

CHAPTER SEVEN

PERSONNEL

The Cost of Personnel

*Personnel costs are and will remain the largest element of defence costs.*¹

7.1 The DER judged that almost half of the Defence annual budget was spent on personnel and personnel related items in FY 1995-96, totalling approximately \$4.9 billion.² The more usually quoted apportionment is that Defence presently spends about \$4 billion, or around 40 per cent of its budget, on direct personnel costs.³ As the result of a number of efficiency measures, this proportion has decreased from that of about 20 years ago when personnel costs accounted for around 60 per cent of the Defence budget.⁴ The cost of personnel is a major concern, because there is evidence to show that the rate of increase in personnel costs is also the single greatest cost pressure on Defence funding.

7.2 The 1991 Force Structure Review was a major initiative intended to free up resources for capital equipment by reducing personnel costs. The FSR sought to lower the number, and hence cost, of permanent ADF members through a greater reliance on reserves, under the Ready Reserve scheme. Also under the FSR, the Commercial Support Program aggressively pursued commercialisation of non-core support functions, to reduce the number of permanent ADF members, and the personnel costs involved in the provision of those functions. The FSR estimated that 'the level of personnel reductions for the Force Structure Review initiatives ... potentially could save almost \$2 billion (including salary and on-costs) by the end of the decade'.⁵ The impact of the FSR may be judged in part from the reduction of 11,250 funded positions between 30 June 1991 and June 1996,⁶ for which it was largely responsible.

7.3 The combined effect of several efficiency initiatives has seen ADF and Defence civilian numbers decline by 11,046 and 5,891 respectively over the period 30 June 1991 to 30 June 1997, or a net decrease of 16,937.⁷ From the total strength of 92,087 personnel as at 30 June 1991, this has been a decline of 18.4 per cent across the Department. However, this decrease has not resulted in a proportionate reduction in personnel costs. A worrying trend has been the constancy, or even apparent increase, in the proportion of Defence outlays consumed by salaries and personnel costs.

7.4 It is difficult to obtain an accurate indication of the increase in personnel costs per capita over the period since the implementation of the FSR. This is because of a significant change in the basis for calculation of Defence function outlays from FY1992-93. After this

1 *Defending Australia*, op. cit., p. 149, para. 14.17.

2 DER Secretariat Papers, p. 264.

3 Tonkin, Dept. of Defence, Transcript, p. 256.

4 *Defending Australia*, loc. cit.

5 *Force Structure Review 1991 - Report to the Minister for Defence*, op. cit., p. 44, para. 3.20.

6 Dept. of Defence, Submission, p. S286.

7 *ibid.*, pp. S329-S330.

time, superannuation contributions of over \$500 million per annum were excluded from accounting of Defence Function Outlays, effectively decreasing the basis of Defence Outlays, decreasing the apparent expenditure on personnel, and increasing other individual Defence accounting items as a percentage of outlays. For this reason, it is meaningless to compare quoted personnel cost percentages from before FY1992-93 with those calculated for later financial years. Table 7.1 attempts to overcome this problem by adopting a uniform basis for calculating these percentages across the FY1992-93 discontinuity.⁸

Table 7.1 Defence Salary Costs as a Proportion of Total Defence Outlays⁹

Financial Year	Total Defence Expenditure - \$millions	Service salaries - \$millions	Service salary costs - % of Total Defence Expenditure	Civilian salaries - \$millions	Civilian salary costs - % of Total Defence Expenditure	Total salaries - \$millions	Total salary costs - % of Total Defence Expenditure
90-91	8807.9	2455.0	27.9	721.4	8.2	3176.4	36.1
91-92	9047.8	2544.6	28.1	761.0	8.4	3305.6	36.5
92-93	10087.5	2629.9	26.1	799.3	7.9	3429.2	34.0
93-94	10314.4	3012.4	29.2	890.2	8.6	3902.6	37.8
94-95	10338.3	2935.0	28.4	860.3	8.3	3795.3	36.7
95-96	10604.6	3083.2	29.1	906.0	8.5	3989.2	37.6
96-97	10610.8	3198.8	30.1	916.6	8.6	4115.4	38.8
97-98*	10961.2	3260.8	29.7	949.6	8.7	4210.4	38.4

(* - based on Estimates)

7.5 One Defence witness summarised the problem:

The number of people that are there goes down, but the unit cost of labour usually consumes most of the savings.¹⁰

This is indicated obliquely in evidence contained in the Defence submissions to the inquiry. The reduction of 11,250 positions achieved from all major Defence efficiency initiatives to the end of June 1996 generated ongoing savings of some \$450 million per annum.¹¹ Yet Defence also claims that these initiatives have provided 'over \$340 million per annum for productivity-based salary and allowance increases for which funding supplementation was not provided by Government'.¹² The Committee interprets this to indicate that over 75 per

8 The basis from FY1992-93 onwards uses Service and Civilian personnel costs as a proportion of total Defence expenditure (as quoted in Annual Reports). For consistency of comparison, pre-FY1992-93 figures exclude superannuation costs from total Defence expenditure, as for later years.

9 Source: Defence Annual Reports, various 1990-91 to 1996-97, plus *Portfolio Budget Statements 1997-98*, *Defence Portfolio*, op. cit., p. 22, Table 3.

10 Preston-Stanley, Dept. of Defence, Transcript, p. 53.

11 Dept. of Defence, Submission, p. S286.

12 *ibid.*, p. S285.

cent of the efficiencies achieved through FSR-related initiatives were subsequently consumed by rising personnel costs, in spite of the reduction in personnel numbers generated by the FSR.

7.6 On further examination, the annual ongoing savings available for redirection from the Defence Efficiency Review was estimated to be at least \$770 million.¹³ Although this program has not yet reached maturity (it is anticipated to produce only \$60 million in savings in 1997-98, due to the cost involved in personnel separations),¹⁴ the erosion of savings expected from the mature program seems already to have begun. Defence estimates that a recent six per cent payrise for ADF personnel, and a similar payrise to be approved shortly for its civilian workforce, will initially cost about \$220 million per annum.¹⁵ Future wage cost supplementation provided by the Government will allow recovery of 'about half of the cost' of the ADF payrise¹⁶ (assuming no additional wage rises during that period), but the remainder will consume more than 11 per cent of the mature annual DRP savings. Notably, the current remuneration arrangement expires, after 18 months, in April 1999, after which it will be replaced by a revised arrangement. ADF members have been advised that the replacement remuneration arrangement will be developed 'seeking recognition for ongoing efficiencies resulting from the DRP',¹⁷ implying further wage rises, and increased consumption of DRP savings. Defence also estimated the consequences of any future payraises:

Future unsupplemented pay outcomes for ADF and Defence civilian personnel will also require approximately \$40 million per annum to be found from within Defence outlays for each one per cent increase in salaries.¹⁸

7.7 The Committee calculated the potential consequences of these payraises in terms of personnel numbers. In its calculations, the DER assumed that every 20 personnel employed by Defence cost about a million dollars per annum.¹⁹ The Committee used Defence's tabulation of personnel costs, which indicates that annual variable costs for the average Defence member is between \$66,600 and \$69,360 (depending on Service) for Service personnel, and around \$53,000 for Defence civilians.²⁰ Based on an estimate of around \$64,400 per member, (and assuming no real increase to the Defence budget) each one per cent in unsupplemented salary increases would require reduction of around 620 personnel, without replacement, if no other efficiencies are able to be identified.

7.8 A further factor which may increase pressure on personnel costs is the intention of the Defence Reform Program to increase the proportions of ADF personnel in combat and

13 *ibid.*, p. S286.

14 Proof Hansard, Senate Foreign Affairs, Defence and Trade Legislation Committee *Supplementary Hearing of Additional Estimates*, Thursday 26 February 1998, p. 38.

15 Dept. of Defence, Submission, p. S327.

16 *ibid.*

17 'Pay Rise for ADF Members' in *The Key*, Defence Personnel Executive Newsletter No 3, December 1997, pp. 1-2.

18 Dept. of Defence, Submission, p. S288.

19 DER Secretariat Papers, p. 264.

20 National averages, based on *Ready Reckoner of Personnel Costs and Related Overheads*, Edition 5, (Supplement 1 to Chief Executive Officer Instructions, Part 9, Chapter 1), Dept. of Defence, February 1998.

combat-related units to around 65 per cent of the force, compared with 40 per cent in 1996.²¹ With the increase in the proportion of ADF personnel involved in combat-related duties, a higher proportion of personnel would also be entitled to combat-related allowances, in addition to their increased salary.²² The Committee investigated whether this factor would significantly contribute to worsen personnel cost pressures.

Allowances

7.9 Allowances meet two needs within the ADF. They may be paid in recognition of the unique role of an ADF member, providing monetary recompense for hardship incurred in carrying out a military role, or they may be in the nature of reimbursement for expenses incurred in the course of duty.²³ Allowances comprise a large proportion of overall Defence personnel costs. Virtually all ADF personnel receive one or more allowances in addition to their base salary. These benefits range from minor sums, such as reimbursement for one or two days' child care costs while a member is undergoing a removal on posting, up to flying allowance, for which eligible members may receive well over \$20,000 per annum. The total cost of allowances paid to ADF members in FY1996-97 was \$733.3 million²⁴ from the total of \$2,659 million spent on all ADF salaries in the same year,²⁵ or around 27 per cent of total salary costs for ADF members.

7.10 Dozens of such allowances exist, with the majority of members entitled to payment of more than one. Some allowances, such as uniform maintenance allowance, are paid to virtually all permanent ADF members. Others may be applicable to a small handful of members, in recognition of a particular unusual proficiency, qualification, or area of posting. Eligibility for payment of an allowance may arise as a once-off reimbursement payment on occurrence of a specified event. Alternatively, eligibility may arise on emergence of unusual circumstances, for payment over a short period; it may persist for the duration of a particular posting, or it may be ongoing throughout a member's career, in the case of a particular skill qualification. These wide variations in the number of members eligible, the period of eligibility, and the quanta of the allowances paid, makes ADF allowances the least transparent area of Defence personnel funding.

7.11 The extensive administrative effort required to determine eligibility, and to commence and cease payments in accordance with fluctuating entitlement, entails a considerable administrative cost which the Committee believes would be largely reduced in a less complex system. The DER recognised that the extensive range of ADF allowances and benefits 'leads to high administrative costs and an over-reliance on allowances'.²⁶ The Committee notes that ADF pay and allowances currently are undergoing a major review, and

21 Minister for Defence media release *Defence in 1997 - A Year of Change & Achievement*, 22 December 1997.

22 Woolner, Derek, in Anderson, David, *The Challenge of Military Service: Defence Personnel Conditions in a Changing Social Context*, Background Paper No 6 1997-98, Dept. of the Parliamentary Library, 10 November 1997, p. 14.

23 Anderson, David, op. cit., pp. 45-46.

24 Dept. of Defence, Submission, p. S328. (Excludes non-salary benefits such as medical services and Medicare exemption, Fringe Benefits Tax payments, and Travel and Subsistence payments, which are not a salary cost.)

25 This figure was provided by Dept. of Finance (Defence expenditure division 1800101) for FY1996-97, and includes salaries paid to both permanent and reserve personnel, but excludes superannuation costs.

26 DER Secretariat Papers, p. 279.

a simpler system may emerge which is hoped will be more transparent than the existing construct. While the added transparency will be welcome, the Committee is most interested in the potential for administrative savings in the Defence budget as a result of a simpler system of remuneration.

7.12 Notwithstanding this prospect for further efficiency, the Committee's main interest in allowances was in their potential to add to personnel cost pressures, given the intended shift of larger numbers of personnel to combat-related duties. Examination of the significant allowance categories in Defence's evidence shows that the majority of these are not related to combat related duties.²⁷ Examples of those allowances related to combat duties are field allowance, flying allowance, and seagoing allowance. However, in the case of flying allowance, only a small proportion of the total sum paid (the 'disability element') relates to the conduct of combat-related duties. Even if the entire increased proportion of personnel in combat-related duties were to receive field, flying or seagoing allowance (which would seem very unlikely), the overall effect would be to increase personnel costs by less than \$30 million. The Committee concluded that the requirement for increased payment of combat-related allowances, as a result of the current initiative to improve the ADF's 'tooth-to-tail' ratio, would not be a major cost pressure on Defence outlays.

Remuneration and Retention

*Ensuring suitable training opportunities and financial rewards will be important elements of retaining these people.*²⁸

7.13 Highly trained volunteer personnel are a key element of the Australian Defence Force. Arguably, personnel are more essential to the ADF's force-in-being than all but the most complex of the weapon systems they operate. While missiles, small arms, ammunition, vehicles and many other military systems may (in theory) be acquired at short notice in a crisis, the experience which enables military personnel to make best use of that equipment can only be acquired over an extensive period. The recent report of the Performance Information Review recognises that 'the time it takes to identify, recruit and train personnel to operate new equipment is often longer than the time required to identify and acquire the equipment'.²⁹

7.14 Once those personnel have been identified, recruited and trained, the next problem for the ADF is to retain them in service; a task which has been described as 'the key personnel challenge of the next decade'.³⁰ Personnel who have been given expensive training and experience on advanced equipment are a valuable resource. The level of skill and education possessed by these individuals, once trained, makes them similarly attractive to civilian recruiters, which adversely impacts upon ADF retention.

7.15 The competition between the ADF and civilian employers is the main contributor to the inexorable increase in ADF personnel costs. For the ADF to be able to recruit, in competition with the civilian sector for the finite number of high quality individuals, those personnel may be attracted through a combination of appropriate remuneration, attractive

27 Dept. of Defence, Submission, p. S328.

28 *ibid.*, p. S316.

29 *Performance Information Review*, op. cit., para. 372.

30 Medley Consulting, Submission, p. S158.

conditions of service and the promise of high quality training. When compared to civilian companies, the ADF has the disadvantage that military operations still tend to be relatively manpower intensive, while civilian organisations are able to automate and subcontract processes, enabling redirection of resources to attractive staff remuneration packages. For the ADF to remain competitive against increasingly efficient civilian organisations, it is forced to increase its own rates of remuneration. It must also offer additional compensation for the turbulence and exigencies of Service life, and the need for Service personnel to maintain core military skills.

7.16 Defence recognises that the escalating skill levels required of its personnel is an important influence on its personnel costs:

[O]ur costs per head of personnel are increasing like everybody else's... We need armed forces that are full of very bright people because they are doing very complicated tasks. So the nature of the people we employ is changing...[and] we are having to pay them more.³¹

7.17 But Defence's previous strategies for retaining personnel have not always succeeded, as evidenced in periodic shortages in essential personnel categories. Navy is currently experiencing a critical shortage of observer aircrew, while Air Force has been understrength in aircrew for some years, and more recently, in air traffic controllers. In the cases of pilots and air traffic controllers, the solution to these manpower shortages was to implement retention bonuses to improve remuneration. The bonus most recently paid to retain pilots (across all three Services) cost \$25 million,³² and although Defence received undertakings of additional service from the recipients, enforcement of such an undertaking may be problematic. Defence conceded that the offer of such bonuses was a 'bandaid measure',³³ although a necessary one under the current management system, but was currently examining options to more reliably control the turnover of personnel. One Defence witness suggested a 'need to change the method of providing remuneration and become more salary-competitive with ... private industry'.³⁴ A recent initiative adopted towards this end has been the offer of bonuses to members in currently-critical manning categories, paid only on completion of an agreed period of service. These completion bonuses currently apply to medical and dental officers, and are being processed as a means of retaining navy observers.³⁵

7.18 A reform of ADF remuneration structures is currently underway, 'intended to provide a modern system which is competitive in the Australian labour market', and aiming to reward personnel appropriately for work actually undertaken.³⁶ This is taken to imply the likelihood of wage increases in critical personnel categories. In conjunction with the guiding principle that the new system is to be budget neutral once fully implemented,³⁷ and the 'ironclad guarantee that no officer will lose money' while some may receive additional

31 White, Dept. of Defence, Transcript, p. 256.

32 Dept. of Defence, Submission, p. S328.

33 Barrie, Dept. of Defence, Transcript, p. 271.

34 Oxenbould, Dept. of Defence, Transcript, p. 170.

35 Dept. of Defence Submission, p. S 327.

36 *ibid.*

37 *ibid.*

remuneration,³⁸ the Committee interprets that payrises are again intended to be achieved from efficiencies such as personnel reductions.

7.19 Defence recognises that other options exist for retention of personnel in addition to remuneration measures. These may include improved career management, and efforts to enhance job satisfaction, although examination of these measures falls outside the scope of this inquiry. Evidence provided to the Committee suggested that the combination of retention measures over the last decade, together with external economic influences, have resulted in an overall improvement in retention rates. The average length of service of ADF permanent force trained members has increased in each of the three Services, from an average of 8.86 years in June 1991 to an average of 10.01 years in December 1997.³⁹

Future Prospects for Personnel Costs

7.20 The primary focus of the Committee's attention in this inquiry is not on the mechanisms by which Defence remunerates and retains its personnel, except where those methods result in pressure on the finite quantum of Government-provided funding. Having established that the pressures resulting from personnel funding on the Defence budget were real, growing, and at risk of consuming hard-won efficiency gains, the Committee sought to estimate the likely impact of such pressure.

7.21 Where rising personnel costs first began to impact on the Defence budget was with the removal of government-funded compensatory mechanisms for wage and salary rises. When this measure was introduced, Defence raised questions in relation to productivity-based pay, and the sustainability of that arrangement in the longer term. Defence accepted this as a means of improving processes and achieving efficiency in the short to medium term, but noted that the only way productivity could be increased continuously over a long period was through reduction of personnel numbers, as it was personnel who formed a large part of the overhead.⁴⁰ The impact of this measure is now being felt, and is the motivation for continuing reductions in personnel numbers.

7.22 As a generalisation, increases in Defence personnel costs must now be absorbed by the capped Defence budget. However, government accounting procedures provides some level of supplementation for Defence wages growth. In each annual outlays adjustment to the Defence budget, the government wages cost index is applied to the wages component of the budget to keep that portion of outlays at a constant level in real terms. In adjusting the 1996-97 Defence personnel outlays costs to keep the 1997-98 Budget equivalent in real terms, a wages cost index of around 1.5 per cent was applied to calculate the 1997-98 estimate. The effect of this mechanism is that additional funding need be found within the Defence outlays only for those increases in excess of the wage cost index. In practical terms, this means that the increasing pressure on Defence outlays arising from wages growth stems only from the amount by which Defence wages increase in real terms.

7.23 The problem for Defence is that wages costs *are* increasing in real terms. Based on the recent payrise granted to ADF members of six per cent, incremented in stages over 18 months, a recent approximation is that ADF (and soon Defence civilian) wages are increasing

38 'Pay Reforms' in *The Key*, Defence Personnel Executive Newsletter No 1, August 1997, p. 2.

39 From Dept. of Defence, Submission, p. S326.

40 Tonkin, Dept. of Defence, Transcript, p. 6.

by around four per cent per annum. A very rough approximation of dividing total defence salaries by the number of defence personnel (to obtain an approximate per capita wage) over the last 10 years shows that Defence wages have similarly increased by an average of four to five per cent per annum in recent history. This figure also accords with the Reserve Bank's most recent calculation of increase in average weekly ordinary time earnings (AWOTE) for public sector workers, of 4.1 per cent.⁴¹ When the subsidy of 1.5 per cent per annum provided to Defence outlays by means of the wage cost index from 1996-97 to 1997-98 is subtracted, this trend of salaries to increase at four per cent represents a 2.5 per cent rate of real growth in wages.

7.24 This rate of real wages growth is not constant, as the wage cost index will vary the amount of wages subsidy to Defence outlays from year to year. However, historical trends, and Reserve Bank wage growth guidance⁴² suggest that estimates based on a wage growth of around four per cent would be reasonable. Defence estimates that, based on 4 per cent wage growth, and even allowing a two per cent subsidy for wage cost indexing, the remaining two per cent real growth in wages will cost Defence Outlays an additional \$4 billion over the next 10 years, in present-year dollars.⁴³ For comparison, a 0.5 per cent decrease in the wage cost index (to 1.5 per cent) would cost closer to an additional \$5 billion over the same period. The Committee accepted this as an indication of the magnitude of the pressures on Defence funding from personnel cost pressures over the next decade.

ADF Personnel Numbers

*[T]here are limits to technology. Our capability will always depend on our people, and the ADF is already among the smallest forces in the region.*⁴⁴

7.25 The trend in Defence personnel numbers has been a continual decrease over at least the last ten years. This is shown in Table 7.2, which lists Defence personnel strengths as at 30 June of each year.

41 Henderson, Ian, 'Inflation, rates relax in wage comfort zone', *The Australian*, 6 March 1998, p. 2.

42 4 to 5 per cent, quoted in Dept. of Defence Submission, p. S328.

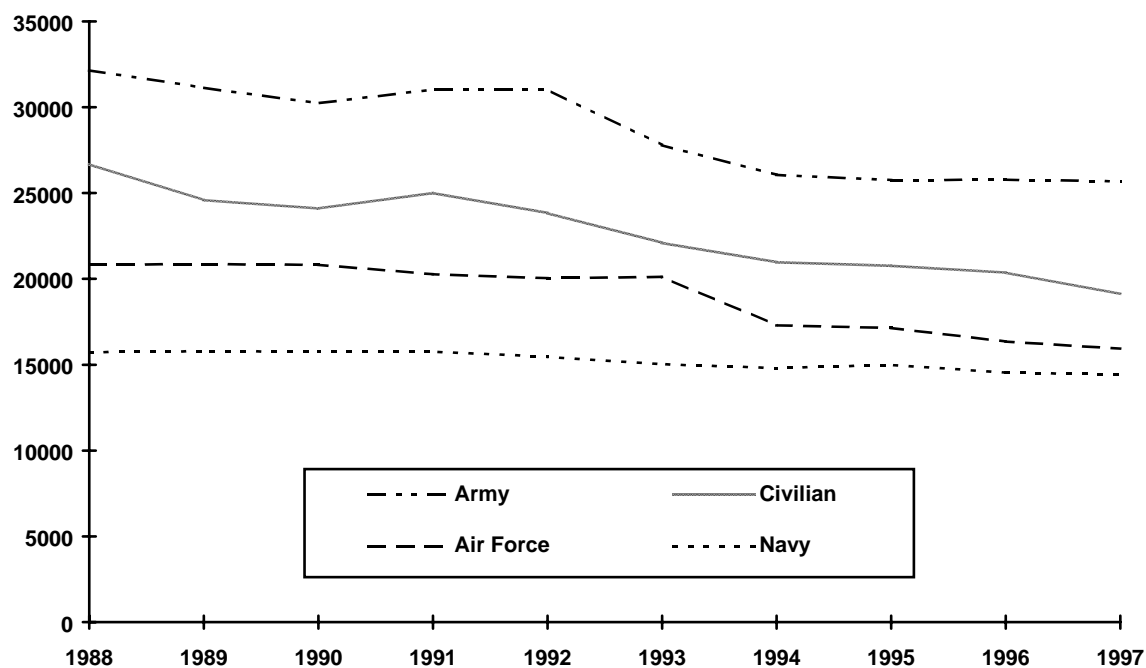
43 Tonkin, Dept. of Defence, Transcript, p. 256.

44 *Australia's Strategic Policy*, op. cit., p. 5.

Table 7.2 Defence Personnel Strength, 1988-1997⁴⁵

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Army	32152	31132	30228	31047	31020	27789	26068	25767	25781	25679
Civilian	26688	24591	24105	25006	23833	22105	20966	20767	20372	19115
Air Force	20846	20863	20826	20274	20042	20117	17284	17133	16352	15939
Navy	15728	15792	15769	15760	15463	15028	14806	14990	14531	14417
Total ADF	68726	67787	66823	67081	66525	62934	58158	57890	56664	56035
Total Defence	95414	92378	90928	92087	90358	85039	79124	78657	77036	75150

Personnel Numbers



7.26 The Committee chose to examine the numbers of personnel, which have endured the greatest impact from Defence efficiency initiatives. Were significant efficiencies able to be achieved continually without adverse effects on Defence capability, the issue of Defence numbers would be unlikely to merit scrutiny. However, the Committee was concerned by the warning of the strategic review, that 'we are approaching the point at which further cuts to the

45 Based on data provided in Dept. of Defence, Submission, pp. S329-S330.

size of the ADF would damage its credibility as a fighting force',⁴⁶ particularly in light of recent announcements that the number of full time personnel in the ADF will be reduced to 50,000 from its current level of around 56,000 over three years.

7.27 The logic for personnel reduction initiatives is clear. Many non-core support functions can be supplied more cheaply through commercialisation, and reliance on civilian outsourcing makes sound financial sense in a peacetime environment. Currently planned reductions within the ADF are directed toward support areas such as catering, stores and maintenance, allowing redirection of resources to expand the number of personnel in more combat-related roles. Automation and information technology have also allowed some capabilities to be achieved by fewer personnel, and examples of this can be found in the manning of Navy vessels. For example, the *Perth* class destroyers had a complement of around 310, while the *Anzac* class, which in part replace the capability provided by the *Perth* class, have a complement of around 160. Similarly, the *Oberon* class submarines, with their manning of around 64, are to be replaced by the *Collins* class, with their company of around 42.⁴⁷ These are welcome reductions, and the Committee notes that existing technologies should allow even greater reductions to manpower requirements on new naval platforms.

7.28 However, modern warfare requires human judgement in so many of its facets that defence forces will remain dependent on large numbers of highly trained personnel for the foreseeable future. Many Defence functions are unable to be automated or commercialised to a level which would be deemed acceptable to a private business, and the requirement for a Defence force to be able to operate in conflict situations invalidates the application of purely commercial logic to the structuring of a military force. The Committee was of the opinion that this efficiency process cannot continue indefinitely, for reasons relating to the necessity for support operations in conflict, and relating to the need for mobilisation.

7.29 An essential function of the ADF is to prosecute operations in time of conflict, where hazards may be extreme, and potentially life-threatening. Outsourcing contractors, whether offering logistics, maintenance, catering services or stores administration, are not paid to face, and should not be required to endure, the risks which ADF personnel may encounter in such a situation. Thus, continuation of that service in a situation of hostilities could not be guaranteed. With 'the best will in the world, commercial organisations will not deliver services with the same degree of reliability that Service organisations do'.⁴⁸ Reliance on the commercial sector for items that may be mission critical requires Defence to accept a degree of risk, and the further towards full commercialisation that the organisation goes, the greater those risks become.⁴⁹ So while services such as stores distribution might be performed much more economically by major logistics companies, there is recognition by Defence that such an arrangement would not work in a combat zone, and there will continue to be a requirement for those functions to be performed by uniformed Service personnel.⁵⁰

7.30 A second argument which cautions against personnel reductions beyond a given level relates to the ability of a military force to regenerate, or to expand, when mobilisation is required. The core of permanent ADF personnel will form the nucleus from which

46 *Australia's Strategic Policy*, op. cit., p. 50.

47 Defence Public Relations brochure: *The Royal Australian Navy*, 1995

48 White, Dept. of Defence, Transcript, p. 270.

49 *ibid.*

50 McCormack, Dept. of Defence, Transcript, p. 51

Australia's military forces must expand in time of future crisis. Any reduction in permanent defence force personnel reduces the capacity of the ADF to regenerate the force, and the Committee's current concern is that the critical mass of the ADF will be eroded beyond the capacity of the force to regenerate itself. One submission claimed that this point had already been reached, as current ADF personnel management practices attempt to ensure that there is no reserve of personnel in the force.⁵¹

7.31 Closely related to the overall capacity of the force to mobilise is the problem of the time required for that mobilisation. In the conflicts in which the ADF fought earlier this century, high levels of technical skills were not required of most individuals, and mobilisation could be achieved rapidly through short periods of intensive training. In contrast, the advanced technology employed by modern military forces dictates that military personnel require high levels of training to achieve the required levels of effectiveness. The time needed to achieve this level of training makes rapid expansion of core units progressively more difficult, particularly where warning time for a conflict, and the conflict itself, may be short. In such situations, the reserve capacity of the ADF will determine its effectiveness. The need for Australia to have an effective capability available at short notice militates against the reduction of military forces to a peacetime complement determined by requirements of commercial managerial efficiency.

7.32 One indication that the ADF is approaching its lower limit in personnel numbers was provided in evidence given by Army. The ratio of combat personnel to support personnel within the Army has risen to exceed 1:1, represented by 14,500 combat troops from a permanent force of 25,000. This ratio is high by international comparison with other modern military forces,⁵² and has been achieved through the increasing move towards civilianising non-essential military requirements. This figure also revealed that potential gains available through that civilianisation process had now largely been achieved.

7.33 At the same time, this cumulative reduction in the size of the Army has produced a force which would be unable to sustain three brigades in field operations for longer than three months without supplementation by reserve forces.⁵³ Even given substantial reliance on reserve forces to form the seven task forces envisaged by the *Army 21* concept, the Army would have only sufficient forces to secure the important strategic targets in northern Australia in a low intensity conflict.⁵⁴ By implication, current planning would see Army unable to secure those strategically vital areas against a more serious threat.

7.34 The Committee also noted examples within the other two Services where the current imperative toward manpower efficiencies will be hampered by the likely requirement for additional personnel in the near future, with the introduction into service of a number of new platforms and capabilities. For the Air Force, the most obvious example is the planned AEW&C capability. Although the Committee could not obtain a figure for the manpower requirement needed to support the new system, estimates range up to 500 personnel.

7.35 Similarly, pressures exist which will inhibit decreases in Navy manpower, due to the commissioning of several new vessels over the next few years. Examples are the

51 Australia Defence Association, Submission, p. S177.

52 Hartley, Dept. of Defence, Transcript, p. 31.

53 *ibid.*, p. 32.

54 *ibid.*, pp. 32-33.

impending introduction of an additional seven *Anzac* class Frigates; six new *Collins* class submarines, and six *Huon* class coastal minehunters. The need to furnish personnel for the amphibious assault ships HMAS *Kanimbla* and *Manoora* will further increase pressures on personnel numbers, particularly in view of the disproportionately high manpower required by the dated technology used in their construction. Some of this staffing requirement may be offset by the disposal of obsolescent vessels such as the two remaining *Oxley* class submarines, and the three *Perth* class destroyers to be phased out as these new vessels are brought into service. Even with these offsets, there would still seem to be a manpower deficit to be met in the introduction of these capabilities, which would seem likely to work against the personnel efficiencies intended by the DRP.

7.36 The Committee attempted to determine a minimum size for the ADF, but recognised that the number of personnel required would depend heavily on the specific scenario in which forces would be employed. For an unlikely role such as the defence of Australia against a major conventional attack, the ADF is already below an acceptable minimum in size. For more likely roles, the ADF is quickly approaching a stage where continuing manpower efficiencies are likely to impact adversely on its ability to effectively support Australia's interests. Defence argues that 'a defence force of between 50,000 and 52,000 is about as low as you would credibly want to go'.⁵⁵ The Minister for Defence reluctantly accepts a total of 50,000 personnel as undesirably low, but a number forced upon the Government by the current level of Defence funding.⁵⁶ Based on the evidence given in this inquiry, the Committee believes that current and recent efficiency initiatives collectively have eliminated the ability of Defence to achieve significant efficiencies subsequently through the reduction in personnel numbers. Further staffing reductions could only be achieved through the relinquishment of specific capabilities or at the expense of the effectiveness of individual force elements.

Reserves

7.37 The use of reserve forces is a means by which personnel numbers and capability levels can be maintained for a small fraction of the cost of full-time personnel. Reserve service is also a means for the cost-effective part-time or short-term employment of skilled non-military professionals, such as doctors and lawyers. Because of the potential for use of reservists to reduce personnel costs, reform programs, particularly within Army, place greater reliance on the use of reserve forces as a means of achieving substantial personnel efficiencies. This is one means by which pressures may be reduced on Defence outlays, while in theory maintaining capability levels. While considering personnel issues, the Committee examined the issue of reserves, to determine whether this was a reasonable strategy of reducing personnel costs.

7.38 There is a fundamental difference between the employment of reserves in the Army and in the Navy and Air Force. This difference in usage is reflected in comparison of program staffing levels. Reserve personnel comprise approximately 54 per cent of Army personnel, while the proportions for the Navy and Air Force are 10 and 16 per cent

55 Tonkin, Dept. of Defence, Transcript, p. 256.

56 Hon Ian McLachlan, Minister for Defence, in interview with Paul Lyneham, *Lateline*, Channel 9, Tuesday 9 December 1997: 'Am I convinced 50,000 people is enough? I would like to see more, but quite frankly, left with the deficit, we have a certain amount of money in the budget.'

respectively.⁵⁷ Because the combat structures of the Navy and Air Force are largely oriented toward operation of major equipment, reserves cannot be employed as widely as in the Army. The strategic review observes that 'full time service is increasingly necessary to develop and maintain the specialist skills needed to operate advanced systems'.⁵⁸ As a consequence, reserves in Air Force are primarily used to permit 'backfilling' of less highly-trained positions in time of crisis, freeing up trained personnel for combat duties. Reserves in the Navy are employed in more mainstream activities, but there is a focus towards employing reserves in tasks for which they are already at least partially trained (from civilian or previous Service employment). These are necessary stratagems, as the complexity of equipment in these two Services tends to require expensive full time training, which is neither practical, nor economically feasible for reserves.

7.39 The issue of reserve forces is arguably of most importance to Army. Land operations are heavily manpower intensive, and where the capabilities of the other two Services tend to be centred around items of major equipment, Army's capabilities are structured around personnel. The increased reliance on reserves is a fundamental element of the Restructuring the Army (RTA) initiative, and the strategic review states that use of part-time and full-time personnel in fully integrated task forces is 'a central part of our plan to restructure the Army'.⁵⁹ The report of the RTA study conceded that Army's 'Total Force' (integrated full-time and part-time elements) concept had, until that stage, 'proved difficult to turn into reality',⁶⁰ and there was no evidence available at the time of the inquiry of the level of success that recent initiatives have had in retaining reservists to the level envisaged in the RTA.⁶¹

7.40 One area where a degree of optimism was noted in planning for reserves was in a statement in the strategic review:

...reserve service can be a highly cost effective way of retaining access to skilled personnel who no longer wish to continue as part of the permanent force.⁶²

Although a useful tool in theory, this retention of skilled personnel in reserve service has to date proved problematic. Evidence given to the inquiry stated that Army has traditionally 'done very badly with retaining ex-regulars in the reserve', as regular soldiers who leave the Army 'by and large do not see reserve service as being particularly useful'.⁶³

7.41 The Committee noted that as the number of permanent Defence Force personnel decreases, use of reserves will become more critical to defence capabilities. However, there are a number of factors which diminish the appeal of reserve service to both ex-regular soldiers, and to civilians considering part-time military service. The Committee considered

57 Based on 1997-98 revised estimate, *Portfolio Additional Estimates Statement 1997-98 - Defence Portfolio*, op. cit., pp. 53 (Table 2.3), 61 (Table 3.3) and 71 (Table 4.3).

58 *Australia's Strategic Policy*, op. cit., p. 49.

59 *ibid.*

60 *Restructuring the Australian Army*, Directorate of Publishing and Visual Communications, February 1997, p. 52.

61 Hartley, Dept. of Defence, Transcript, p. 34.

62 *Australia's Strategic Policy*, loc. cit.

63 Hartley, Dept. of Defence, Transcript, p. 37.

that a review of legislation covering reserves and protection of their civilian employment conditions is needed.

7.42 Should initiatives to revitalise the reserves prove successful, there is a reasonable chance that the current undesirable hollowness in Army capabilities will be alleviated. If, however, readiness levels and retention of reserve forces cannot be significantly enhanced, the RTA program, and the creation of task forces, will amount to no more than a 'rearranging of the deckchairs' (although the occupants of those deckchairs may then be somewhat better equipped). In this case, the impact upon Defence funding levels will be severe. The rationale for an ADF of 50,000 personnel relies upon the success of the RTA. If the assumptions underlying the RTA prove unsound, the rectification required to restore a required level of Army effectiveness will have substantial cost impacts for the Defence budget. The Committee will carefully monitor the results of the ongoing RTA trials.