

PROJECT SUAKIN AND FLEXIBLE WORKFORCE AND WORKPLACE ARRANGEMENTS; ADF SUPERANNUATION AND REMUNERATION FOR RESERVISTS

Executive Summary

Extensive research undertaken in 2011 by Ernst & Young under Plan Suakin revealed that Reserve personnel capability would be greatly enhanced through better support for the employment of Reservists and enhanced remuneration by way of Reserve allowances and superannuation.

Considerable attention was given in Suakin to shaping the Reserve Forces as a reliable part-time uniformed workforce component of the ADF, with remuneration based on evidence based practices 'appropriate for the role, training and readiness levels' of Reservists.

To achieve a more flexible contemporary workforce model, Suakin contended the new workforce model would increase the ability of ADF members to move between Regular/Permanent and Reserve, and between full-time/part-time employment to better meet their changing working and personal needs.

This workforce and employment flexibility would increase ADF service attractiveness and retention, and improve integration of Reservists as an integral component of the ADF.

In implementing the Total Workforce Model, the aim in Suakin to develop a Reserve structure, supported by 'appropriate remuneration' to provide the ADF with a highly reliable core part-time workforce has not been achieved.

To develop the 'dependable Reserve part-time workforce', Suakin proposed SERCAT 5 personnel receive a \$1500 annual tax free Health Support Allowance, an increase in Service Allowance and superannuation.

Superannuation for SERCAT 5 was originally deferred because the then ADF superannuation scheme could not encompass part-time employment, which is now not the case with *ADF Super*.

The ADF Reserves are the only part time paid workforce in the Australian community not eligible for any employer-contributed superannuation.

There is a moral issue with Indigenous Reservists who are members of the Regional Force Surveillance Units in SERCAT 5 not receiving any employer superannuation in their paid part time ADF employment. This may be their only paid employment and only opportunity to receive superannuation.

There is no legislation, regulation or any policy that supports the premise that employees who receive tax-free salary are not eligible for superannuation. Some people in Defence argue that introducing superannuation for Reservists should be contingent on taxing Reserve pay, yet ADF members on operations in tax free zones, continue to receive employer-contributed superannuation.

Any move to tax Reservists pay based on the current divisor (i.e. dividing the appropriate Regular salary by 365 to arrive at a daily rate of pay for Reservists) raises significant equity issues. Most organisations use a divisor in the range 220 to 250. Taxation of Reserve pay would require the introduction of a new and more equitable divisor for calculating the daily rate of pay for Reservists.

To maximise the 'workability' of job sharing where the duties of a vacant Regular/Permanent position need to be undertaken requires a transfer of funds between Regular/Permanent and Reserve salary funding streams. Hypothecation of Reserve salary budgets would provide transparency of expenditure of funds and certainty to the funding of salary to Reservists.

Implementation of the Total Workforce Model has raised awareness of the Reserve capability, but there is a significant risk that there will be little difference in the structure and utilisation of Reservists before and post implementation of the Model.

The ADF has not grasped the opportunity presented by Suakin to optimise the use of its Reserves. The proposed Defence People Group review of ADF conditions of service, in consultation with Reserve and Youth Division and the ADF Services, offers an excellent opportunity to remedy this.

Recommendations

A comprehensive review is undertaken on how the Total Workforce Model (TWM) meets the original objective set out in Plan Suakin – “to develop a model that optimises the contribution of the ADF Reserves to the Total Force” and that the Defence Reserves Association be consulted on this review.

Defence People Group, in conjunction with Reserve and Youth Division and the ADF Services, and in consultation with the Defence Reserves Association, conducts a comprehensive review of Reserve remuneration and conditions of service. This review should include, but not be restricted to:

- a comprehensive cost/benefit analysis of providing employer-contributed superannuation to Reservists, particularly those in SERCAT 5. This analysis should include the moral aspect of employer-contributed superannuation for indigenous Reservists in the Regional Force Surveillance Units, as well as the issue of providing superannuation without taxation of Reserve pay;
- a comprehensive cost/benefit analysis of the Defence Home Owners Assistance Scheme (DHOAS), including the issue of consecutive versus cumulative qualifying years of service; and
- the hypothecation of Reserve salary budgets to provide transparency in expenditure of these funds and certainty in funding of Reservists, with a reporting system to Parliament as to how the allocated Reserve funding was spent.

That consideration is given as to whether ForceNet is the best HR platform to maintain a database of the civilian skills and experience, civilian qualifications and spoken languages of all Reservists (Active and Standby).

Introduction

The Defence Reserves Association (DRA), which is a tri-service voluntary organisation, is the only advocacy group specifically representing Defence Reservists.

The major objectives of the DRA are to:

- foster and assist the Australian Defence Force (ADF) with particular emphasis on the Reserves;
- consider and where appropriate seek changes to the conditions of service, amenities and equipment relating to the Reserves;
- be involved actively in the welfare and betterment of serving and former ADF members with specific attention to Reservists;
- aid recruiting for the Reserves and assist in the promotion of their units;
- represent the standpoint of the Reserves in the promotion of an effective tri-service ADF.

The DRA was closely involved in the consultations on Plan Suakin. While the DRA was not consulted in the development of the Total Workforce Model (TWM), the DRA has been briefed regularly on the development of the TWM.

Background to Plan Suakin

Plan Suakin had its genesis in the Reserve Reform stream of the Strategic Reform Process where the then Parliamentary Secretary for Defence directed Defence to look at better ways of making use of the Reserve Forces to generate capability.

As a result, Cadet, Reserve and Employer Support Division¹ initiated Plan Suakin as a Reserve Force focused workforce model primarily designed to better integrate and utilise Reserve personnel capability within the ADF.

The ADF contracted Ernst & Young in 2011 to undertake extensive focus group interviews, testing and other forms of research. This research revealed among other things that Reserve personnel capability would be greatly enhanced through better support for the employment of Reservists and enhanced remuneration by way of Reserve allowances and superannuation. Considerable attention was given to shaping the Reserve Force as a reliable part-time uniformed workforce component of the ADF, with remuneration

¹ Cadet, Reserve and Employer Support Division is to be re-titled "Reserve and Youth Division" on 1 February 2017.

based on evidence based practices 'appropriate for the role, training and readiness levels' of Reservists. The DRA was heavily involved in the consultations on Plan Suakin and strongly endorsed the aims of the Plan.

As Plan Suakin progressed, it became clear that it could not just be a Reserve reform, but had to be a whole of ADF reform. Plan Suakin became Project Suakin (hereafter referred to as 'Suakin') before being transformed into the ADF TWM.

Total Workforce Model (TWM)

To achieve a more flexible contemporary workforce model, Suakin contended the new workforce model would increase the ability of ADF members to move between Regular/Permanent and Reserve, and between full-time/part-time employment to better meet their changing working and personal needs.

The new workforce model would also be dependent on more efficient entry into the new Service Categories (see below), seamless internal transfer arrangements and simplified personnel management processes more accepting of flexibility.

This workforce and employment flexibility would increase ADF service attractiveness and retention, and improve integration of Reservists as an integral component of the ADF.

The Spectrum of Service that is the 'hub' of the TWM, comprises seven categories of service:

- Service Category (SERCAT 1) - deployed APS
- Service Category (SERCAT 2) - the Standby Reserve
- Service Category (SERCAT 3) - the Active Reserve usually rendering service for less than a year
- Service Category (SERCAT 4) - the High Readiness Reserve
- Service Category (SERCAT 5) - the Active Reserve rendering service within and across financial years
- Service Category (SERCAT 6) - part-time Regular/Permanent
- Service Category (SERCAT 7) - full-time Regular/Permanent

Although they have largely retained their initial purpose, there have been modifications to the Service Category descriptors.

For example, in the case of Army, SERCAT 3 was originally intended to be the standard Active Reserve category, encompassing most Army Reserve personnel with an active posting. SERCAT 5 was originally intended to provide a smaller group of Reservists in key appointments or with key skills, whose service was to be more dependable through the provision of enhanced conditions of service (e.g. superannuation) and a guarantee of allocated salary days from Defence, matched by a signed undertaking for attendance by the Reservist. With the implementation of the TWM, Army has decided to make SERCAT 5 its standard Active Reserve category and to use SERCAT 3

to deliver 'casual' Reserve service.

There are in addition several Service Options, including SERVOP C – known as 'Continuous Full-Time Service' (CFTS) and SERVOP D – known as 'Dual Employment'.

To develop the 'dependable Reserve part-time workforce' envisaged in SERCAT 5, Suakin originally proposed that SERCAT 5 personnel receive a \$1500 annual tax free Health Support Allowance, an increase in Service Allowance and superannuation.

Conversely, while SERCAT 3 members would retain the \$600 Health Support Allowance and receive an increase in Service Allowance, SERCAT 4 members would have reduced health and readiness related allowances compared to the then extant Army High Readiness Reserve (HRR).

ForceNet

ForceNet, which is a secure e-portal that allows all Defence members to be connected with each other, their units and their Single Service, is an essential part of the TWM. ForceNet should make a major contribution to greater use of Reservists, as it will enable them to indicate their availability to undertake Reserve service and to search career opportunities.

Over the last two decades, Defence has undertaken extensive surveys of Reservists to ascertain their civilian skills and experience, civilian qualifications and spoken languages. Regrettably, the surveyed data has not been maintained to allow the ADF to properly 'tap into' the full extent of the capability that Reservists can bring to the ADF.

ForceNet will allow Reservists to provide and update their civilian skills and qualifications etc. so that when the ADF requires specialist skills, as it has done recently in seeking Reservists with cyber skills, Reservists with the requisite skills and qualifications can be easily identified.

Nevertheless, the DRA understands that ForceNet may not be the best HR platform to host this data and recommends that Defence investigates the best platform to host this essential data.

The DRA understands that the next development to ForceNet will extend it to families of serving members of the ADF and fully supports this.

Implementation of the TWM

Responsibility for implementation of Suakin was transferred from Cadet, Reserve and Employer Support Division to Defence People Group in 2014.

The three ADF Services began implementing the TWM in September 2016. Implementation is ongoing and will vary among the Services because of their operating differences, but adherence to the fundamental principles of the

TWM is expected.

Extensive documentation and tools have been developed and promulgated to educate workforce managers, commanders, supervisors and personnel on the TWM. Common business processes to assist workforce managers have also been developed. In some instances, the DRA understands that the Services have chosen to continue with their existing business practices.

The DRA notes that implementation of the TWM has commenced only recently and that it may take some time for problems and issues to arise and be identified. In this regard, the DRA notes that there are a number of risks associated with implementation of the TWM and the DRA would welcome the opportunity to assist Defence in identifying such risks and development of appropriate mitigation strategies.

The main risk in the Reserve area is that the original purpose of Suakin, 'to develop a model that optimises the contribution of the ADF Reserves to the Total Force', will not be met. During the development of Suakin, it was identified that a proper Reserve spectrum of service could not be designed or implemented in isolation from the Permanent/Regular spectrum. While this is clearly correct, the DRA is of the view that over the subsequent years spent developing the TWM and with the increasing modifications to the Suakin design, the original aim of optimising the capability that could be provided by the Reserves progressively 'slipped' further into the background.

The DRA acknowledges, however, that aspects of the TWM will contribute to meeting this purpose. These include: the roll out of ForceNet; the potential for the SERCAT system and nomenclature over time to reduce the dichotomy between Reserve and Regular/Permanent components; and improvements to the transfer system between Reserve and Regular/Permanent components, and between the Services.

In particular, the TWM defines coherent and consistent descriptions of current management practices for Reserve members (SERCAT 2 to 5), including SERVOP C (Continuous Full Time Service); and the TWM defines a potential transition path for Reservists to transfer to full time service (i.e. SERCAT 2, 3, 4 or 5 to SERCAT 7).

The DRA contends, however, that there are several issues that have not been addressed by the TWM. This has resulted in a loss of focus on the original Suakin aim of optimising the contribution of the Reserves and not grasping an excellent opportunity to make better use of a particularly cost-effective part of the ADF. As a result, in implementing the TWM, the aim in Suakin to develop a Reserve structure, supported by 'appropriate remuneration that reflects role, readiness level', etc. of Reservists, to provide the ADF with a highly reliable core part-time workforce has not been achieved.

SERCAT 5 members continue to be eligible for the \$600 Reserve Health Support Allowance also provided to SERCAT 3 members. The Reserve Attendance Allowance was withdrawn from all Reservists and was used as an

offset for the increase in Service Allowance to Reservists. More importantly, there was NO superannuation as proposed for SERCAT 5.

Based on the research underpinning Project Suakin, SERCAT 5 was planned to include superannuation. The DRA understands that consideration of superannuation for SERCAT 5 was originally deferred because the then ADF superannuation scheme could not encompass part-time employment. This is now not the case with the introduction of *ADF Super*.

As far as the DRA is aware, the ADF Reserves are the only part time paid workforce in the Australian community that are not eligible for any employer-contributed superannuation.

There is also a moral issue with Indigenous Reservists who are members of the Regional Force Surveillance Units in SERCAT 5 not receiving any employer-contributed superannuation in their paid part time ADF employment. In some cases, this may be their only paid employment and their only opportunity to receive superannuation.

The matter of superannuation for Reservists was raised by various organisations, including the DRA, with the then Assistant Minister for Defence, Stuart Robert, who whilst open to the idea that all Reserve service attract the 15.4% superannuation contribution in *ADF Super*, considered that the cost offset should be that Reserve salaries would have to be taxed. Whilst representing the Minister for Defence at the August 2016 DRA National Conference, Mr Robert reiterated his view that superannuation for Reservists would require that their salary be taxed.

This position raises a number of issues. The first issue is the premise that employees who receive tax-free salary are not eligible for superannuation. There is no legislation, regulation or any policy that the DRA is aware of that supports this premise. ADF members on active duty in tax free zones continue to receive full salary, allowances and superannuation, although they pay no income tax on salary and allowances. Further, part time and full time civilian employees are entitled to receive employer-contributed superannuation, although they may pay no income tax because their total earnings are below the income tax salary threshold level.

The second issue is that any move to tax Reservists pay based on the current divisor raises significant equity issues. Currently, the appropriate Regular salary is divided by 365 to arrive at a daily rate of pay for Reservists. The use of a 365 divisor was used in some Public Sector organisations up until around the 1960s, whereas most government and civilian organisations now use a divisor in the range 220 to 250. Taxation of Reserve pay would require the introduction of a new and more equitable divisor for calculating the daily rate of pay for Reservists.

The DRA points out that taxation of Reserve pay was implemented in 1983 with a significant adverse impact on the morale and retention of Reservists before the taxation decision was reversed several years later. In particular,

the decision to tax Reserve pay provided a focus on the comparatively poor pay for Reservists that had not been an issue previously.

The third issue is that when the DRA raised the issue of superannuation for Reservists, it was advised that based on surveys of Reservists, especially the initial Suakin survey in 2011, superannuation did not rate highly as a motivator for retention. In regard to this, the DRA points out that superannuation is not a priority for most young people within the community. Further, no financial benefit explanations of various options have been presented to Reservists in any ADF Reserve surveys.

A Reserve Capability Payment is available at a Service Chief's discretion for specific capabilities. The DRA understands that in certain Defence circles, there is an opinion that Reservists are already a dependable part-time workforce and the Services, especially Air Force and Navy, have little trouble attracting ex-Regular/Permanent members to the Reserves. Consequently, any further incentives by way of superannuation and increases in allowances were considered unnecessary and added to the cost of Reserve capability.

Job sharing between Reservists in Reserve positions, between Reservists and Regular/Permanent members, and between part-time Regular/Permanent members (SERCAT 6) is a feature of the TWM as is the advertised ability for ADF members to move across the Spectrum of Service.

To maximise the 'workability' of the job sharing concept where duties of a vacant Regular/Permanent position need to be undertaken ideally requires the transfer of funds between the Regular/Permanent and the Reserve salary and allowances funding streams.

The DRA has long argued for hypothecation² of Reserve budgets to provide transparency of expenditure of funds and certainty to the funding of salary to individual Reservists. Regrettably, Reserve funding was often seen as discretionary. The United States Army Reserve Command suffered similar problems so decided to introduce hypothecation of Reserve funding.

The DRA contends that security of Reserve funding is an essential prerequisite for retention and use of Reserves, and for planned capability development. As a result, the DRA recommends that consideration be given to hypothecation of Reserve salary funding, with a reporting system to Parliament as to how the allocated Reserve funding was spent.

Finally, the TWM provides no changes to the current regulatory ability of the Services to utilise their respective Reservists. Given this, each Service is likely to continue to utilise their current Reserve structures. Therefore, the Regular/Permanent and Reserve Forces are likely to remain partitioned, requiring transfers between them to be subject to the full-time and part-time workforce demand requirement and formal enlistment/appointment/discharge

² Hypothecation refers to the separation of salary and allowance budgets for the Reserves from the single Services salary and allowance budgets.

processes. This is contrary to the flexible contemporary workforce model envisaged by Suakin.

The DRA understands that in late 2015/early 2016, the then Director of People Policy and Employment Conditions in Defence People Group and the Head of Cadet, Reserve and Employer Support Division agreed to include a full cost/benefit analysis of the DHOAS as part of a proposed comprehensive review of Reserve employment conditions to be conducted in 2017-2018.

The DRA now understands that this review is likely to form part of a broader review of ADF employment conditions to be commenced in late 2017. The review offers an excellent opportunity to address the issues raised above and reinvigorate the original intent of Suakin with respect to enhancing the 'capability' of the ADF Reserves.

Conclusion

Suakin proposed the development of a flexible workforce model that would encourage the retention of ADF personnel in both the Regular/Permanent and the Reserve Forces.

The workforce model as originally envisaged would provide significant financial enhancements for Reserve elements that would become ADF's core part-time workforce. Moreover, the model would help dissolve cultural barriers that currently exist between the Regular/Permanent and the Reserve Forces, and provide greater opportunity for the flexible employment of all ADF uniformed personnel.

In implementing the TWM, the aim of Suakin to develop a Reserve structure, supported by 'appropriate remuneration that reflects role, readiness level' etc. of Reservists, to provide the ADF with a highly reliable core part-time workforce has not been achieved.

Apart from an increase in Service Allowance, partially offset by the removal of Attendance Allowance, there are no new broad financial incentives for Reservists. The lack of employer-contributed superannuation for 'part-time' Reservists is out of alignment with employment standards within the Australian community for part-time paid employees.

Implementation of the TWM has raised awareness of the ADF's Reserve capability. The DRA considers, however, there is a significant risk that there will be little difference in the structure and utilisation of Reservists before and post the TWM, and that the ADF has not grasped the opportunity presented by Suakin to optimise the use of its Reserves.

The proposed Defence People Group review of ADF conditions of service, with the Reserve component of this review being conducted in close consultation with Reserve and Youth Division and the ADF Services, offers an excellent opportunity to remedy this.