: Case Study 1 summary**

| Workforce area           | Key issues  |
|--------------------------|---|
| Recruitment and training | <p>The category has had insufficient recruitment to address existing and long-term shortfalls. Poor recruitment outcomes have affected the remediation of the category.</p> <p>The category has an entry requirement, set more than thirty years ago, that soldiers must have a very high General Ability Scale score. The expected score is one of the highest of any soldier rank and for similar training conducted in other services, and is higher than the score required for Army's Royal Australian Engineers, Navy clearance divers and RAAF Airfield Defence Guards. In December 2016, Army advised that it was reviewing the score because it was 'impacting on the pool of potential candidates'.</p> |
| Separation rates         | <p>From September 2015 to September 2016, the total separation rate was over 9 per cent, which is relatively consistent with other soldier ranks.</p> <p>In May 2016, the relevant Training Centre reported a loss rate at the rank of Corporal of over 19 per cent.</p>  |
| Supply and demand        | <p>In September 2016, the supply of trained personnel was 19 per cent below demand. There were significant shortfalls of trained soldiers at the following ranks:</p> <ul style="list-style-type: none"> <li>• Lance Corporals had a 55 per cent shortfall;</li> <li>• Corporals had a 19 per cent shortfall; and</li> <li>• Sergeants had a 50 per cent shortfall.</li> </ul>  |
| Bonuses                  | This category has not been offered retention bonuses.   |

Source: ANAO analysis of Defence documents.

3.21 In summary, Army has classified this trade as a serious (2010 to 2014) or critical (2015 and 2016) employment category for over six years. The trade has ongoing underachievement in recruiting; an unsustainable structure; training constraints; and, at times, has had an elevated separation rate at Corporal rank. The category remains without a targeted remediation plan.

3.22 Army has invested significant effort in reviewing, analysing and discussing this trade. To date, management of the employment category and efforts to remediate shortfalls in trained personnel have proven ineffective.

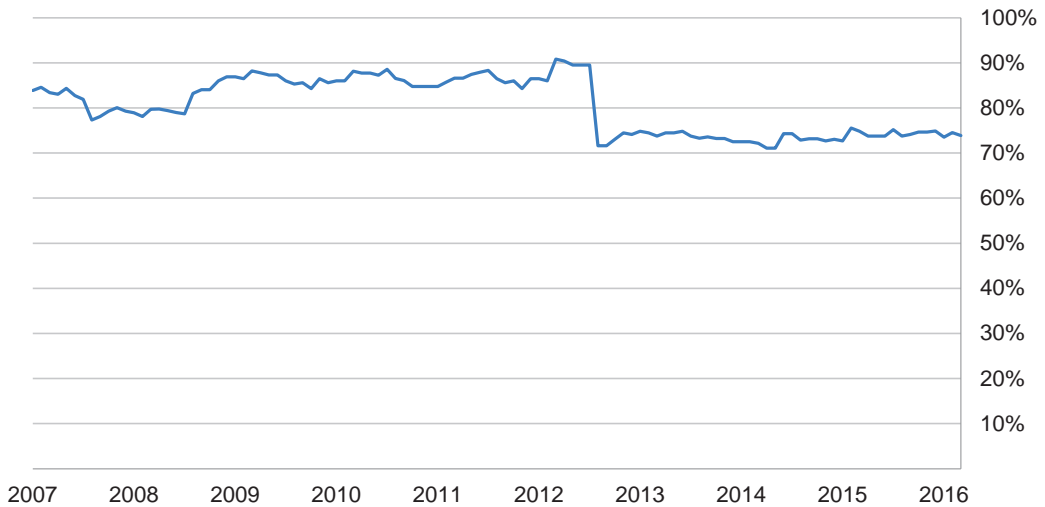
## Case Study 2

3.23 In September 2016, this category was 74 per cent filled against demand. Army provides a large proportion of these trained personnel for roles elsewhere in Defence. The category was a serious category from 2010, and was classified as a critical category in 2015 and 2016.

3.24 From 2008 to 2016, the number of trained personnel remained relatively stable. In 2012, the trade was identified by Chief of Army as one of 10 employment categories for remediation. At the same time, Army increased personnel demand significantly, but did not have a plan in place to increase the supply of trained personnel. From 2012 to 2016, the number of trained personnel did not increase to meet this demand.

3.25 Figure 3.5 shows the supply of trained personnel as a proportion of demand from July 2007 to September 2016. Supply has not varied substantially over this period.

**Figure 3.5: Case Study 2, supply of trained personnel as a proportion of demand, July 2007–September 2016**



Source: ANAO analysis of Defence documents.

3.26 Defence advised the ANAO in December 2016 that:

To rectify this deficiency, Army has initiated a number of remedial actions including reviewing the training continuum ...; providing a Targeted Rank and Employment Category Bonus to Corporals; increasing recruiting targets; and, increasing training opportunities by 50 per cent in the current and future financial years.

3.27 Table 3.3 identifies a number of key issues affecting the category.

**Table 3.3: Case Study 2 summary**

| Workforce area           | Key issues   |
|--------------------------|--|
| Recruitment and training | This category has not met its Directed Training Requirement in recent years. Delays in issuing security clearances have meant that many recruits have been held elsewhere for long periods pending finalisation of their security clearance. |
| Separation rates         | The average yearly separation rate during 2011–16 was over 8 per cent, with Corporals having a separation rate of over 12 per cent in this period.   |
| Supply and demand        | The supply of trained personnel has not varied substantially since 2007.   |
| Bonuses                  | Corporals have received a bonus since 2012. There has been little variation in Corporal-ranked separation rates as a result.   |

Source: ANAO analysis of Defence documents.

3.28 Because this is a specialist trade, there is a high demand for personnel to be allocated to Defence positions outside Army. The vacancy rate has remained of concern to Army in recent years. Army is currently unable to fill required positions outside Army, and has highlighted that doing so would result in a higher vacancy rate in its own unit.

3.29 In summary, the trade has been a serious employment category for five years, a critical category for two years, and remains without a holistic remediation plan or pathway to achieving a

healthy and sustainable workforce that meets Army's needs or wider Defence needs. Army has not achieved identifiable growth in trained soldiers before or after the 2012 increase in demand, which raises questions as to whether Army can achieve future requirements. Army has advised the ANAO that this employment category can meet the capability output required in the Chief of Army Preparedness Directive, but there remains 'little capability for concurrent tasks'.

### Case Study 3

3.30 As at September 2016, this category was 80 per cent filled against demand.

3.31 Over the last five years, this employment category has undergone significant change to its force structure and training continuum, as well as the acquisition of more complex equipment. In 2015, Army classified this as a serious category, because of:

- significant shortages in trained personnel;
- high separation rates;
- training constraints, such as the time taken to qualify a Corporal (currently six years); and
- potential future growth under a Force Structure Review.

3.32 Army reviewed this employment category in 2015. The main outcome of this review was a decision to combine two separate employment categories: junior-ranked personnel (Private to Corporal) and their senior-ranked managers (Sergeant to Warrant Officer Class 1). In a recent planning document, the affected Regiment described this process as having an 'under-resourced and poorly developed transition plan'. In addition, the Regiment reported that the 'failed transition' had contributed to morale issues, such as managers not receiving the technical training required to conduct their role. The category remained classified as serious in 2016.

3.33 Army considers the skills and categorisation of these personnel as 'highly perishable'. To keep their skills current, the personnel must train on equipment located at the Regiment or at the relevant Defence School. Soldiers who are posted outside the Regiment and the School, as part of Army's posting cycle, will lose their categorisation and be required to undergo significant retraining to regain it. Compounding this problem, soldiers who are posted to the School after completing a posting outside the Regiment find it difficult to regain their categorisation, because the School has limited technical equipment and is not set up to retrain soldiers.

3.34 Figure 3.6 shows the supply of trained personnel as a proportion of demand from July 2007 to September 2016. Over this period, Army has increased its demand for these specialist personnel on three occasions (2008, 2009 and 2012). Army has had significant shortfalls in trained personnel since the 2012 increase.

**Figure 3.6: Case Study 3, supply of trained personnel as a proportion of demand, July 2007–September 2016**



Source: ANAO analysis of Defence documents.

3.35 At the rank of Corporal, this category had a steady decline in the supply of trained personnel for four years (2010–14). In 2014, Army increased the demand for this rank, creating a large shortfall that has yet to be filled. During 2015–16, Army had a shortfall of between 34 per cent and 55 per cent at this rank.

3.36 Table 3.4 identifies a number of key issues for this trade.

**Table 3.4: Case Study 3 summary**

| Workforce area           | Key issues   |
|--------------------------|--|
| Recruitment and training | The trade recruited 96 per cent of the required personnel in 2014–15, and met its recruiting target in 2015–16.<br>Training is currently at full capacity, with Army constrained to training only a limited number of personnel per year.  |
| Separation rates         | This trade has had a high separation rate in recent years. The Regiment believes that this is largely due to a lower operational tempo, competitive industry offers and pockets of ‘questionable leadership’.<br>The average total separation rate from 2013 to 2016 was over 17 per cent. In the same period, the separation rate of Sergeant-ranked personnel was 21 per cent. |
| Supply and demand        | Training constraints have meant that this trade has a shortfall of trained personnel at junior ranks. The number of Corporal-ranked personnel since 2015 has been some 43 per cent below demand.<br>Army has identified the trade as having an unsustainable growth structure and ‘insufficient [Privates] to grow [ Sergeants] and [Warrant Officers Class 2]’.                 |
| Bonuses                  | This category has not been offered retention bonuses.  |

Source: ANAO analysis of Defence documents.

3.37 In summary, this employment category has been classified as serious for two years. It was previously classified as critical in 2008 and 2009. The affected Regiment has a plan to remediate workforce issues by December 2018. This plan is a positive initiative to start remediating the shortfalls in trained personnel at both junior and senior ranks. At the time of the audit, remediation activities were in the hands of the Regiment, which does not hold or control all the relevant personnel levers, such as changes to employment specifications or recruitment. The Regiment’s remediation work would benefit from further support by Army Headquarters.

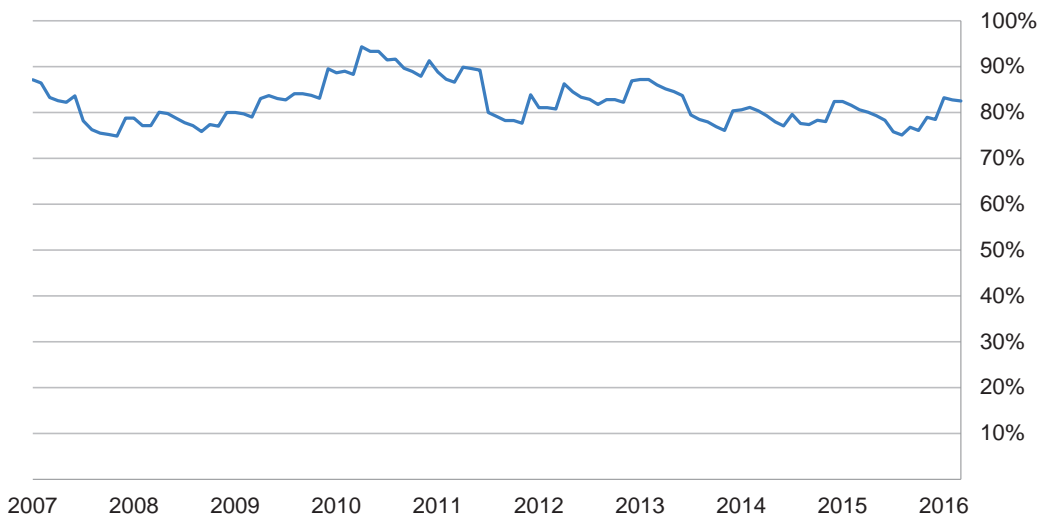
**Case Study 4**

3.38 In September 2016, this category was 82 per cent filled against demand. It has had shortfalls in the required number of trained personnel since 2007. The category contains a number of specialist functions within one employment category.

3.39 Army has classified this trade as a serious employment category for over six years (2010 to 2016). During this time, Army has made several attempts to remediate risks in the category. For example, in 2012 there was a short-term remediation strategy to transfer ADF personnel to the trade for two to three years. Since 2010, this category has received significant senior attention in Defence.

3.40 Figure 3.7 shows the supply of trained personnel as a proportion of demand from July 2007 to September 2016. There has been steady growth in the supply of trained personnel over the last five years. However, this growth has not been sufficient to meet the increasing demand in this category. During 2016, the category had a vacancy rate of some 22 per cent of trained personnel.

**Figure 3.7: Case Study 4, supply of trained personnel as a proportion of demand, July 2007–September 2016**



Source: ANAO analysis of Defence documents.

3.41 In January 2016, following a Defence-wide Unit Establishment Review, Army implemented a new structure for this trade. The new structure increased the demand for trained personnel. In 2016, Army reported a moderate increase in trained personnel, due to the trade’s ‘sustainable structure and increased recruitment [and] training.’ Army will need to retain these personnel long enough to remediate shortfalls at higher ranks.

3.42 Table 3.5 identifies a number of key issues for the trade.

**Table 3.5: Case Study 4 summary**

| Workforce area           | Key issues  |
|--------------------------|---|
| Recruitment and training | Since 2007, Army has made significant changes to the recruitment for this category.<br>Previous to structural changes implemented in 2016, Army identified that recruiting targets were not high enough to meet demand and future growth. In 2016, the number of personnel to be trained was significantly increased. |
| Separation rates         | Separation rates over the last five years were 11 per cent. Separation rates at the rank of Corporal were over 17 per cent.   |
| Supply and demand        | Army has had shortfalls in this category for the last nine years, particularly at the ranks of Sergeant and Corporal.   |
| Bonuses                  | This category has not been offered a retention bonus.   |

Source: ANAO analysis of Defence documents.

3.43 In summary, there has been an ongoing shortfall of senior-ranked soldiers, notwithstanding a number of short-to-medium-term remediation strategies over the last decade. In 2016, Army summarised the issues with previous remediation attempts as follows:

Army initiated an array of mitigating efforts over the past decade aimed at ensuring sufficient asset to meet Army’s liability. These efforts had limited success—largely due to their disjointed and uncoordinated application.

3.44 Commenting on the Unit Establishment Review in 2016, the Chief of Army wrote:

Watching this train wreck for the last decade, and being told we’ll get it sorted by 2023 (if we don’t lift the liability), is very underwhelming. ... I would like to see some options ... with the objective of closing the gap by 2020—4 years.

3.45 Options were subsequently provided to the Chief of Army to accelerate the remediation of personnel shortfalls, specifically at the Corporal and Sergeant ranks. Army now plans to remediate shortfalls in trained personnel by December 2018, five years sooner than the workforce analysis cell’s original estimate, and two years sooner than the Chief of Army’s target. This is the only holistic and coordinated plan for remediation of a critical or serious Army employment category. The plan addresses five lines of effort: recruitment; training; soldier development; re-engagement; and retention. The plan identified that the shortfall of Corporals and Sergeants will be ‘the most difficult to remediate by 2018’.

## Lessons from the case studies

3.46 In the four cases examined, Army's monitoring processes have identified issues, but review and remediation efforts over the last several years have been ineffective. The case studies exhibit a number of common features:

- specialist employment categories experiencing persistent issues over years (all case studies);
- multiple or long-running review processes (Case Studies 1 and 4);
- unsustainable rank structures (Case Studies 1, 3 and 4); and
- longstanding personnel shortfalls, particularly at senior ranks (all case studies).

3.47 Two of the selected categories have benefited from interventions—by the Chief of Army in one case, and by a Regiment in the other case. The two remaining categories reviewed in the case studies would also benefit from the development and implementation of targeted action plans and progress reviews.

## Processes for reviewing employment categories

3.48 Army conducts two types of review, both of which have proved ineffective in improving the health of its employment categories.

- A single trade is reviewed through an Employment Category Review. Army records indicate that it can take 18 months to complete a review, and eight to ten years to complete the end-to-end process. This is generally managed by a Defence school which is busy with day-to-day training, and does not focus at a strategic enough level to achieve meaningful change. At 15 September 2016, Army had 75 of its 99 employment categories at some phase of the Employment Category Review process.
- A collective capability is reviewed through a Unit Establishment Review, which decides the number of positions and trades required by a group of units. Army advised that the guidelines for these reviews have been rewritten to reflect a capability-based approach and will be issued in early 2017, replacing the outdated 1995 guidelines.

3.49 Table 3.6 summarises the two main processes for reviewing employment categories.

**Table 3.6: Main workforce review processes**

| Name                       | Function   | Reason   | Completed reviews (2014–Nov 2016) |
|----------------------------|--|--|-----------------------------------|
| Employment Category Review | To ensure employment categories meet Army's current and future capability need.                  | Initiated by capability changes, environmental changes and/or elapse of time.  | 15                                |
| Unit Establishment Review  | To build sustainable and affordable structures. These reviews encompass personnel and equipment. | Modernise Army's force structure. Unit establishments are the basic building block with which Army produces capabilities; these reviews are the primary mechanism for implementing force structure change. | 22                                |

Source: ANAO analysis of Defence documents.

3.50 The *Manual of Army Employment* lists nine remediation mechanisms to address issues affecting serious and critical trades.<sup>28</sup> In 2015 and 2016, Army's main remediation activity for serious and critical categories was the conduct of an Employment Category Review, with some trades also being addressed by changes to training. As discussed, of the ten serious and critical categories, only one category has a dedicated and holistic remediation plan introduced following intervention by the Chief of Army. Of the employment categories reviewed, one other category had a Regimental remediation plan.

### Remediation strategies for serious and critical categories

3.51 Army classifies categories as serious or critical so that: short-term measures can be taken to ensure that capability is not compromised; and longer-term remediation plans can be developed. In the *Defence Strategic Workforce Plan 2010–20*, Defence stated:

A greater sense of urgency to recover critical categories is needed. This reinforces that solving these problems is important both to the individuals in the affected categories and the senior leadership.

3.52 The language and definitions adopted by Army (see paragraph 3.2) to classify employment categories experiencing shortages—as 'serious' or 'critical'—imply a sense of urgency for the development and implementation of remediation strategies. In particular, the heightened possibilities of mission failure or severe limitations in strategic and operational options indicate the need for a timely and effective response to manage these risks, including appropriate senior leadership attention.

28 The nine mechanisms listed include: bonuses (3–5 years); Employment Category Review (longer-term response—10 years); demand reduction; changing the nature of employment, for example by geographical posting opportunities; additional career development opportunities; higher remuneration; targeted recruiting effort; adjusting the enlistment period for new recruits; and adjusting the Directed Training Requirement.



3.53 The *Manual of Army Employment*—the key document governing these processes—ends by highlighting the importance of remediating categories that are classified as serious or critical:

The remediation of Army's [serious and critical categories] to meet current and future demands is an enduring undertaking which is complex and demanding. Workforce behaviours are shaped by a range of factors impacting the individuals within specific areas. All stakeholders, both within Army and [other areas of Defence], are required to develop a sound understanding of how their organisations can positively influence the remediation of impaired [employment categories]. Without the proactive and cooperative input of all stakeholders, Army's capacity to deliver the land force capability required by the Government of Australia will be compromised.

3.54 Six of the ten categories on the Army's 2016 serious and critical category list have been on the list for over six years. All of these categories involve specialist skills that can have a direct bearing on military operations. Increasingly, as the technical equipment used by Army's specialists becomes more complex and evolves more quickly, Army will need to ensure that the specialists themselves have up-to-date skills and experience. In this context, Army's application of its standard career and posting processes to these specialist personnel—some 4.2 per cent of the Army workforce—would benefit from review.

### Recommendation No.1

3.55 That Army:

- (a) develop targeted action plans and progress reviews which are conducted in a timely manner, with appropriate deadlines and monitoring, for serious and critical employment categories; and
- (b) review the application of standard career and posting processes to its specialist personnel.

**Defence's response:** *Agreed.*



Grant Hehir  
Auditor-General

Canberra ACT  
27 March 2017



# Appendices



## Appendix 1 Department of Defence response



**Australian Government**  
**Department of Defence**

Mr Dennis Richardson  
Secretary

Air Chief Marshal MD Binskin, AC  
Chief of the Defence Force

SEC/OUT/2017/56  
CDF/OUT/2017/192

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**AUSTRALIAN NATIONAL AUDIT OFFICE PROPOSED REPORT ON ARMY'S  
WORKFORCE MANAGEMENT**

Thank you for your correspondence dated 17 February 2017, which contained the Proposed Report for the subject audit. We appreciate the opportunity to review and comment on the Report.

Attached to this letter is Defence's proposed amendments, editorials and comments (Annex A), responses to requests for information (Annex B), response to recommendations (Annex C) and Defence's formal response to the proposed report (Annex D).

We would like to take this opportunity to formally thank the ANAO for the time and resources they have allocated to the audit.

**Dennis Richardson**  
Secretary

**MD Binskin, AC**  
Air Chief Marshal  
Chief of the Defence Force

16 March 2017

17 March 2017

**Annexes:**

- A. Proposed Amendments Editorials and Comments
- B. Responses to Requests for Information
- C. Response To Recommendation
- D. Agency Response





