

Defence personnel – Niche skills and pay

- 7.1 The previous chapter considered efforts by Defence to obtain the best qualities and skills in its personnel by widening its access and appeal to women. This chapter considers further challenges facing Defence in its efforts to recruit and retain the best available candidates from the employment pool.
- 7.2 The *Defence Annual Report 2007-08 Volume 1*, reporting on the Australian Defence Force, stated a continuing emphasis on annual recruitment targets and the 'reduction of the ADF separation rate to below ten per cent', both of which were deemed necessary 'in order to meet ADF workforce capability requirements over the next decade and beyond'.¹
- 7.3 Reported were 'strong overall ADF recruitment' and a lower separation rate than 'the overall target'. However, this still presented 'a challenge in some employment categories': at that time a 'tight labour market continued to provide competition to recruit and retain people with sought-after professional, technical and trade skills'.²
- 7.4 Similar pressures were registered in the *Defence Annual Report 2007-08 Volume 2*, reporting on the Defence Materiel Organisation. This stated the organisation's objectives of 'professionalising, recognising the competencies of, and raising the skills of DMO people'. To achieve this continued efforts would be necessary to ensure a 'stronger focus on attracting, developing and retaining the critical skills that the DMO needs'.³

1 *Defence Annual Report 2007-08*, Vol.1, p.9.

2 *Defence Annual Report 2007-08*, Vol.1, p.9.

3 Department of Defence 2008, *Defence Annual Report 2007-08, Volume 2: Defence Materiel Organisation*, viewed 02/06/09 http://www.defence.gov.au/budget/07-08/dar/2007-2008_Defence_DAR_14_v2_full.pdf, p.9.

- 7.5 This chapter considers matters arising from these areas, particularly with regard to:
- efforts to attract candidates with the skills Defence needs; and
 - pay systems designed to reward training and skills, thus helping to attract and retain skilled and experienced personnel.
- 7.6 Both of these form key aspects of Defence's endeavour to develop a sufficient and sustainable cohort of skilled personnel, capable of satisfying the increasingly technical requirements of modern defence forces. The Committee regards this as a key element in Defence's overall endeavour to provide the best possible Defence of Australia.

Niche skill areas

Introduction

- 7.7 The RAN, and skilled trades across all three arms of the ADF, are among those areas experiencing significant difficulties in this regard:
- ... within each Service skilled personnel (like technicians and trades people) are particularly hard to recruit. This no doubt reflects the very buoyant labour market and the national skilled labour shortage that Australia is experiencing. As the data shows, Navy has the most serious problem at the moment.⁴

Public hearings

- 7.8 The Committee engaged Defence on skills shortages in the ADF, asking Defence to nominate in which categories skills shortages were 'most severe'.⁵
- 7.9 In response, Defence advised that there were security limitations on what it could provide, but that there were 22 nominated categories across the ADF where skills shortages were most pronounced. Most seriously affected was the RAN, followed by Army and then the RAAF:
- ... we have 22 categories that we are focused on in the Navy, 13 in the Army, and one in the Air Force... The most prominent

4 Thomson, Mark, *Cost of Defence 2008-2009*, p.42.

5 *Transcript*, Thursday 16 April 2009, p.59.

examples relate to engineering skills, submarine service, aviation, technical and medical.⁶

- 7.10 Defence advised the Committee that such shortages present special challenges, in that they take quite some time to resolve:

We track all of the critical trades pretty much all the time, but each six months we do a full reassessment of their status and their likely remediation over the next two to three years out to a decade.⁷

- 7.11 For those it is unable to recruit, it takes time to train personnel to perform these skilled tasks:

...we struggle to recruit people into some of these trade groups [but] we also have a problem around the throughput of the training system within the service in respect of that ...⁸

- 7.12 In response, Defence told the Committee, deliberate strategies have been adopted to increase Defence's ability to train personnel, such as the 'Plan Train initiative in the Navy', which 'are having a direct impact'. It involves work to 'increase the capacity of the training pipeline to remediate particular trade groups'. In the face of a common problem, this 'sort of thinking is occurring across all the services'.⁹

- 7.13 However Defence also emphasised in its advice to the Committee that recruitment is only one part of a picture on skills. Another important component is retention.

- 7.14 On this, Defence advised that while on the face of it an organisation might seem to want to retain as many of its personnel as possible, in fact the best settings involve a balance between retention and renewal:

I will just make a point on separation rates. A certain level of separation rate is healthy for the organisation to allow that turnover to happen. About 10 per cent is a good figure as a rule of thumb.¹⁰

- 7.15 But actual separation rates are 'influenced by the skills that a person needs'. In other words, the best rates of separation vary according to whether personnel have higher or lower skill levels:

6 Mr Minns, *Transcript*, Thursday 16 April 2009, p.59.

7 Mr Minns, *Transcript*, Thursday 16 April 2009, p.59.

8 Mr Minns, *Transcript*, Thursday 16 April 2009, p.59.

9 Mr Minns, *Transcript*, Thursday 16 April 2009, p.59.

10 Air Commodore Needham, *Transcript*, Thursday 16 April 2009, p.60.

Generally speaking, the higher the skill, the lower will be the retention because obviously there is a training lead time to replace people. But with lower skilled people, a greater separation rate is probably healthier for us.¹¹

- 7.16 One initiative of Defence creates new options for training available to personnel who had been in the ADF for a longer period, who may otherwise have chosen to leave:

One of the great initiatives that we have had, which is helping recruiting at the present time, is that we have a program in the Army called *Stay Army*. People say, 'Look, I have been at this for 10 years as an infantryman and I've done enough overseas and all the rest of it, and my family and I want something different.' We are saying to them: 'Well, why don't you do something different in the Army? You don't have to get out to do something different. There are other trades.'¹²

- 7.17 Defence reported a high level of success with this kind of approach:

We are finding a really strong response to this. What we have is a lot of internal movement now. We are able to coax some of these people who have a proven track record, who are well trained, who have supervisory and leadership skills, et cetera, to transfer to some of those critical trades and to undertake training and then give us another 10 years in that sort of area.¹³

- 7.18 This, Defence told the Committee, is one of a 'a basket of ... initiatives' with a similar purpose, including the two-year enlistment initiatives, designed to increase intakes, and reduce loss, of high quality personnel.¹⁴

11 Air Commodore Needham, *Transcript*, Thursday 16 April 2009, p.60.

12 Mr Gillis, *Transcript*, Thursday 16 April 2009, p.75.

13 Mr Gillis, *Transcript*, Thursday 16 April 2009, p.75.

14 Mr Gillis, *Transcript*, Thursday 16 April 2009, p.75.

Services pay

Graded Other Ranks Pay Structure

Introduction

- 7.19 Where service personnel have completed training modules they are eligible for increases in pay. Hitherto these have been paid as allowances, but under the Graded Other Ranks Pay Structure initiative (GORPS), these pay increases have been rolled into a single determination by the Defence Force Remuneration Tribunal, to make them an integral part of pay.¹⁵ This has the effect of making them superannuable.¹⁶
- 7.20 GORPS is the counterpart of the GOPS (Graded Officer Pay Structure) initiative.¹⁷ Both are intended to enhance Defence's ability to attract and retain skilled personnel, and to rationalise incentive payments intended to achieve that effect.
- 7.21 In the Committee's view GORPS is integral to Defence's overall effort to hire the best talent so that it can employ a suitably skilled workforce.

Public hearings

Purpose

- 7.22 Defence told the Committee that the purpose of GORPS was to:
- ...put in place a simplified pay structure that will endure for a number of years, that will facilitate increased differentials for people in terms of pay on promotion and that will increase differentials for people who up-skill within their trade or category.¹⁸

15 Senate FAD&T Estimates, *Transcript*, 25 February 2009, p.8.

16 Senate FAD&T Estimates, *Transcript*, 25 February 2009, p.20.

17 *Defence Force Remuneration Tribunal Twenty-second Report 2006 – 2007*, viewed 03/06/09, http://www.dfrt.gov.au/About/AnnualReports/PDF_Version/DFRT%20Annual%20Report%202006-2007.pdf, p.6. See also *Defence Force Remuneration Tribunal Twenty-third Report 2007 – 2008*, viewed 03/06/09, http://www.dfrt.gov.au/About/AnnualReports/PDF_Version/Annual%20Report%202007%20-%202008%20Sept%2008.pdf, pp.6-17.

18 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.60.

- 7.23 The main effect of these changes was that ‘compared to the previous pay structures, there is now a greater reward for up-skilling and promotion’.¹⁹
- 7.24 Defence told the Committee that there were other benefits to the implementation of GORPS. Some of these were administrative, while others were a direct benefit to Defence personnel: as indicated above, this made allowances superannuable.²⁰ Defence told the Committee that GORPS enabled ‘the roll-in of some of the bigger allowances that we used to call environmental allowances, which are the flying allowance, the submarine service allowance, the special action forces allowance and the special operations allowance’.²¹
- 7.25 Defence told the Committee that this was designed to resolve some outstanding problems with pay structures:
- The previous pay structure could not really accommodate the rolling in of those allowances. To roll them in, what we had to do was add a whole bunch of extra pay grades onto the old pay structure, and it ended up with 16 pay grades. It was not very coherent, so we have taken the opportunity to restructure around the new rates of pay, which are in effect, with the allowances being rolled in.²²
- 7.26 A third intended benefit of GORPS was, Defence told the Committee, a greater flexibility with regard to pay settings: that is, Defence could use:
- ... the pay structure in a flexible way through the Defence Force Remuneration Tribunal as we look at the various trades and categories within the ADF in terms of being able to match market forces in the pay that we offer to our ADF people.²³

History

- 7.27 Defence told the Committee that this was part of a broader initiative that had begun some years previously:
- Fundamentally, it is the last part of the remuneration reform project which flowed from the Nunn review of 2001, which was a review into the pay and conditions of the ADF.²⁴

19 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.60.

20 Senate FAD&T Estimates, *Transcript*, 25 February 2009, p.20.

21 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.60.

22 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.60.

23 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.60.

24 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.60.

7.28 This Remuneration Reform Project ‘was pursued in four stages over a number of years’, the result of recommendations by the Nunn review:

... that said that we should seek to simplify our pay structures and we should seek to roll allowances into pay when that is sensible. So GORPS is the culmination of that four-phase project... The other impetus came from the DFRT [Defence Force Remuneration Tribunal] itself in around the end of 2006 early 2007.²⁵

7.29 Defence told the Committee that a further context for GORPS was that:

...in December 2006 the then government agreed to a range of recruiting and retention measures, ... a range of bonuses that were seen as short-term bonuses necessary to encourage certain people to stay with the ADF in what was a time of high separation, and recognised the need to at least go some way to matching pay to those bonuses, which also drove the need for a reformed pay structure.²⁶

Scope

7.30 The implementation of this system is a task of some size. Defence told the Committee that migration to GORPS involved ‘the replacement of approximately 37,000 regular members of the other ranks and a significant number of Reservists ... into the new structure’.²⁷

7.31 For each arm of the services, implementation was devolved to the individual service, Army, the Navy or Air Force, who were ‘responsible for deciding which category each of the people needed to be placed in, in line with the decisions of the DFRT’.²⁸

7.32 Other parts of the Defence establishment were responsible for components of the project, including: the Chief Information Officer Group, for ‘adjusting our pay computer systems’; Defence Support Group, for ‘managing the implementation and rollout of the new placements into the computer systems and into effect in terms of pay’; and the Personnel Strategies and Policy Group, ‘for the DFRT case’.²⁹

25 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.61.

26 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.61.

27 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.61.

28 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.61.

29 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.61.

Results

7.33 Defence told the Committee that implementation thus far had proceeded according to plan. At the time of the hearings, the RAN had implemented the new system and Defence considered that this had proceeded 'very smoothly'.³⁰ Implementation for the RAAF was in prospect:

All of the Air Force other ranks have been mapped into the new structure and the data starts to be loaded into the HR and pay computers next week.³¹

7.34 This was, Defence told the Committee, subject to 'a structured process that sees the data being put into the computers, checked, fixed where necessary and then the pay calculations run'.³²

7.35 Implementation by Army formed the next phase of implementation. Defence advised the Committee that overall progress was going well, and that 'lessons learned' would be applied to the parts of the project yet to be implemented in full:

The Army is due for a payday in the middle of June and then we will do the Reservists, which is currently planned for August. Clearly we are learning lessons that we find from the Navy implementation and we are feeding those into the subsequent Air Force and Army implementations.³³

7.36 On the question of errors and anomalies, Defence advised the Committee that it was not anticipating a high number of errors as a result of adopting the system. However that:

... is not to say that there will not be the odd error in there somewhere. We are adjusting the pay of 37,000 people, so it will be pretty unlikely that no errors will occur. But if they do, there are people who are skilled and available to get the errors fixed up quickly.³⁴

30 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.62.

31 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.62.

32 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.61.

33 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.61.

34 Mr Grzeskowiak, *Transcript*, Thursday 16 April 2009, p.62.

Special Operations pay anomalies

Introduction

- 7.37 Senate Estimates of October 2008 saw discussion of anomalies in the pay of Defence Force personnel, particularly in Special Operations. Senate Estimates in February 2009 saw further inquiries into this matter.³⁵
- 7.38 In the event, however, some service personnel were eligible for these increased rates of pay, by virtue of having completed training modules, and some were not. The issue came to be a matter of discussion in Senate Estimates with claims that Defence had sought to recover these overpayments. It was alleged that some of the personnel involved were serving in Afghanistan at the time, and this was seen as a significant potential problem for morale.³⁶
- 7.39 Subsequent to the original emergence of this issue in Senate Estimates, a KPMG audit report was commissioned by the Minister of Defence, to inquire into anomalies in Special Forces pays. KPMG's report of 31 March 2009 found that contributing factors included:
- a 'complex and detailed Determination process';
 - a 'complex pay and allowance structure';
 - 'ageing systems';³⁷ and
 - 'a change management and accountability environment which is complex and at times lacking in end to end control'.³⁸
- 7.40 The report suggested that these were symptomatic of deeper systemic issues, particularly undue complexity and a lack of sufficient command and control for the administration of Defence pays.³⁹
- 7.41 In response the report recommended the adoption of a 'remuneration strategy' to create simpler and more purposeful business processes and

35 Senate Standing Committee on Foreign Affairs, Defence and Trade, *Estimates (Additional Budget Estimates)*, Wednesday, 25 February 2009, Canberra, <http://www.aph.gov.au/hansard/senate/commtee/S11649.pdf>

36 Senate Standing Committee on Foreign Affairs, Defence and Trade, *Estimates (Supplementary Budget Estimates)*, Wednesday, 22 October 2008, pp. 14-15, 59-60.

37 KPMG 2009, *Independent Audit of the implementation of Defence Force Remuneration Tribunal (DFRT) Determinations for Special Forces Pay*, Department of Defence, viewed 19/05/09 <http://defence.gov.au/publications/kpmgDefenceSpecialForces.pdf>, p.28.

38 KPMG 2009, *Independent Audit*, unpaginated cover letter to Report.

39 KPMG 2009, *Independent Audit*, p.27.

systems (over 3-5 years), and a Control Framework to establish clear lines of accountability (over 12 months).⁴⁰

- 7.42 Proposed longer term goals were to align Defence remuneration policy to the objectives of delivering 'an effective workforce', implementing 'IT and process reform' and implementing an effective 'control and accountability model'.⁴¹

Public hearings

- 7.43 When asked why it takes so long for pay decisions to translate to member's pay accounts⁴² Defence gave the following answer:

This goes to the whole issue of the reform program: the inefficiencies within Defence, the poor processes that we have in Defence in many areas, the poor systems that we have in other areas and the need for there to be a holistic process of reform. One of the issues we had most recently, of course, was the SAS pay debacle, where a number of factors were in play: the lack of specific and clear individual accountabilities, the lack of good process and the fact that there are IT systems in respect of pay and HR which do not talk to each other and are old, inefficient and in some respects even 'handraulic'.

All those questions and problems led to the SAS pay problems and to the other pay problems that you are referring to. What we are doing now – since the reform program has been agreed and since we have been through this problem with special forces pay – is to go to government with a program that will knit together our various processes, update our ICT systems, create a shared services approach to payroll and to payroll reform and give us much clearer individual accountabilities.⁴³

- 7.44 Defence were also asked whether they would be pursuing off-the-shelf solutions for a new pay system and gave the following answer:

... I hope that we do not get a system designed specifically, because I think there are some very great risks in doing that. As you said, I hope we can actually get an off-the-shelf system that will suit our processes. Bear this in mind. It is not just the ICT

40 KPMG 2009, *Independent Audit*, pp.8, 29.

41 KPMG 2009, *Independent Audit*, cover letter to Report.

42 The Hon Arch Bevis MP, *Transcript 19 June 2009*, p.22.

43 Mr Warner, *Transcript 19 June 2009*, p.22.

systems that are broken. It is more than that that led to the SAS problems. But we have three relevant pay systems here. We have ADF pay, we have CENRES, which does Reserve pay, and we have Def pay. CENRES is MS-DOS. This is as old as it gets in ICT systems. The other two systems do not talk to each other.⁴⁴

Committee conclusion

- 7.45 The Committee welcomes the move by Defence to adopt a more flexible pay structure so that it is better placed to attract, retain and develop skilled personnel. The Committee is particularly mindful that modern Defence Forces require high skills in their personnel as a result of changing military technology and tasks in modern war fighting.
- 7.46 In practice, some risks in the implementation of these new pay systems were not sufficiently anticipated. Checks or audits of the training achievements of Defence personnel, such as those employed in Special Forces, could have been performed before the implementation of GORPS rather than after.
- 7.47 The Committee will be looking for early evidence that Defence is implementing a solution to the difficulties that it, and KPMG, has identified with these pay systems.
- 7.48 Defence is clearly attempting to engage the Australian employment pool in new and innovative ways. This should be encouraged. That Defence is prepared to implement creative solutions to the staffing challenges it has experienced over the years is a promising sign for Australia's future Defence capability.

Recommendation 3

The Committee recommends that Defence places a high priority on developing a solution to the difficulties that it, and KPMG, has identified with the current pay systems.

44 Mr Warner, *Transcript 19 June 2009*, p23.

