

Audit Report No. 33, 2000–2001

Australian Defence Force Reserves

Department of Defence

Introduction

Background

- 2.1 The Reserve military forces represent over a third of the total personnel strength of the Australian Defence Force (ADF) and are a fundamental component of Australia's military capability. Reservists provide a latent capability that can be used to enhance high readiness permanent forces.¹
- 2.2 The Defence White Paper *Defence 2000 - Our Future Defence Force* stated that 'the strategic role for the Reserves has now changed from mobilisation to meet remote threats to that of supporting and sustaining the types of contemporary military operations in which the ADF may be increasingly engaged'.²

1 ANAO, Audit Report No. 33, *Australian Defence Force Reserves, 2000–2001*, Commonwealth of Australia, p. 29.

2 Department of Defence, *Defence 2000—Our Future Defence Force*, Commonwealth of Australia, December 2000, p.69.

The audit

- 2.3 In view of the Government's decision to enhance the Reserves to undertake a wider range of activities, the Australian National Audit Office (ANAO) considered it appropriate to conduct a performance audit of ADF Reserves.³
- 2.4 The objective of the audit was to identify possible areas for improvement in the ADF's management of its Reserve forces. The audit covered all three Services and focused on major aspects of the Reserves including roles and tasks, force structure, capability, training, individual readiness, equipment, facilities, recruitment, retention, conditions of service and administration. Due to its size and cost, the Army Reserve was a major focus of the audit activity.⁴

Audit findings

- 2.5 Inter alia, Audit Report No 33, 2000-2001, *Australian Defence Force Reserves* found that:
- in recent years ADF Reserves recruited had fallen well below recruiting targets;
 - the Army Reserve needed to develop suitable roles and tasks to reflect current strategic requirements, and which were not constrained by existing Army Reserve capabilities and force structure;
 - resources allocated to the Army Reserve from the Defence budget had been insufficient to achieve the capability required by Army.
- 2.6 The ANAO made 13 recommendations directed towards improving the ADF's management of its Reserve forces. Defence, agreed, or agreed in principle, to all recommendations.

The JCPAA's review

- 2.7 Defence told the Committee that it welcomed the ANAO audit report into the ADF Reserves and that the report's

3 ANAO, Audit Report No. 33, 2000-2001, p. 38.

4 ANAO, Audit Report No. 33, 2000-2001, p. 38.

recommendations were broadly consistent with a range of ADF Reserves enhancement initiatives being implemented across the ADF. Defence noted that management changes and capability enhancement of the Reserve was 'a work in progress'.⁵

- 2.8 The Auditor-General's view was that the audit had been very comprehensive and good cooperation had been received from Defence.⁶
- 2.9 At the public hearing, the Joint Committee of Public Accounts and Audit (JCPAA) discussed the following issues:
- Reserve roles and tasks;
 - resources and costs; and
 - attraction and retention.
- 2.10 In particular, the Committee examined the progress Defence had made on audit report recommendations.

Reserve roles and tasks

- 2.11 The 2000 White Paper noted that the strategic role of the Reserves has changed from mobilisation to meet remote threats, to that of supporting and sustaining contemporary ADF military operations. It noted further that the contribution of the reserves will be essential to the maintenance of the ADF's operational capabilities.⁷
- 2.12 At the time of the audit, Army was conducting a Reserves Roles and Tasks study. The study team developed a task structure across the key functions of capability against which potential Reserve contribution could be assessed.⁸
- 2.13 Following consideration of the outcome of the Reserves Roles and Tasks study, the Deputy Chief of Army issued a Planning Directive. The Directive outlined the vision for Army-in-Being in 2003 (AIB 2003) and stated that the progression of AIB 2003 was focused on the implementation of the reserve Roles and Tasks

5 Brigadier N. Turner, Defence, *Transcript*, 30 April 2002, p. 2.

6 P. Barrett, ANAO, *Transcript*, 30 April 2002, p. 2.

7 Defence, *Defence 2000*, pp. xii, xiii.

8 ANAO, Audit Report No. 33, 2000–2001, p. 48.

study (RTA objective 3.2.2) and development of Combat Force Capability Levels.⁹

- 2.14 The development of AIB 2003 is aimed at delivering a sustainable land combat force to meet the Government's required range of military response options, while remaining cognisant of Army's intended future capability development path. This will be achieved by maximising the Reserve capabilities as part of a fully integrated Army.¹⁰
- 2.15 At the public hearing, the Committee questioned Defence about progress in defining Reserve roles and tasks, particularly in the Army Reserve.¹¹
- 2.16 Defence advised that the roles and tasks study had been subsumed by the broader issue of Army 2003¹² which was the modernisation of the ADF to meet the white paper requirements:

As we develop the deployment model for the Army, the roles and tasks of both regular and reserve units are being defined progressively. That process is now well advanced.¹³

- 2.17 In response to the Committee's question about whether improvements in recruiting had been evident, Defence stated that results were already becoming evident:

There are units that already have a much clearer statement of what is required of them. [The units] are specifically recruiting to that statement.

Some time has elapsed since the audit report was done, and recruitment has improved significantly.there is still some room to go.I think it will take a little bit longer before new roles and tasks have an impact.¹⁴

- 2.18 Defence drew attention to the fact that the Army 2003 model had yet to be endorsed through the Army committee process and the Chief of Army was yet to sign off on it. Defence advised that the

9 ANAO, Audit Report No. 33, 2000–2001, p. 49.

10 ANAO, Audit Report No. 33, 2000–2001, p. 50.

11 *Transcript*, 30 April 2002, p. 10.

12 Army 2003 is a concept which describes a sustainable structure for the Army Force-in-Being.

13 Turner, *Transcript*, 30 April 2002, pp. 10-11.

14 Turner, *Transcript*, 30 April 2002, p. 11.

model was scheduled to be formally endorsed in 2003.¹⁵ The Committee now understands that Army 2003 will be replaced by the Combat Force Sustainment Model (CFSM).

Categories of Reserve service

2.19 Responding to Committee questioning, Defence outlined the three categories of Reserve service which initially would be used in the Army:

- stand-by reserve (equivalent to the current inactive reserve);
- active reserve (equivalent to the Army General Reserve); and
- high readiness reserve (no current equivalent).

2.20 Defence noted that while there is currently no high readiness reserve, the number required in that category by the development of the Army 2003 deployment model will be qualified and migrated to the reserve:

The requirement essentially is that we need to be able to develop a long-term, deployable, brigade size force, which can be populated with successive rotations of people over time. To do that there will be a greater dependence on reserve forces than we have seen in the past.There will be a requirement for both high readiness and active reservists to be more actively involved in the delivery of the Army's capability.¹⁶

Committee comments

2.21 The Committee notes the comments of the audit report that the collective military capability of the Army Reserve is very limited and that previous efforts to revitalise the Reserve have not been successful, largely because roles and tasks have not been clearly defined and resources allocated to the Army Reserve from the Defence Budget have been insufficient to achieve the capability required by Army.¹⁷

2.22 The audit report made the point that the broad structure of the Army Reserve has remained largely unchanged over several

15 Turner, *Transcript*, 30 April 2002, p. 11.

16 Turner, *Transcript*, 30 April 2002, p. 9.

17 ANAO, Audit Report No. 33, 2000–2001, pp. 12, 38, 45-7, 50-1, 117.

decades. It is a conventional military structure with a hierarchy of division, brigade and battalion. The changed strategic role for the Reserves towards contemporary military operations, as outlined in the *Defence 2000* White Paper, raises the question of the appropriateness of current Army Reserve structures to meet changing roles and tasks.¹⁸

- 2.23 The Committee agrees that there are compelling reasons to rationalise the Army Reserve force structure to ensure that it is based on strategic guidance and on the outcomes of the Army's study of its Reserve roles and tasks. The Army Reserve should have the potential to contribute more substantially to the Army's force generation and military capability. There should be a strong link between the military capability required and the force structure that is developed.

Recommendation 1

- 2.24 **The Committee recommends that Defence:**
- (a) **review its Army Reserve structure in order to develop a more efficient and effective structure which complements, rather than unnecessarily duplicates, capabilities that exist in the full time component; and**
 - (b) **provide to the Committee formal six-monthly progress reports, separately from the Executive Minute process, on the progress of the review.**

Resources and costs

Resources

- 2.25 The size and structure of the Army Reserve result in significant equipment requirements. In comparison, Navy's integrated structure has led to only a limited requirement for dedicated equipment for Reserve elements. Similarly, Air Force Reserves have not generated a major demand for equipment resources.

¹⁸ ANAO, Audit Report No. 33, 2000–2001, p. 16.

One focus of the audit report was therefore on Army Reserve equipment levels.¹⁹

- 2.26 During fieldwork inspections by the ANAO, most Reserve units noted that equipment levels were generally adequate for their training requirements. Some units were short of specific pieces of equipment such as radios, ancillary equipment and ammunition. The ANAO considered that past equipment shortages had been alleviated by two factors: the remediation program and the reduced numbers of Reserves in most units.

Because most Reserve units have experienced a marked reduction in strength in the past 18 months the equipment levels are sufficient for the reduced numbers attending for training.²⁰

- 2.27 The Committee sought to ascertain what steps had been taken to ensure that adequate and appropriate equipment was available to Reserve units.²¹

- 2.28 Defence advised that the ongoing development of roles and tasks for Reserve units and the design of Army 2003 had led to a review of single entitlement documents (SEDs) for a wide range of Army units. This was a continuing process involving personnel as well as equipment:

There are...processes in place at the moment which are seeing the cross levelling of equipment between units, including reserve and regular units, so that we are matching the equipment and getting a good, fair and equitable distribution of equipment to all units to allow them to be properly equipped for the training they are undertaking. Again, that is a work in progress: the reviews, the cross-levelling of equipment and the maintenance and upgrade of equipment continue.²²

- 2.29 Defence advised the Committee that SED reviews had been completed for the majority of Army Reserve units.²³

19 ANAO, Audit Report No. 33, 2000–2001, p. 114.

20 ANAO, Audit Report No. 33, 2000–2001, p. 117.

21 *Transcript*, 30 April 2002, p. 4.

22 Turner, *Transcript*, 30 April 2002, p. 5.

23 Defence, Submission No. 10, p. 14.

Committee comments

- 2.30 The Committee notes that the process of defining the roles and tasks for Reserve units is progressing and that the three year rolling program of SED reviews is taking into account the results of this process.²⁴
- 2.31 The Committee strongly encourages the early completion of these reviews. Until the role and resource needs of the Reserve have been clarified there is no certainty that current recruitment, training and provisioning is appropriate for the future structure of the Reserve forces.

Costs

- 2.32 The ANAO asked Defence for data on the full cost of operating its Reserve Forces. Defence was able to supply a large range of data on Reserve direct operating costs (eg. salaries) but other costs associated with maintaining the Reserves had to be derived by the ANAO.²⁵
- 2.33 The ANAO was unable to obtain full cost information in respect of Navy and Air Force Reserves because of the integrated nature of their operations. Navy and Air Force costs were therefore sourced from Defence answers to Parliamentary Questions on Notice in May 2000, in which the Air Force Reserve was estimated to cost \$20 million, the Navy Reserve \$19 million, with \$1 million for the Assistant Chief of the Defence Force–Reserves. The ANAO observed that these were primarily direct costs and that the full costs would be considerably higher.²⁶
- 2.34 The audit report gave an indicative cost for the ADF Reserves in 1999-2000 of around \$1 billion, of which over \$950 million was the cost of the Army Reserve.²⁷
- 2.35 The Committee drew attention to the large annual government expenditure on the Reserve and expressed concern over the inability of Defence to provide full costing information to the ANAO.²⁸

24 Defence, Submission No. 3, p. 11.

25 ANAO, Audit Report No. 33, 2000–2001, p. 120.

26 ANAO, Audit Report No. 33, 2000–2001, p. 121.

27 ANAO, Audit Report No. 33, 2000–2001, p. 121.

28 *Transcript*, 30 April 2002, p. 5.

2.36 Defence responded that there were difficulties in costing the Reserve:

I think we are really struggling with the issue of costing inputs versus costing outputs. Currently, our focus is trying to cost the outputs. The Reserve is but a component that contributes to our capability overall, and trying to cost every individual component at the moment is an issue for us. What [Defence is] focusing on right now is trying to gather the cost to the outputs, and the methodology that has been used in the ANAO report to derive that cost is, I think, a reasonably fair reflection of the cost overall of the Reserve. To actually go through and do it as an input cost is quite a significant exercise and quite a demand on both our processing systems—we are not that sophisticated at this time.²⁹

2.37 Defence indicated that it did attempt to identify the cost of inputs, although not in the sophisticated way that an activity costing system would do. Defence advised that since the audit, it had been attempting to refine its input costing.³⁰

2.38 Defence advised the Committee that establishing the full cost of each Reserve Service:

...will require development of existing processes and reporting systems, as well as the maturation of planned financial and management systems and costing models. This combined with the complex usage of Reservists makes costing accuracy and extraction of accountability for such costs difficult.³¹

Committee comments

2.39 The Committee agrees with the ANAO that Defence should annually establish and publish the full costs of each Reserve Service and the capabilities provided, in order to provide full transparency of the costs of maintaining Reserve forces.

29 L. Williamson, Defence, *Transcript*, 30 April 2002, p. 6.

30 Williamson, *Transcript*, 30 April 2002, p. 6.

31 Defence, Submission No. 10, p. 15.

Recommendation 2

- 2.40 **The Committee recommends that Defence give urgent attention to developing its financial and management systems to enable it to provide full costing of the Reserve forces.**

Attraction and retention

Recruitment initiatives

- 2.41 In the Army Reserve, which has by far the largest number of Reserves, discharges have exceeded enlistments almost every year since 1988-89. In the past few years, the gap between separations and recruitment has increased. Prior to 1998, the posted strength of Army Reserves remained relatively constant at about 70 per cent of authorised establishment. However, since January 1998 this figure has fallen to 55 per cent. Reserve recruiting achievements against recruitment targets for the Services over the last three years is shown at Table 2.1.

Table 2.1 ADF Reserve recruiting achievement against targets, 1997–1998 to 1999–2000

Year	Navy		Army		Air Force	
	Target	Actual	Target	Actual	Target	Actual
1997-1998	112	56	4655	4671	80	83
1998-1999	149	30	4235*	2162*	146	82
1999-2000	104	29	4785	1417	119	104

Source: Defence Recruiting Organisation³²

* Modified figures were obtained from Table 5.1, Senate Foreign Affairs, Defence and Trade References Committee, *Recruitment and Retention of ADF Personnel*, October 2001, p. 72.

- 2.42 The Committee asked Defence whether Reserve recruitment targets were being met in 2001-2002 for each of the services.³³

32 ANAO, Audit Report No. 33, 2000–2001, p. 126.

33 *Transcript*, 30 April 2002, p. 3.

2.43 Defence replied that it was still failing to achieve recruitment targets across the three services:

...for Navy we have achieved 21 per cent of the year-to-date target, for Army, 49 per cent; and for Air Force, 73 per cent³⁴

2.44 Defence indicated that numbers recruited to the Army Reserve in the current year were very close to numbers recruited in the previous year but that it was not possible to attribute any changes or otherwise in recruitment numbers to 'background factors' like the establishment of a call centre at Cooma or the change to direct unit recruiting.³⁵

2.45 Defence advised the Committee of a recent major conference of the Defence Force Recruiting Organisation (DFRO). One outcome of the conference was an agreement that the single services would take greater responsibility for attracting recruits to the Reserve and the DFRO would allocate a budget for the single services to take charge of the attraction process:

Recruiting has been slow for the Reserve and in recognition of that the aim is to have specific initiatives for Reserve recruitment... We do expect some significant gains in the next 12 months because of a total change in strategy.³⁶

2.46 In its submission of August 2001, Defence drew attention to Army's 'Direct to Unit' recruiting initiative and other new strategies to attract recruits to the Reserve:

This initiative has resulted in a significant upsurge in the level of interest shown through inquiries and has also translated into increasing numbers of applicants and enlistments.

The combination of enhanced advertising, flexible delivery of training and Direct to Unit Recruiting have enabled the Reserves to increase their uptake of applicants from all sections of the community and employment demographic.³⁷

34 Colonel M. Stedman, Defence, *Transcript*, 30 April 2002, p. 3.

35 Turner, *Transcript*, 30 April 2002, p. 4.

36 Commodore F. De Laat, Defence, *Transcript*, 30 April 2002, pp. 6-7.

37 Defence, Submission No. 3, p. 13.

- 2.47 On 25 May 2002, a new advertising campaign specifically addressing Reserve issues was launched at Holsworthy Barracks.³⁸

Committee comments

- 2.48 It is evident from Defence's submission dated August 2001, that Defence was optimistic that its new recruitment initiatives would improve current year recruitment to the Reserve. However, Reserve recruiting numbers for 2001-2002 are not significantly closer to meeting targets than they were in the previous year.³⁹
- 2.49 The Committee notes that Defence currently has high hopes for increased recruitment from its 'single service' initiative which began in May 2002.⁴⁰
- 2.50 It is clear to the Committee that Defence is making strong efforts to develop new recruitment initiatives. However, it is not clear to the Committee that Defence is acting on ANAO recommendation no. 11 (b). Defence needs to undertake more sophisticated early planning for its initiatives to include performance measurement elements. Close monitoring of its recruitment initiatives is vital to ensure that useful information is obtained at the earliest possible time.

Transfers from the permanent component

- 2.51 The audit noted that in the case of active Reserves in Navy and Air Force, approximately 80 per cent were former full time members. In Army, however, former members represented a much smaller proportion of active Reserves. The audit report stated that this was largely due to the stronger emphasis by Army on direct recruitment:

Army does not specifically target former full time members but the Sustainability Study, associated with the Restructuring Army trial concluded that recruitment of ex-permanent members would provide a substantial link to achieving capability in a sustainable Reserve, at an affordable cost.⁴¹

38 Defence, Submission No. 10, p. 3.

39 *Transcript*, 30 April 2002, p. 3.

40 *Transcript*, 30 April 2002, pp. 6-7.

41 ANAO, Audit Report No. 33, 2000-2001, p. 123.

- 2.52 The ANAO considered that there would be significant benefits to the ADF, and the Reserves in particular, if more full time members could be encouraged to volunteer for service with the Active Reserve.⁴²
- 2.53 During the hearing, the Committee asked Defence why Army had a lower transfer rate of full time members to the Reserve and the strategies that might reverse that trend.⁴³
- 2.54 Defence acknowledged that Army, in the past, had not had a policy of actively and seriously encouraging full time members who had finished their service to transfer to the Reserves.

In general, people were advised that there was an opportunity to do so, but it was not actively pursued, as opposed to some of the other services that actually had almost a compulsory policy...of transfer to the reserves. That obviously affected statistics in the past.

...the intent that is being developed for the new Defence regulations which are flowing from the changes to the legislation will have a requirement for people at the end of their full-time service—and, again, this is subject to a bit of market testing—to transfer to the Reserve....

We think it will probably be acceptable. We would probably provide some sort of 'out' clause for those for whom it was going to be a major problem. That is still in the process of development but that is the primary initiative.⁴⁴

- 2.55 Defence indicated that under the new regulations being drafted, permanent members would be required to transfer to the stand-by Reserve. Those individuals would have no training commitment but would have only a call-out obligation:

...a study [has been commissioned] to identify incentives to improve the transfer of members of the permanent force to the active reserve when they complete their full-time service. Phase 1 of that study has been completed and has identified a number of initiatives.⁴⁵

42 ANAO, Audit Report No. 33, 2000–2001, p. 124.

43 *Transcript*, 30 April 2002, p. 8.

44 Turner, *Transcript*, 30 April 2002, p. 8.

45 Stedman, *Transcript*, 30 April 2002, p. 9.

Committee comments

- 2.56 The Committee agrees with the ANAO that improvements in the capability and cost-effectiveness of the Reserves would result from an increased emphasis on promoting the transfer of retiring full-time members to the active Reserves. While the proposed Defence personnel regulations should effectively populate the inactive Reserve, the Committee strongly encourages the ADF to continue its work on identification and provision of incentives which could lead to an increase in the numbers of personnel available for active Reserve service.

Retention

- 2.57 Recruitment to the Army Reserve has failed to keep pace with the level of separations for more than 10 years. For most of this period there has been only a gradual decline in the overall size of the Reserve, but there has been a marked acceleration in the rate of decline since 1997. Separations have been in the vicinity of 20 per cent per annum for the past 10 years and, in absolute terms, the separations in the last three years has been in line with, or lower than, historical figures. It is primarily the shortfall in recruitment that has led to the notable recent reduction in the size of the Reserve.⁴⁶
- 2.58 The Committee asked Defence its opinion on the core reasons for separation from the Army Reserve.⁴⁷ Defence responded that reasons for separation had been determined through focus groups, informal discussions, discussions with units and unit commanding officers, and sometimes with available Reservists.⁴⁸ Changing marital status, other family factors and a general waning of interest possibly due to the reality that Reserve service was more limited and less exciting than Regular service, were among the factors responsible for separation:

The wastage rate at the moment is probably the lowest in the last 30 years. It has been as high as 40 per cent and it is currently running at about 13 per cent. ...it is quite within acceptable bounds in terms of wastage.⁴⁹

46 ANAO, Audit Report No. 33, 2000–2001, p. 134.

47 *Transcript*, 30 April 2002, p. 11.

48 Lt.Col. Sillcock, Defence, *Transcript*, 30 April 2002, p. 13.

49 Sillcock, *Transcript*, 30 April 2002, p. 12.

2.59 In response to the Committee's query as to whether routine discharge interviews were held to ascertain reasons for separation, Defence stated that such interviews were carried out in the Regular forces but not in the Reserve forces. A current study being done on the Reserves will recommend that an exit survey be administered, where possible, to people leaving the Reserves:

It is slightly different in the reserve in that we do not always have the opportunity to speak to reserve soldiers because they may miss a week's parade and then we do not see them again. We do not have a formal departure mechanism.⁵⁰

Committee comments

2.60 The Committee notes that no formal research has been done into identifying reasons for separation from the Reserve forces. While the Committee acknowledges that there is some internal interest in Defence in conducting exit surveys, the Committee considers that contracting out a study of the reasons for separation from the Reserve may be more cost-effective and more informative.

Recommendation 3

2.61 **The Committee recommends that Defence commission an external study of the reasons for separation from the Reserve, and commission further studies on this issue from time to time.**

Implementation of Audit Report recommendations

2.62 The Committee asked Defence to provide an update on its implementation of the audit report recommendations and its interaction with the Auditor-General in relation to the implementation.⁵¹

2.63 Defence took the question on notice and its reply to the Committee is included in submission no. 10 to this review which is reproduced in full at Appendix D.

50 Sillcock, *Transcript*, 30 April 2002, p. 13.

51 *Transcript*, 30 April 2002, p. 13.

2.64 Defence advised the Committee that both the Defence Audit Committee (on which the ANAO had observer status) and the Defence Committee (chaired by the Secretary of Defence) received regular reports on progress of all ANAO and JCPAA recommendations which Defence had agreed to implement.⁵²

52 Defence, Submission No. 10, p. 1.