Recruitment and Retention of Specialist Skills for Navy

Department of Defence

Australian National Audit Office

Canberra ACT
18 December 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Defence titled *Recruitment and Retention of Specialist Skills for Navy.* The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
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Abbreviations

ADF	Australian Defence Force
ANAO	Australian National Audit Office
ATR	Advanced Training Requirement
CFTS	Continuous Full-time Service
CNSAC	Chief of Navy Senior Advisory Committee
COSC	Chiefs of Service Committee
DMO	Defence Materiel Organisation
IMPS	Initial Minimum Period of Service
MT2010	Marine Technician 2010 Category Career Continuum
PCM	Personnel Contingency Margin

Summary and Recommendations

Summary

Introduction

1.   The Royal Australian Navy (Navy) is the maritime arm of the Australian Defence Force (ADF), and its total budget for 2014–15 is $4.79 billion, which includes $1.86 billion in employee expenses.[1] The effective delivery of Navy capability depends on Navy having available sufficient numbers of skilled personnel to operate and maintain its fleet of sea vessels and aircraft[2], and conduct wide-ranging operations in dispersed locations. Without the right personnel, Navy capability is reduced.

2.   To generate its workforce Navy generally adheres to the traditional 'raise, train, sustain' principle, which describes the broader ADF's preference to grow its workforce from the ground up. Over 85 per cent of Navy's recruits are *ab initio*, meaning that they do not have any prior military experience. Navy educates, trains and prepares these recruits for military service and their chosen naval job. These recruits may then be promoted through the ranks in accordance with their qualifications and experience. It can take many years for recruits to be fully competent and highly skilled in performing complex managerial and technical roles.

3.   Navy's workforce consists of its Trained Force and Training Force. As at 30 June 2014, Navy had 11 415 members in its Trained Force[3] and 2741 members in its Training Force. The Trained Force comprises 60 distinct employment groups or 'categories', which include engineers, technicians, warfare sailors and officers, medical personnel, divers, pilots and others.[4]

4.   In June 2014, Navy was short 201 trained personnel, or 1.7 per cent of its required workforce. While this overall figure is relatively low, there can be

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1   Australian Government, *Portfolio Budget Statements 2014–15*, Budget Related Paper No.1.4A, Defence Portfolio, pp. 28 and 33. Navy's employee expenses include the cost of both Service and civilian employees.

2   Navy personnel are assisted in maintaining Navy's sea vessels and aircraft by contractors and personnel employed in the Defence Material Organisation's System Program Offices.

3   Of the 11 415 fully trained members, 11 020 were members of the Permanent Navy and 395 were members of the Navy Reserve working full-time for Navy. Unless otherwise noted, Trained Force numbers used throughout this report include members of the Navy Reserve working full-time for Navy.

4   Navy refers to an officer's field of employment as their primary qualification and a sailor's field of employment as their employment category. For ease of reading, this report uses the term 'category' for both an officer's primary qualification and a sailor's employment category.

significant variability in the case of specific employment categories and ranks. Navy has an oversupply of personnel in some employment categories and at certain ranks within categories, and significant shortfalls in others. For example, as at 30 June 2014, the marine technician[5] employment category had a workforce shortfall of 23.5 per cent and the medical officer category had a workforce shortfall of 29 per cent. Defence classified these categories as 'critical'.[6] Some of Navy's critical employment categories, particularly technical sailor, engineering and medical officer categories, have experienced sustained workforce shortfalls for over a decade.

5.   Forty per cent of Navy's Trained Force positions are sea-based, and at 30 June 2014, 32 per cent of Navy's Trained Force was at sea. The remaining positions are shore-based and provide members with respite from sea service, as well as enabling them to undertake advanced training, and to continue to work within Navy when injured, unfit or unable to go to sea. The recruitment and retention of personnel can impact directly on Navy's ability to offer its members respite from sea service, an issue of particular importance during periods of high operational tempo.[7]

6.   Navy's workforce planning is primarily managed by the Navy People Branch. This branch is responsible for identifying Navy's workforce requirements, developing Navy's personnel policy, managing its employment categories, posting individual members to positions, and assisting individual members with managing their careers.

Audit objective and scope

7.   The audit objective was to examine the effectiveness of Navy's strategy for recruiting and retaining personnel with specialist skills. In particular, the ANAO assessed whether:

- this strategy supported Navy in maintaining and building military capability and carrying out its mission; and

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5   Marine technicians perform tasks ranging from operating, maintaining and repairing a ship's machinery and systems to welding a ship's hull and fittings.

6   Employment categories throughout the ADF that are experiencing significant workforce shortages are collectively referred to by Defence as 'critical categories'. According to the ADF's definition of a critical employment category, continuing to operate with such shortfalls limits the range of strategic and operational options available to Navy to achieve its mission.

7   Over the past decade, Navy has been subject to a high operational tempo.

- the plans and activities underpinning this strategy were effectively administered and implemented.

8.   The high level criteria developed to assist in evaluating Navy's performance were:

- Navy has conducted adequate workforce planning to identify personnel requirements including numbers and skills required to maintain and build military capability.

- Navy has suitable plans, policies and procedures in place to support its recruitment and retention of personnel with specialist skills.

- Navy has identified shortfalls in personnel with specialist skills, giving particular regard to Navy's future capability, and is addressing these shortfalls.

- Navy's recruitment and retention activities are supported by expert advice, research and analysis, legislative and procedural guidance, and training for staff involved.

- Navy monitors and evaluates the outcomes and cost effectiveness of its recruitment and retention strategies, policies and activities.

9.   The audit included four employment category case studies: marine technicians; electronics technicians; aerospace engineering officers; and medical officers. As part of audit fieldwork, the ANAO interviewed personnel from the four selected employment categories to understand the issues affecting their employment within Navy.

Overall conclusion

10.   An effective workforce strategy involves aligning an organisation's workforce with its current and future goals, taking into account its operating environment. To develop such a strategy, an organisation needs to identify its workforce requirements, and any gap between the workforce it has and the workforce it needs, and design initiatives to address this gap. After implementing these initiatives, it is important for an organisation to evaluate their impact, to help refine its overall workforce strategy and specific initiatives. A central consideration throughout this planning process is how best to attract skilled personnel and encourage them to stay; through remuneration, conditions of employment, providing interesting work, opportunities for promotion and growth, and a good working environment.

For Navy, its workforce strategy and related initiatives must support the delivery of current and planned Navy capability in the context of an evolving labour market[8], while it continues to carry out tasks directed by the government of the day.

11.   In its strategic planning, Navy has identified its key workforce risks and their implications for Navy capability. To address these risks Navy continues to adhere to its traditional 'raise, train and sustain' workforce strategy; has developed a broad range of workforce initiatives that complement its core approach; and is seeking to establish contemporary workforce management practices. However, long-standing personnel shortfalls in a number of 'critical' employment categories have persisted, and Navy has largely relied on retention bonuses as a short to medium-term retention strategy.

12.   The number of Navy employment categories assessed[9] by Defence as 'critical' has reduced from 23 in 2007 to 13 in 2014. Despite the overall reduction in the number of Navy critical employment categories, three of the remaining 13 critical categories have been critical for 15 years and Navy does not expect seven of these categories to recover within the next 10 years, including technical sailor, submariner and medical employment categories. The marine technician workforce is Navy's largest employment category, possessing skills essential for operating Navy ships and submarines. This category continues to experience complex workforce issues that are difficult to remediate. Navy had a shortfall of some 461 marine technician sailors and submariners in June 2014, which was 26 per cent fewer than needed. While such workforce shortfalls may be manageable in the normal course of events, they expose Navy to significant risk in the event of unforseen or particularly heavy operational demands. The complex workforce issues include constraints affecting the timely transition of recruits to the Trained Force; a lack of meaningful shore-based jobs caused, in part, by the outsourcing of maintenance work to the private sector; and low levels of respite for personnel

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8   Navy advised that the competitive employment environment during the recent Australian mining boom created recruitment challenges, while the post-boom environment offered some opportunities.

9   The Navy People Branch identifies the number of personnel Navy needs across 60 employment categories, and at each rank within these categories. This process aims to provide for the crewing of platforms to meet operational requirements, as well as individual career advancement and shore respite. The branch also assesses the status and sustainability of employment categories by taking into account the gap between workforce demand and supply, and other quantitative and subjective assessments.

from ship-based duties. As a result of these issues many marine technicians leave the Navy earlier in their career than Navy would like.[10]

13. Navy's principal workforce strategy is to 'raise, train and sustain' its workforce. This traditional strategy allows Navy to select from a large recruiting pool; develop a workforce with the skills it needs; and significantly, to fit its culture and often demanding operational environment. However, reliance on this strategy presents risks to the extent that trained personnel leave Navy early in their career[11], and it limits Navy's ability to quickly and flexibly respond to workforce shortfalls and changes in the wider labour market. In response to these risks, Navy's strategic-level plans emphasise the need for Navy to increase workplace diversity and flexibility. This emphasis responds to the changing demographics and work preferences of the Australian population.

14. Navy has developed a broad range of workforce initiatives, some designed specifically to address workforce shortages in its critical employment categories. However, Navy's record in following through to effectively implement these initiatives is variable. To date, Navy has primarily relied on initiatives that complement its 'raise, train and sustain' strategy, including: paying retention bonuses and other financial incentives; recruiting personnel with prior military experience to work in employment categories with significant workforce shortfalls[12]; and using Navy Reserves in continuous full time roles. Ongoing work is required for Navy to firmly establish a range of promising workforce management practices, including: providing the right training at the right time; more flexible approaches to managing individuals' careers; more challenging work; a more flexible reward system; improving access to more flexible working arrangements; using civilian qualified personnel in the right roles; and improving workplace culture, leadership and

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10   Navy reported to the Chief of Navy Senior Advisory Committee in July 2014 that 'generational factors and the national economy, in particular the demand for [a] technically skilled workforce, have reduced our ability to retain the workforce, most noticeably in technical trades where we have not met the workplace expectations of our people.' Brief to Chief of Navy Senior Advisory Committee, 24 July 2014, p. 5.

11   Many sailors leave Navy at the end of their Initial Minimum Period of Service, which is between four and six years. The point at which this period of service ends represents Navy's lowest return for the training invested in a qualified sailor. From that point on, the ratio of operational service to training generally improves, as do a number of other positive factors such as experience, productivity and the ability to train and mentor others.

12   Since 2009, some 15 per cent of Navy's annual intake of recruits was recruited laterally and these recruits were employed at a rank commensurate with their qualifications and experience.

relationships. This work is challenging, particularly when there is a high operational tempo, and changes to more traditional approaches can take time to bed-down and find acceptance. However, more flexible and tailored workforce management practices can help address the underlying causes of workforce shortfalls, particularly when the traditional approaches are not gaining sufficient traction.

15. Navy has recognised shortcomings in its approach to managing employment categories with significant workforce shortfalls. In 2013, Navy started developing workforce management plans for each employment category and providing human resource training for staff within Navy People Branch so that they have appropriate human resource management skills and competencies for the work they undertake.[13] Consistent with this approach Navy should draw on external human resource professionals to help validate and confirm its thinking on its revised Workforce Plan due to be completed in 2015. Strengthened planning would also assist Navy to implement, monitor and evaluate workforce initiatives in a timely manner. Navy has not systematically assessed the impact of recruitment and retention initiatives to help shape its overall workforce strategy and improve the design of initiatives. Of particular note, Navy has not formally evaluated the impact of its retention bonuses despite making over 22 000 payments totalling some $311 million in the past decade.

16. In the period ahead, Navy will put several major new platforms into operation, including the Landing Helicopter Dock ships, Hobart-class Guided Missile Destroyers and helicopter fleets, which will require a sufficient number of personnel, often with new skills. To more effectively manage known risks relating to current capability, and risks in delivering planned capability, Navy should build on the progress it has made to date, with particular emphasis on the benefits offered by more contemporary workforce management strategies. Further progress will rely on active management by the Navy's senior leadership. The ANAO has made two recommendations aimed at Navy: drawing on external human resource expertise to inform the development and implementation of its revised Workforce Plan; and evaluating the impact of retention bonuses on the Navy workforce to determine their future role within its overall workforce strategy.

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13   The 2009 Strategic Review of Naval Engineering highlighted that Navy needs qualified and experienced human resource practitioners (see paragraph 25).

Key findings by chapter

Recruitment and Retention Strategies and Performance (Chapter 2)

17.   Two major reviews that have considered the causes and impact of workforce shortfalls in the key areas of engineering and technical sailor skills are the 2009 Strategic Review of Naval Engineering, and the 2011 *Plan to Reform Support Ship Repair and Management Practices.*[14] These reviews identified a number of issues affecting Navy's engineering and technical workforce, including a 'hollowed-out' Navy engineering function; a culture that placed short-term operational missions above meeting asset engineering and maintenance standards; poor career management, job satisfaction and morale amongst technical sailors; and lack of respite from ship-based duties. To address these issues, the reviews made a number of recommendations and suggestions, including establishing an effective workforce planning system to ensure personnel have the appropriate skills, and providing more meaningful work for technical sailors.

18.   ADF-wide and Navy strategies for recruitment and retention identify a number of common risks and propose similar potential solutions to address these risks, including broadening Navy's recruitment intake and increasing diversity and flexibility in Navy's workforce. The Navy Strategy 2012–17 sets out where Navy wants to be in 2017, how it plans to get there and the risks it will face along the way. The strategy identifies five enterprise risks including the 'failure to attract, retain and generate a capable and integrated Navy workforce'. As such, Navy clearly identifies recruitment, retention and training as central to its ability to fulfil its obligations. The Navy Strategy lists 26 tasks[15] aimed at addressing its workforce enterprise risk. Most of these tasks were due to be completed by August 2013, however only two of the 26 tasks were completed by this date, and ongoing activities are now being monitored through other arrangements. In addition to the Navy Strategy, Navy's Workforce Plan 2007–17 is Navy's key planning guidance for workforce management. It was released in February 2008 and a revised version is under

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14   In February 2011, following the unavailability of Navy's amphibious fleet in response to Cyclone Yasi, the then Government appointed an independent panel headed by Mr Paul Rizzo to develop a plan to reform Navy's ship repair and maintenance practices. The report was released in July 2011.

15   Specific tasks included lateral recruitment of personnel with prior military experience, mid-career entry for experienced recruits with no prior military experience, payment of retention bonuses to marine technicians, and providing more flexible work arrangements.

development. Navy continues to face challenging workforce shortfalls and delays in promulgating a new workforce plan have meant that it has lacked an up-to-date edition of its primary workforce planning guidance.

19. Responsibility for implementing Navy's recruitment strategies is shared between Defence Force Recruiting[16] and Navy. Defence Force Recruiting manages the recruitment of *ab initio* recruits on behalf of the Services. Candidates are assessed by Defence Force Recruiting based on standards set by the Services for each job, with the final decision to enlist a candidate made by a uniformed Defence Force Recruiting staff member, or an Officer Selection Board composed of officers of the relevant Service. Navy sets *ab initio* recruitment targets for Defence Force Recruiting, and in the period following the Global Financial Crisis in 2008, Defence Force Recruiting has achieved close to 90 per cent of these targets. However, the most common time that recruits leave the Navy is within their first 90 days of service, and taking these separations into account, recruiting achievement dropped by an average of 8.5 per cent between 2008–09 and 2013–14. While recognising that military life is demanding and not for everyone, and that a proportion of recruits will decide to separate prior to the 90 day point, Defence could strengthen its analysis of the profile of personnel that leave Navy shortly after commencing service and the reasons they cite for departing. Analysis of this type could usefully inform a review of upstream recruitment and assessment processes, as a first step in minimising downstream losses shortly after personnel have been recruited.

20. Navy's separation rates have generally improved over the last several years. The June 2014 overall separation rate of 8.4 per cent compared to a peak of 12.3 per cent in mid-2007. Despite this overall improvement certain employment categories and ranks still have high separation rates. For example, in June 2014 the separation rate for submariners was 17.3 per cent and the separation rates for middle sailor ranks, particularly Leading Seaman and Petty Officers, were higher than for other sailor and officer ranks. Further, following their first 90 days of service the next most common time for sailors to leave Navy is at the end of their Initial Minimum Period of Service, at which point they are relatively junior sailors. As a result of these factors, workforce pressures and shortfalls accrue within some of Navy's critical employment categories at the supervisor level (Leading Seaman to Chief Petty Officer ranks).

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16   Defence Force Recruiting is a collaborative organisation made up of Defence and Manpower Services (Australia) personnel.

21.   Broadening Navy's recruitment intake to include personnel with prior military and civilian experience has the potential to assist Navy address workforce shortages at supervisory ranks for officers and sailors. Navy has made good progress in implementing its Lateral Recruitment Program, which is intended to recruit personnel with prior military experience, and the skills and experience to work in employment categories with significant workforce shortfalls. During 2013–14, 13 per cent of Navy's total recruits were laterally recruited including personnel: returning to Navy; transferring from the Navy Reserve or other Services; and personnel with prior foreign military service. However, Navy has been slow to progress its Mid-Career Entry Scheme. This scheme is designed to employ *ab initio* recruits who previously worked in civilian jobs, at a rank commensurate with their qualifications and experience, in shore-based positions.[17] As at October 2014, Navy reported that only three sailors had been recruited through the scheme.

22.   In recent years, Navy have pursued a number of initiatives aimed at increasing workforce diversity and flexibility, including increasing female participation and work-life balance. As at June 2014, the female participation rate for the Permanent Navy was 18.6 per cent and varied within employment categories from less than 10 per cent to greater than 50 per cent.[18] Increasing female participation may create challenges for Navy if women are more likely to be unavailable for sea positions and deployments. As at June 2014, 26 per cent of women in Navy were classified as non-deployable compared to 12 per cent of men. In relation to work-life balance, a 2014 survey found that more Navy personnel were accessing both formal and informal flexible work arrangements compared with the previous year, however, their satisfaction with work-life balance remained below 50 per cent. In an environment characterised by workforce gaps and some traditional mindsets[19], there has been a lack of guidance within Navy on how to apply flexible working arrangements. These issues highlight the need for Navy to effectively manage

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17   In 2013, the Chief of Navy Senior Advisory Committee discussed the poor perception of the initiative by some members of the Permanent Navy, and noted that Navy had been deliberating on the implementation of the initiative for a long time.

18   In 2013, Navy set a goal of increasing the participation rate of women in its workforce to 25 per cent by 2023. To achieve this, in January 2014 Navy set specific female recruiting goals for all employment categories, with particular emphasis on those categories with female participation below 20 per cent.

19   The 2013 Navy report Enhancing Capability Delivery through Flexibility noted that 'there are significant barriers to the adoption of flexibility because some traditional mindsets hinder a flexible workplace'. Navy, Enhancing Capability Delivery through Flexibility, New Generation Navy Flexibility Initiative Recommendations Report, August 2013, p. 9.

the tension that may arise between workplace diversity and flexibility, and its operational imperatives.

Workforce Planning and Category Management (Chapter 3)

23. The aim of Navy workforce planning is to have a sufficient number of personnel within each employment category to form effective crews for each of its platforms, to allow Navy to meet its operational requirements. Navy workforce planning also aims to have a sufficient number of positions to support individual career advancement and provide shore respite for personnel. When modelling workforce supply and demand, Navy allocates 4.3 per cent of its positions for members of the Trained Force who are not contributing because they are either on long-term leave or unable to perform their role due to a medical condition (referred to as Personnel Contingency Margin (PCM)).[20] In June 2014, Navy reported that 14.6 per cent of its Trained Force was unavailable to go to sea. There is a gap between Navy's PCM and the proportion of its workforce unavailable to go to sea. This gap complicates Navy's workforce requirement planning, particularly for critical employment categories with sea-based positions. At the time of the audit, Navy was reviewing its workforce requirement planning policy. Navy intends to make a number of changes to the policy in order to: apply different PCM rates for employment categories and ranks to better reflect actual rates; consider geographic stability for personnel when defining the workforce requirement and positions; and assess the sustainability of employment categories at different ranks.

24. Defence uses a range of quantitative and qualitative measures to assess employment categories including the future supply of Navy assets and related demand for personnel. The classification[21] of categories is considered annually by the Service Chiefs. Since 2005, Navy has had a significantly higher number of critical categories than Army or Air Force and in 2014 all 13 critical categories across the ADF were in Navy. Seven of the 13 critical categories are

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20   PCM is an allowance for Navy members who are not available to be posted to any position, whether at sea or ashore. Navy also allocates additional positions for personnel undertaking advanced training (referred to as Advanced Training Requirement (ATR)).

21   A *perilous* category is defined as one that is experiencing a shortfall in numbers of Service personnel at required skill and rank levels, to the extent that the possibility of mission failure at the strategic or operational levels has been raised significantly. A *critical* category is defined as one that is experiencing or anticipated to experience a shortfall in the numbers of Service personnel at required skill and rank levels, to the extent that this could severely limit the range of strategic and operational options available to achieve the Defence mission.

not expected to recover within the ten year forecasting period to 2024. However, it is difficult to predict the status of employment categories in 10 years' time, particularly given the significant economic, labour market and industry changes which can occur over the long-term.[22]

25. Navy assigns a category sponsor to manage each of its employment categories. The category sponsors engage regularly with personnel within the category on issues affecting their employment within Navy. Category sponsors have been primarily placed in their roles because of their experience and training within the category and, until recently, the sponsors may not have undertaken any human resource training to assist them in performing their role. A 2013 Navy People Branch initiative planned to provide some human resource training to these personnel, and at the time of the audit, additional work was required to progress the initiative. In light of the complex set of workforce challenges that Navy is dealing with, there is a need to apply human resource expertise to the task.[23] This can be achieved by actively pursuing the development of human resource expertise within Navy People Branch, and by drawing on external human resource professionals with relevant experience to help inform the development and implementation of Navy's revised Workforce Plan and associated initiatives.

26. In 2013, Navy developed category management plans with a view to creating a single authoritative document for managing employment categories. These plans document the broad range of remediation activities underway or planned for critical categories. The development of the category management plans is a positive step towards strengthened oversight and coordination of the remediation of critical categories. However, the plans generally do not establish performance measures and assessment techniques to gauge the effectiveness of the remediation activities, nor do they identify priority activities to help drive their implementation.

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22 Potentially significant changes in equipment, such as a new and enlarged submarine fleet, add to the challenges of long-term forecasting of this type.

23 The 2009 Strategic Review of Naval Engineering highlighted that Navy needs qualified and experienced human resource practitioners:

It is lack of suitably trained and experienced [Human Resource] people that is the biggest threat to naval capability, but leaders at all levels continue to act in ways that put a lie to the oft quoted maxim that "people are our most important resource". This is first and foremost an issue of leadership; but having well intentioned generalists in key HR positions rather than qualified and experienced practitioners is another important factor.

Source: Navy, Report on the Strategic Review of Naval Engineering, November 2009, p. 3–18.

Employment Category Case Studies (Chapter 4)

27. Navy's two largest employment categories are marine technicians and electronics technicians. As at June 2014, the marine technician category was classified as 'critical', with a shortfall of some 370 trained marine technicians, or 23.5 per cent of the targeted workforce. At the same time, the electronics technician category was classified as 'at-risk'.[24] While Navy had four more electronics technicians than required, there were 96 fewer electronics technicians than required at more senior ranks. For both of these employment categories there has often been an excess of sailors at lower ranks to assist in addressing shortfalls at higher ranks subject to their promotion. However, many sailors have left Navy following their Initial Minimum Period of Service, and these departures have detracted from the effectiveness of Navy's attempts to grow its workforce from within.

28. During the audit, technical sailors raised a number of workforce issues affecting their employment with Navy. These issues were similar to those identified by the 2009 Strategic Review of Naval Engineering.[25] Technical sailors expressed dissatisfaction with the trade qualifications they received, and considered there was a need to pursue external opportunities to improve those qualifications. Other factors mentioned affecting their decision to depart or stay with Navy were a lack of meaningful shore-based jobs, low levels of respite[26] and the payment of retention bonuses. The proportion of Navy's workforce unavailable to go to sea has also increased over the last five years, from eight per cent in 2009 to 15 per cent in 2014. This has added to the pressure on technical sailors available to go to sea.

29. Navy's initiatives to address shortfalls in its technical sailor workforce have included paying retention bonuses, managing the training pipeline and increasing lateral recruitment. To address dissatisfaction within its largest employment category, marine technicians, Navy is restructuring the training and career continuum for these sailors. In September 2010, Navy started using the Marine Technician 2010 Category Career Continuum (MT2010) as its

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24 An *at-risk* category is experiencing or expected to experience a shortfall in numbers of Service personnel at the required skill and rank levels to the extent that this could limit the range of strategic and operational options available to achieve the Defence mission.

25 See paragraph 17.

26 Marine technicians have spent most of their time at sea, particularly early in their careers; and electronics technicians have spent more than half of their time at sea early in their careers.

framework for training new marine technician recruits. The aim of this continuum is to provide marine technicians with the right training at the right time; qualifications recognised within the civil maritime industry; and the trade skills needed to be able to undertake deeper maintenance tasks. Navy has experienced difficulties transitioning to MT2010 caused by a backlog in trainees; constraints in the sea training pipeline[27]; and inadequate resourcing of the project. In October 2014, Navy informed the ANAO that the new Chief of Navy had given directions to prioritise the training of junior marine technicians, including through the use of specific platforms for training purposes where consistent with government requirements. It is too early to determine the success of MT2010.

30.   The ANAO also reviewed Navy's management of two officer categories – aerospace engineers and medical officers. As at June 2014, there was a surplus of aerospace engineers, partly reflecting a reduced external demand for engineers in the broader economy. The category is also more readily amenable to flexible workplace conditions.[28] On the other hand, Navy has had a significant shortage of medical officers for a considerable period of time, and as at 30 June 2014, Navy employed 29 per cent fewer medical officers than needed. While Defence has pursued initiatives to strengthen training opportunities, streamline career progression and financially reward medical officers, differences between remuneration available to ADF medical officers and civilian medical practitioners are likely to continue to pose a major challenge to remediating Navy's medical officer workforce.

31.   Over the past decade, Navy has relied heavily on retention bonuses to stem the separation of personnel in critical categories, having made over 22 000 retention bonus payments, with a total value of $311 million, to personnel within a range of employment categories. For example, there have been five rounds of retention bonuses specifically targeted at marine technicians and/or submariners in return for between one and two years of additional service; and four rounds of retention bonuses specifically targeted at electronics technicians or submariners in return for up to two years of additional service. While Navy

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27   This training backlog was exacerbated by the early decommissioning of HMA Ships *Kanimbla* in November 2011, and *Manoora* in May 2011, and the extended maintenance of HMA Ship *Success*.

28   The status of the aerospace engineer employment category does not reflect the overall status of Navy's engineering employment categories. As at mid-2014, five of Navy's twelve engineering employment categories were classified as critical or perilous, including marine engineer submariners and weapons electrical engineer submariners.

has relied on retention bonuses to encourage personnel with critical skills to stay in the Navy workforce in the short to medium-term, their ongoing use has not resolved underlying workforce issues and there are mixed perspectives within Navy on their overall benefits and costs. Navy members emphasised the need to address the underlying workforce issues, which reflect deeper structural issues in terms of the work performed by technical sailors ashore, their timely transition to the Trained Force and low levels of respite. Navy has not formally evaluated the impact of its retention bonus schemes, and should do so to help determine their future role within its overall workforce strategy.

Summary of entity response

32.   Defence's covering letter in response to the proposed audit report is reproduced at Appendix 1. Defence's summary response to the proposed audit report is set out below:

> Defence thanks the ANAO for undertaking the *Recruitment and Retention of Specialist Skills for the Navy* audit.
>
> Defence welcomes ANAO's acknowledgement of the complexity of managing the recruitment and retention of Navy personnel, as well as the recognition of Defence's work in improving in this area in the last few years.
>
> Defence acknowledges the findings contained in the audit report and welcomes the Recommendations made by ANAO. Defence will also consider the feasibility of the suggestions made in the report.

Recommendations

Recommendation No.1

Paragraph 3.32

To inform the development and implementation of Navy's revised Workforce Plan and associated workforce initiatives, the ANAO recommends that Navy draw on external human resource expertise to complement internal expertise.

Defence response: *Agreed.*

Recommendation No.2

Paragraph 4.80

To refine its workforce strategy, the ANAO recommends that Navy:

- evaluate the impact of retention bonus schemes on the Navy workforce; and

- determine the future role of retention bonus schemes within its overall workforce strategy.

Defence response: *Agreed.*

Audit Findings

1. Introduction

This chapter provides an overview of the Royal Australian Navy's workforce and related workforce challenges. It also describes the audit objective, scope and approach.

Overview of the Navy workforce

1.1   The Royal Australian Navy (Navy) is the maritime arm of the Australian Defence Force (ADF). Its stated mission is 'to fight and win at sea' and its total budget for 2014–15 is $4.79 billion, which includes $1.86 billion in employee expenses.[29] Navy's importance to the defence of Australia was reinforced in the most recent *Defence White Paper* which stated that, as an island nation, 'Australia's geography requires a maritime strategy for deterring and defeating attacks against Australia'.[30]

1.2   Navy's workforce includes its Trained Force and Training Force. As at 30 June 2014, the Trained Force comprised 11 415 people and the Training Force 2741 people. At that time, Navy required a Trained Force of 11 616 people, which meant there was a shortfall of 201 trained personnel, or 1.7 per cent of Navy's workforce demand. Navy's Trained Force of 11 415 people included 11 020 members of the Permanent Navy and 395 Navy Reserves undertaking Continuous Full-time Service.[31] Figure 1.1 shows Navy's workforce demand and supply gap as at 30 June 2014.

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29   Australian Government, *Portfolio Budget Statements 2014–15*, Budget Related Paper No.1.4A, Defence Portfolio, pp. 28 and 33. Navy's employee expenses include the cost of both Service and civilian employees.

30   Department of Defence, *Defence White Paper 2013*, p. 28

31   Continuous Full-time Service is defined as service rendered by Active Reserve members of a continuous nature whilst remaining a member of the ADF Reserves. Unless otherwise noted, Trained Force numbers used throughout this report include members of the Navy Reserve providing Continuous Full-time Service.

Figure 1.1:   Navy's workforce demand and supply, 30 June 2014

	DEMAND	SUPPLY	
	Trained Force demand 11 616	Demand-supply gap is 201 personnel or 1.7 per cent of Navy's workforce demand	
		Navy Reserves on Continuous Full-Time Service	395
		Permanent Navy Trained Force supply	11 020
		Training Force	2741

Source: ANAO analysis of Navy Monthly Workforce Status Report, 30 June 2014.

Navy: a technological service

1.3   Navy's surface ships, submarines, aircraft and other materiel assets are fundamental to its capability. In 2009, Navy's Strategic Review of Naval Engineering described Navy as 'fundamentally a technological service', with its warfighting ability 'critically dependent on the engineering design of its platforms and systems and the state of serviceability in which they are maintained'.[32] Navy personnel operate and maintain these assets[33], and it is therefore critical that Navy has a competent and committed workforce. Without the right personnel, Navy capability is reduced.[34]

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[32]   Royal Australian Navy, Report on the Strategic Review of Naval Engineering, November 2009, p. 22.

[33]   Navy personnel are assisted in maintaining Navy's assets by contractors and personnel employed in the Defence Materiel Organisation's System Program Offices.

[34]   ADF capability is formed by combining eight 'Fundamental Inputs to Capability' (FIC). The FIC are: personnel, organisation, collective training, major systems, supplies, facilities and areas, support, and command and management. The personnel input addresses the recruiting and training of personnel, and their conditions of service and employment, including entitlements, salaries and wages, superannuation and allowances.

1.4 Navy's fleet consists of 52 sea vessels, including 14 different classes of warship, and 35 helicopters including three different types.[35] To operate and maintain this fleet, Navy's workforce comprises 60 employment groups or 'categories'.[36] These categories include engineers, technicians, warfare sailors and officers, medical personnel, logistics personnel, divers, pilots and others. Some positions within these categories require personnel to have platform specific qualifications and experience. Furthermore, Navy's primary operational environment represents more than 12 per cent of the Earth's surface, across which it conducts a wide range of operations including maritime patrol and interdiction, creating navigational charts, collecting and analysing intelligence, and providing humanitarian assistance, disaster relief and maritime search and rescue.

1.5 Navy is soon to transform its fleet. At the start of the audit, the Deputy Chief of Navy informed the ANAO:

> Over the next six years Navy will undergo a significant capability transformation with the introduction of Landing Helicopter Dock (LHD) ships, the Hobart class Guided Missile Destroyers (DDG) and the MH-60R Seahawk helicopter … All of these systems form the basis of Navy's contribution to the joint ADF capability and their successful introduction, while sustaining current capabilities at the level expected by Government, will be a challenge given Navy's constrained workforce levels.[37]

1.6 Effective workforce planning is a prerequisite to delivering current capability, bringing new capabilities into service and maintaining their availability.

Raise, train, sustain

1.7 To generate its workforce Navy generally adheres to the traditional 'raise, train, sustain' principle, which describes the broader ADF's preference to grow its workforce from the ground up. Most of Navy's recruits are *ab initio* which means, that they do not have any prior military experience. Navy educates, trains and prepares these recruits for military service and the job

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35 To add to this complexity, for the 14 classes of warship there are 13 different designers, 13 engine manufacturers, 11 radar manufacturers and 14 platform control and monitoring systems.

36 Navy refers to an officer's field of employment as their primary qualification and a sailor's field of employment as their employment category. For ease of reading this report uses the term 'category' for both an officer's primary qualification and a sailor's employment category.

37 Deputy Chief of Navy advice to the ANAO, 17 March 2014.

they will do in their chosen employment category. These recruits may then be promoted through the ranks in accordance with their qualifications and experience.

1.8   Navy has a limited appetite for recognising qualifications and experience gained in the civilian world. If recruiting someone with prior workforce experience but no military experience, Navy mostly requires them to start at the bottom of the rank structure, undertake Navy education and training, and work their way up. If a recruit has recent military experience, gained either from a Navy[38] or from one of the other Services, Navy may fast-track that person's promotion through the ranks or recruit them into a higher rank.

1.9   Navy's general reliance on growing its workforce from within presents it with both risks and opportunities. The relative lack of prerequisite skills required of these recruits allows Navy to select from a large recruiting pool. By training the recruits Navy can develop a workforce with the skills it needs, and to fit its culture, and often demanding operational environment. On the other hand, providing a comprehensive education and training program requires Navy to make a significant investment of both time and resources into its recruits. Furthermore, growing a workforce from the ground up limits Navy's ability to quickly and flexibly respond to workforce shortfalls and changes in the wider labour market. Table 1.1 summarises some key differences between Defence's military and civilian workforces, many of which stem from the employment context of the two workforces.

1.10   Training engineers, technicians and warfare personnel to operate and maintain complex military equipment takes years, and requires personnel to stay motivated while studying, learning on the job and sometimes undertaking jobs they do not like in order to reach a desired level of competence. As new and more complex platforms are introduced into Navy, the effective education and training of personnel in technical and warfare employment categories – already a challenge as discussed below – will continue to require attention.

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38   That is, the recruit is re-joining or they are a lateral recruit from a comparable overseas Navy.

Table 1.1: **Key differences between Defence's military and civilian workforces**

Feature	Military	Civilian
Workforce grown from within	The military workforce grows its own leaders. There is very limited recruitment at middle and senior levels, and there are a limited number of Service transfers.	Defence can recruit middle and senior level people from within the Australian Public Service (APS) or externally. The APS workforce can move freely between entities.
Age Profiles: 18 to 60 Years	The ADF's age profile reflects that the majority of Service personnel are under the age of 30. The profile is characterised by youth.	Defence's APS age profile reflects that the majority of employees are older than 35. The profile is characterised by experience.
Defined Career Structures	There are well defined career structures in the Services. There are pathways to the top and within specialist streams. Time in rank, experience, skills and merit are key drivers.	Career structures are less clearly defined within the APS. Time at level is not a key driver. The focus is on skills and merit.
Career Management	Career management is a shared responsibility between the Service and the individual. There is a need to balance the needs of the individual and organisation.	While performance feedback is given, individuals are responsible for their own career and identifying promotion opportunities or moves at level.
Initial Periods of Service	There are clearly defined initial periods of obligations for officers and other ranks.	Civilian employees are not bound to an initial contract period.

Source: Defence Strategic Workforce Plan 2010–20.

Workforce shortfalls in some employment categories

1.11   Navy has had difficulty in responding quickly and flexibly to some workforce shortfalls and some of its employment categories have experienced sustained shortfalls for over a decade. While Navy's total workforce shortfall was 201 trained personnel as at 30 June 2014, this overall figure masks the extent of workforce shortages in particular employment categories and at certain ranks. Figure 1.2 and Figure 1.3 show that there was an oversupply of personnel in some employment categories and significant shortfalls in others.

1.12   At 30 June 2014, the marine technician (MT) employment category had a shortfall of some 370 sailors, which was 23.5 per cent fewer sailors than needed; and the medical officer (MO) category had a personnel shortfall of 29 per cent. Furthermore, in some categories workforce shortfalls occur at a particular rank or for personnel with a specific qualification. For example, as at 30 June 2014, the

maritime warfare officer (MWO) category had a workforce oversupply of 12.1 per cent but at the Lieutenant Commander rank it had a shortfall of 49.0 per cent. At the same time, the electronics technician (ET) category had four more technicians than required, but at the Leading Seaman rank there was a shortfall of 21.1 per cent.

Figure 1.2:   Workforce oversupply and shortfalls in officer employment categories, 30 June 2014
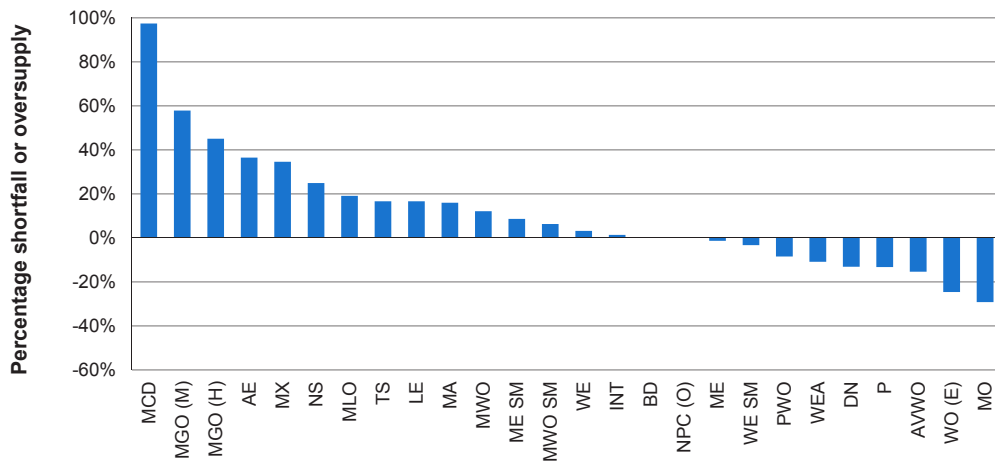
Source: Navy Monthly Workforce Status Report, 30 June 2014.

Note: See Table A.1 in Appendix 2 for an explanation of these 26 Navy officer employment categories.

Figure 1.3:   Workforce oversupply and shortfalls in sailor employment categories, 30 June 2014
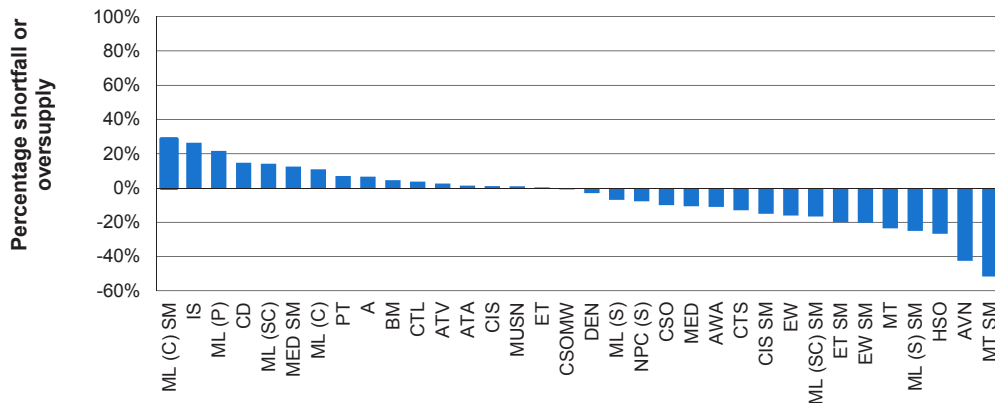
Source: Navy Monthly Workforce Status Report, 30 June 2014.

Note: See Table A.2 in Appendix 2 for an explanation of these 34 Navy sailor employment categories.

1.13 These workforce shortfalls within particular employment categories and at certain ranks represent significant gaps in Navy's workforce. Navy does not have enough sailors at all ranks, engineering, medical and warfare personnel, and officers at the rank of Lieutenant-Commander. Defence acknowledged in its Strategic Workforce Plan 2010 that Navy has significant workforce 'hollowness'[39], which 'may limit capability options'.[40] This hollowness is a consequence of the difficulties Navy has had in recruiting, training and retaining personnel over the last decade.

Not a nine-to-five job

1.14 Navy personnel are primarily employed to perform a function at sea. Navy's *Australian Maritime Doctrine* describes life at sea in the following terms:

> inherently dangerous … [with] the effects of wind, water and hidden hazards often proving more deadly than any declared enemy … Operations are tiring, demanding and unforgiving, they are often characterised by long periods of surveillance and patrol followed by short bursts of [activity] … Even the biggest ships are relatively cramped and confined, and all living within them are subject to the continuous effects of weather and sea state. Constant monitoring of work practices is essential to lessen and manage the risks associated with fatigue.[41]

1.15 Forty per cent of Navy employment positions are sea-based, and at 30 June 2014, 32 per cent of Navy's Trained Force was at sea. The remaining positions are shore-based and provide members with respite from sea service, as well as enabling them to undertake advanced training, and to continue to work within Navy when injured, unfit or unable to go to sea.

1.16 To ensure personnel obtain adequate respite over the course of a member's career Navy tries to balance the number of sea and shore positions they are allocated. However, the recruitment and retention of personnel can impact directly on Navy's ability to offer its members respite from sea service, an issue of particular importance during periods of high operational tempo.[42]

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39 The Strategic Workforce Plan defines workforce hollowness as 'the gap between the number of approved positions and the workforce level'. It further states that 'All Services show signs of workforce hollowness, with the problems being greatest in Navy (about 1,250) and Army (about 1,000)'. Department of Defence, Defence Strategic Workforce Plan 2010, p. 46.

40 Department of Defence, Defence Strategic Workforce Plan 2010, p. 22.

41 Royal Australian Navy, *Australian Maritime Doctrine: RAN Doctrine 1 - 2010*, p. 9.

42 Over the past decade, Navy has been subject to a high operational tempo.

Navy considers all medically fit sailors as available for immediate posting as operational reliefs to replace a sailor returned to Australia on medical grounds or to undertake advanced training.

1.17 Navy shore positions are geographically dispersed. Navy has operational bases in Sydney, Perth, Darwin, Cairns and Nowra; training and support bases in Melbourne, Sydney, Canberra and Jervis Bay; and a presence in Brisbane, Hobart, Adelaide, Thursday Island and Dampier. While it is Navy's policy intent to consider a member's posting preferences, and to provide a degree of geographic stability and certainty as to where personnel are going next, this may not be possible due to workforce shortages and ongoing operational demands.

Navy workforce planning and recruitment

1.18 An effective workforce strategy involves aligning an organisation's workforce with its current and future goals, taking into account the operating environment. To develop such a strategy an organisation needs to identify its workforce requirements and any gap between the workforce it has and the workforce it needs, in order to design initiatives to mitigate workforce shortfalls. Having implemented these workforce initiatives, it is important for an organisation to evaluate their impact to help refine its overall workforce strategy and specific initiatives. Figure 1.4 sets out a basic framework for workforce planning.

1.19 A central consideration throughout this planning process is how best to attract skilled personnel and encourage them to stay through remuneration, conditions of employment, providing interesting work, opportunities for promotion and growth, and good working relationships. For Navy workforce planning, a key external consideration is the wider labour market for technical skills, which can affect Navy's ability to recruit and retain relevant personnel.[43]

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43   Navy advised that the competitive employment environment during the recent Australian mining boom created recruitment challenges, while the post-boom environment offered some opportunities.

Figure 1.4:   A basic framework for workforce planning

Analyse requirements, strategic plans, budgets and resource allocation	Analyse demand • Future structure, processes, tasks and roles • Workforce competencies and staffing requirements/ composition	Conduct gap analysis	Create workforce strategies and plans • Job and organisational design • Training • Recruitment • Performance management • Succession planning • Outplacement
	Analyse supply • Current structure • Workforce competencies, staffing levels/ composition • Performance • Demographics		Implement and evaluate strategies and plans • Assess impact of workforce strategies • Conduct benchmark analysis • Refine workforce planning strategies and metrics

Source: Workforce Planning Best Practices, United States Office of Personnel Management, 2011.

Navy People Branch

1.20   Navy's workforce planning is primarily managed by the Navy People Branch. Figure 1.5 shows the organisational structure of Navy People Branch and describes the role of its five directorates.

Figure 1.5: Navy People Branch organisational chart
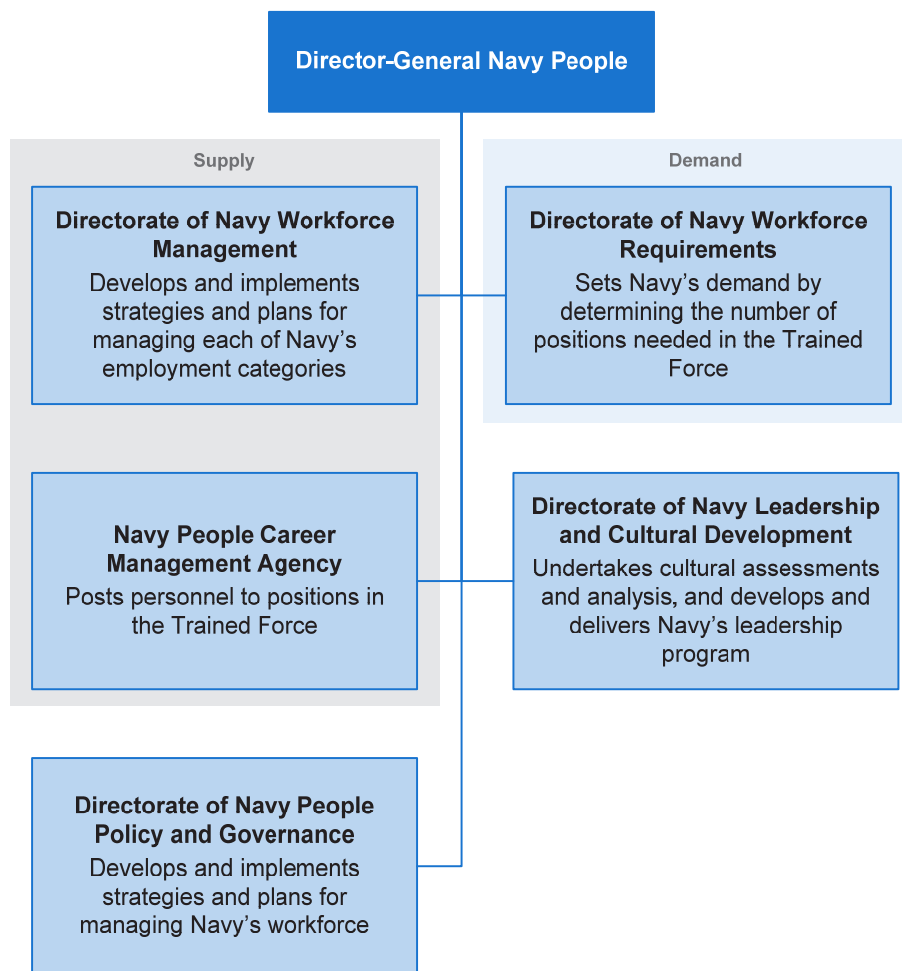
Source: ANAO analysis of Defence data.

1.21   The Directorate of Navy Workforce Requirements sets Navy's demand for personnel by determining the number and type[44] of positions needed in the Trained Force. Demand is largely based on the number of personnel required to crew Navy's platforms[45], and the career structure required to grow a sailor or officer through the ranks. The Directorate of Navy Workforce Management and the Navy People Career Management Agency manage the supply of

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44   By rank, employment category, qualifications and experience.
45   Navy uses the term 'Scheme of Complement' to describe the number of personnel, and the employment category, rank and qualification of each of them, required to crew a ship.

personnel. The former directorate develops and implements plans for managing each of Navy's employment categories, and is also responsible for addressing the causes of workforce shortfalls within some categories.[46]

1.22   Defence People Group supports Navy in managing its workforce. The Navy section of the Directorate of Workforce Modelling, Forecasting and Analysis in Defence People Group conducts analysis of the number of personnel Navy has, and the number of positons it needs to fill. This directorate also produces Navy's Monthly Workforce Status Report.

Recruitment process

1.23   Navy does not manage the recruitment process for its *ab initio* recruits. This process is managed by Defence Force Recruiting, which is a public and private sector collaboration between Defence and Manpower Services (Australia). Defence informed the ANAO in October 2014 that:

> Candidates are assessed in accordance with standards set by the Services for each job and the final decision on whether a candidate is enlisted is made by a uniformed [Defence Force Recruiting] staff member, or in the case of Officers, by an Officer Selection Board composed of Officers of the relevant Service.[47]

1.24   Responsibility for managing non-*ab initio* recruitment, such as personnel re-enlisting into one of the Services, is shared between Defence Force Recruiting and the Services.

Audit objective and scope

1.25   The objective of the audit was to examine the effectiveness of Navy's strategy for recruiting and retaining personnel with specialist skills. In particular, the ANAO assessed whether:

- this strategy supported Navy in maintaining and building military capability and carrying out its mission; and

- the plans and activities underpinning this strategy were effectively administered and implemented.

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46   The Directorate of Navy People Policy and Governance develops and implements plans for managing whole-of-Navy workforce issues, such as establishing more flexible workplace practices and increasing workforce diversity.

47   Manpower Australia receives a fixed payment per candidate upon their enlistment. This payment provides a clear incentive for the contractor to maximise the number of candidates that ultimately enlist.

1.26 For the purpose of this audit, specialist skilled personnel in the ADF included engineering officers, personnel performing technical trades and health professionals. The audit did not examine the training of these personnel other than to inform consideration of recruitment and retention strategies.

1.27 The ANAO developed the following high level criteria to assist in evaluating Navy's performance:

- Navy has conducted adequate workforce planning to identify personnel requirements including numbers and skills required to maintain and build military capability.

- Navy has suitable plans, policies and procedures in place to support its recruitment and retention of personnel with specialist skills.

- Navy has identified shortfalls in personnel with specialist skills, giving particular regard to Navy's future capability, and is addressing these shortfalls.

- Navy's recruitment and retention activities are supported by expert advice, research and analysis, legislative and procedural guidance, and training for staff involved.

- Navy monitors and evaluates the outcomes and cost effectiveness of its recruitment and retention strategies, policies and activities.

1.28 In undertaking the audit, the audit team:

- reviewed relevant Australian Government, Defence and Navy policies, strategies, plans, manuals and reviews;

- analysed Navy's workforce data;

- interviewed Defence and Navy staff responsible for managing recruitment and retention processes for personnel with specialist skills;

- analysed the implementation of recruitment and retention initiatives broadly across Navy, and specifically within four employment categories chosen by the ANAO in consultation with Navy. These categories were: electronics technicians, marine technicians, medical officers and aerospace engineering officers; and

- conducted fieldwork visits to a number of Navy bases to interview personnel from the four selected employment categories to understand the issues affecting their employment within Navy.

1.29 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of approximately $396 000.

Report structure

1.30 The remaining chapters of the report are set out in Table 1.2.

Table 1.2: **Report structure**

Chapters	Overview
2. Recruitment and Retention Strategies and Performance	Examines Defence and Navy workforce strategies. It also provides an overview of recruitment and retention performance for Navy.
3. Workforce Planning and Category Management	Examines Navy's workforce requirement planning and management of critical employment categories.
4. Employment Category Case Studies	Examines Navy's approach to recruiting and retaining personnel in four employment categories. It also examines the payment of retention bonuses to personnel in critical employment categories.

2. Recruitment and Retention Strategies and Performance

This chapter examines Defence and Navy workforce strategies. It also provides an overview of recruitment and retention performance for Navy.

Introduction

2.1   Navy's principal recruitment and retention strategy is to 'raise, train and sustain' its workforce. This strategy allows Navy to select from a large recruiting pool, and to develop a workforce with the skills it needs, and to fit its culture, and often demanding operational environment. However, it also presents risks to the extent that trained personnel leave the Navy earlier than Navy would like, and it limits Navy's ability to quickly and flexibly respond to workforce shortfalls and changes in the wider labour market. Navy has sought to address these risks with initiatives that complement its traditional raise, train, and sustain approach and other, more contemporary workforce management practices. Navy has designed some of these initiatives specifically to address workforce shortages in employment categories.

2.2   This chapter examines:

- major reviews addressing engineering and technical skills in Navy;

- Defence and Navy workforce strategies; and

- recruitment and retention performance for Navy.[48]

Major reviews addressing engineering and technical skills in Navy

2.3   In the past six years two major reviews have considered the causes and impact of shortfalls in Navy's engineer and technical sailor workforce. The findings of these reviews provide important context for Defence and Navy workforce planning.

2.4   In February 2011, following the unavailability of Navy's amphibious fleet in response to Cyclone Yasi, the then Government appointed an

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48   Navy remediation activities targeted to address shortfalls in personnel with certain specialist skills are discussed in Chapter 4.

independent panel headed by Mr Paul Rizzo, which developed the July 2011 *Plan to Reform Support Ship Repair and Management Practices*. The Rizzo Plan found that:

> The inadequate maintenance and sustainment practices have many causal factors. They include poor whole-of-life asset management, organisational complexity and blurred accountabilities, inadequate risk management, poor compliance and assurance, a 'hollowed-out' Navy engineering function, resource shortages in the System Program Office in DMO, and a culture that places the short-term operational mission above the need for technical integrity.[49]

2.5 The Rizzo Plan recommended that: 'Navy should establish an effective workforce planning system to ensure staff have the skills and experience required for complex sustainment roles'; and that the '[Defence Materiel Organisation] and Navy should develop an innovative and comprehensive through-life career plan for the recruitment and retention and development of their engineering talent'.[50] As at March 2014, Defence had closed the first of these recommendations on the basis that the training and education needs of uniformed personnel in senior sustainment roles in the Defence Materiel Organisation (DMO) were included in training programs and captured in duty statements. In October 2014, Defence informed the ANAO that the implementation of the other recommendation was 'on track' following the return of a lead officer from secondment.

2.6 The Rizzo Plan drew in part on a 2009 internal Navy review of its engineering function. In May 2009, the Chief of Navy directed the Head Navy Engineering to conduct this review within the context of the New Generation Navy cultural reform program. The resultant *Report on the Strategic Review of Naval Engineering* emphasised that it is the skills, competence and commitment of the people who operate and maintain Navy's platforms, particularly Navy's engineering and technical personnel, who give Navy its edge.

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49 Rizzo, P., *Plan to Reform Support Ship Repair and Management Practices*, July 2011, p. 7.

50 Ibid., p. 14; and Recommendation 19: Fostering Engineering Talent, p. 15.

2.7   The Strategic Review of Naval Engineering described the technical sailor community as being in crisis.[51] It identified poor career management, job satisfaction and morale, as well as misaligned training as central to this problem. In particular:

- Navy was recruiting and training more technical sailors than its fleet could absorb, causing some trainees to become disillusioned with the long time it could take before they were posted to sea;

- shortages in qualified technical sailors and engineering officers were causing available personnel to be moved from one vacancy to another, with little regard for their professional development and, for technical sailors, this included being removed from shore postings with virtually no notice to fill positions at sea;

- there was a lack of meaningful jobs for technical sailors ashore, following the contracting out of platform maintenance and support functions; and

- there was a fundamental disconnect between the expectations and aspirations of technical sailors and the reality of their initial training, the skills they required at sea and in their employment ashore.

2.8   One of the inputs to the Strategic Review of Naval Engineering was Navy's Project Engineering 2024. This project discussed the changing career attitudes of junior engineering officers, and suggested that generational considerations need to be factored into Navy's approach to workforce planning:

> The reality is that this generation of junior officers comes from a decreasing employment pool with different attitudes to long-term careers and a different perspective on loyalty and leadership - they expect loyalty from and to be highly valued by their employers. Alternative employment is readily available and they feel well qualified to take on a range of jobs, not necessarily engineering based, anywhere in the world. In short, if their Navy career does not provide interesting work, the contemporary service lifestyle is not

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51   The Executive Summary of the Strategic Review of Naval Engineering concluded that: 'Many engineering reviews of the past have identified some of the same issues highlighted in this review, but solutions have not been pursued. The current situation has an urgency and a criticality that cannot be overstated. Navy must commit to recover its engineering capability and must follow through on that commitment. The Navy engineering community, as do all Navy people, deserve nothing less.' Navy, Report on the Strategic Review of Naval Engineering, 12 November 2009, p. viii. Refer to paragraph 4.59 for details on the current status of Navy's engineering employment categories.

sufficient incentive to stay. The challenge therefore is to provide meaningful employment...[52]

Defence and Navy workforce strategies

2.9   Defence People Group develops a Defence-wide strategic workforce plan and the individual Services develop their own strategies and plans, taking into account government policy settings.

Defence White Paper 2013

2.10   The *Defence White Paper 2013* stated that:

> Generating the required Navy workforce and training people in core skills to professional standards across all future capabilities will continue to be key challenges. In the medium-term, the Navy will address shortages in some supervisory ranks through increased emphasis on lateral recruitment, direct entry specialists and Reserves. Attention will be focused on growing an inclusive and diverse workforce as part of the New Generation Navy program. … Attracting people with diverse talents from across the Australian community will assist the Navy to operate at peak performance to achieve maximum capability delivery.[53]

Defence Strategic Workforce Plan 2010–20

2.11   The Defence Strategic Workforce Plan 2010–20 outlines Defence's approach to workforce planning in support of the *Defence White Paper 2009* and Defence's Strategic Reform Program.[54] The plan identifies a number of workforce challenges facing the ADF, which include:

- increasing the diversity of the ADF's workforce;

- balancing youth and experience within the ADF's workforce;

- effectively competing for recruits with other industries; and

- retaining skilled staff within the ADF.

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52   Royal Australian Navy Project Engineering 2024 – Engineer Officer Future Directions, June 2004, p 5, included as an appendix to the Report on the Strategic Review of Naval Engineering, 12 November 2009.

53   Department of Defence, *Defence White Paper 2013*, p. 103.

54   The Strategic Reform Program, launched in 2009, is a Defence-wide program to create a more efficient and effective Defence organisation. It has three key elements: improving accountability, improving Defence planning, and enhancing productivity.

2.12   The Strategic Workforce Plan notes that the ADF needs to: focus on retaining Defence's key talent rather than simply monitoring separation rates; improve the structural sustainability of a number of employment categories; and address the significant issue of personnel leaving *en masse* at specific points in their military career.[55]

Navy Strategy 2012–17

2.13   The Navy Strategy 2012–17 sets out where Navy wants to be in 2017, how it plans to get there and the risks it will face along the way. The strategy identifies five enterprise risks. Enterprise Risk 3 is the 'failure to attract, retain and generate a capable and integrated Navy workforce'.[56] As such, Navy clearly identifies recruitment, retention and training as central to its ability to fulfil its obligations.

2.14   To address Enterprise Risk 3, the then Chief of Navy tasked the Deputy Chief of Navy with two programs: 'Attract the workforce' and 'Retain the workforce'. An August 2013 report to the Chief of Navy Senior Advisory Committee (CNSAC) stated that these two programs were being coordinated by the Director-General Navy People, and the Program Director of New Generation Navy.

2.15   CNSAC receives regular reports on the status of Enterprise Risk 3, including an assessment of Navy's ability to 'attract the workforce' and 'retain the workforce'. CNSAC members are also provided a quarterly Navy People Report, which includes information on personnel demand and supply, separation rates, workforce health including gender participation, leave balances and training, and the status of employment categories classified as critical. These reports discuss Navy's efforts to attract and retain the workforce and related issues receive significant attention at CNSAC.

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55   There are four points across all three Services' career continuums where personnel are more likely to leave. These points are:
- Within the first year of service. Departure during this period is generally attributed to a poor fit between the individual and military life.
- At the end of the member's initial period of service, which is usually four or six years.
- After ten years of service.
- After 20 years of service which is the traditional length of a military career.

The first two points are of most concern to Navy and Army, as more personnel leave Navy and Army at these two points than Air Force.

56   Royal Australian Navy, Navy Strategy 2012–17, p. 3.

However, there was no evidence of Navy managing a coordinated set of workforce initiatives through the 'Attract the workforce' and 'Retain the workforce' programs.

2.16   The Navy Strategy 2012–17 also includes a Navy Task List 2012–13, with 83 tasks that would put Navy on track to achieving its goal. Twenty-six of these tasks address Enterprise Risk 3, including lateral recruitment of personnel with prior military experience, mid-career entry for experienced recruits with no prior military experience, payment of retention bonuses to Marine Technicians, and providing more flexible work arrangements. The Navy Strategy Executive (the area within Navy that provides secretariat support to the CNSAC) was responsible for monitoring the delivery of initiatives under the Navy Strategy 2012–17. However, as of August 2013, only two of the 26 tasks to address Enterprise Risk 3 were completed, even though 18 were due to be completed by that date. Since that time Navy has discontinued the Task List and ongoing activities are now being monitored through other arrangements.

2.17   The Navy Strategy 2012–17 reiterates the challenge identified in the Defence Strategic Workforce Plan to introduce more flexibility and diversity into Navy's workforce, stating that:

> In 2017, Navy will be characterised by a workforce of permanent or part time uniformed and civilian staff who have the skills, leadership and resilience to deliver Navy's mission.[57]

2.18   The Navy Strategy also emphasises that while Navy may not be able to compete for recruits on remuneration, it can offer other incentives. It states that:

> despite the fact that we will never be able to offer the remuneration of our competitors, we need to highlight our advantages over our workforce competitors, especially esprit-de-corps, leadership, excitement and the contribution that each one of our people makes to our nation.[58]

2.19   Navy is currently developing a revised Navy Strategy for the period 2014–19. It is due to be signed off by the Chief of Navy by early 2015.

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57   Royal Australian Navy, Navy Strategy 2012–17, p. 15.

58   Ibid., p. 10. In practice, Navy has relied heavily on the use of retention bonuses to encourage members with required skills to stay in the workforce. Navy's use of retention bonuses is discussed further in Chapter 4.

Navy Workforce Plan 2007–17

2.20 Navy's Workforce Plan 2007–17, released in February 2008, provides a 'summary of workforce issues, goals and initiatives that affect capability delivery'. The plan summarises the major concerns for Navy's workforce:

> Navy continues to face a range of internal and external threats and challenges in terms of its ability to meet current and future workforce and capability requirements. Separation and undermanning are at high levels. For many reasons our recruiting targets are not being achieved, especially with respect to the *perilous* and *critical* categories.[59]

2.21 The Workforce Plan identifies Navy's key workforce risks and mitigation strategies. Of the risks identified, Navy assessed the ongoing workforce shortages experienced by some employment categories as an 'extreme' risk. These shortfalls are identified as 'an enduring risk as it is not sustainable to conduct business under current workforce pressures'.[60] Other identified workforce risks include: lack of rigour in managing Navy Reserve and civilian staff; workforce requirements exceeding supply and funding; crew size and associated shore support for Navy's new ships being inadequate; and poor workforce planning. The initiatives and activities listed in the workforce plan to mitigate the identified risks include:

- Review employment category structures to improve efficiency and prioritise positions within Navy workforce.

- Enhance the capability of the Navy Reserve and optimise the use of the civilian workforce.

- Develop initiatives to align demand and supply within employment categories, and improve monitoring and reporting of outcomes.

- Improve workforce planning including human resource training for staff, benchmark Navy's workforce planning practices against public and private organisations, and improve workforce planning tools and metrics.

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59   Royal Australian Navy, Navy Workforce Plan 2007–17, p. 1.
60   Ibid., p. 22.

2.22   The Navy Workforce and People Committee endorsed the Workforce Plan and was assigned responsibility for monitoring achievements against its strategic goals, actions and initiatives. Further, the plan notes that:

> Future stages in the development of a [Navy Workforce Plan] risk management framework will involve 'closing the loop' through formal assessment of the effects of risk mitigation initiatives, as well as the development of quantitative tools that will link workforce outcomes to [Navy] operating capabilities.[61]

2.23   In October 2014, Defence informed the ANAO that:

> The Navy Capability Committee (NCC) has subsumed the Navy Workforce and People Committee. [The NCC] receives and considers updates on the state of Navy's workforce as a standing agenda item prior to this information being presented to [CNSAC]. The NCC also considers and amends or endorses all significant Navy workforce initiatives. This includes annual workforce reports for each Navy community … as well as changes to [employment] category structures and training arrangements.

2.24   Part 3 of the Navy Workforce Plan 2007–17 is the Navy Workforce Supply Management Plan. This part of the plan includes an extensive list of risk mitigation initiatives, as were current in 2008, such as the Sea Change Workforce Renewal Projects. However, the Supply Management Plan does not list any measures which could link recovery of workforce shortfalls to mitigation initiatives. In October 2014, Navy informed the ANAO about the achievements of the Sea Change Projects, including changes to crewing arrangements to provide geographic stability for members, and improved career management support for members.

Development of a new Navy Workforce Plan

2.25   As mentioned in paragraph 2.20, Navy released the current Navy Workforce Plan in 2008. Navy has subsequently experienced significant change. Two Defence White Papers, the Navy Strategic Plan 2010–15, the Navy Strategy 2012–17, and two iterations of the New Generation Navy cultural reform program have all been released in the past six years. Following an initial planned released date of December 2012, later revised to March 2013, a new Navy Workforce Plan is now expected to be finalised by early 2015.[62]

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61   Royal Australian Navy, Navy Workforce Plan 2007–17, p. 4.

62   Navy informed the ANAO in December 2014 that the delay in finalising the new Navy Workforce Plan is due to a requirement to align the plan with changes in Navy's strategic direction.

Navy continues to face challenging workforce shortfalls, and delays in promulgating a new workforce plan have meant that it has lacked an up-to-date edition of its key planning product for providing 'clear guidance on key workforce management areas that require an active focus … to meet future capability requirements'.[63] Providing contemporary guidance is an essential prerequisite for maintaining focus and momentum within Navy on its ongoing workforce challenges.[64]

New Generation Navy

2.26   The then Chief of Navy launched the New Generation Navy strategy in April 2009. The strategy detailed ten signature behaviours[65] intended to fundamentally reform Navy leadership, training, culture and structure. New Generation Navy was also designed to address 'significant recruitment and retention challenges', and to 'close the gap between … [the] current workforce and the workforce to meet the requirements of future capabilities'.[66] The challenges to be overcome were:

- constraints preventing Navy from more readily recruiting laterally;

- consistent failure to meet recruitment targets;

- the rate of personnel leaving in the first year or at the completion of their Initial Minimum Period of Service; and

- significant shortfalls in particular employment categories including marine technicians, electronics technicians, medical officers and pilots.

2.27   Navy grouped the New Generation Navy 2009 initiatives and activities under the themes 'Lead', 'Raise', 'Train', and 'Sustain'. These initiatives and activities were intended to change Navy culture from one which 'operates effectively at sea and through best endeavours, stretches resources through a can-do attitude, puts platforms before people and burns the good will of Navy

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63   *Workforce Management Capability Improvement Project update*, September 2013.

64   Navy informed the ANAO in October 2014 that Navy gave priority to developing and implementing 'remediation initiatives for critical [employment] categories over the development of a new workforce plan, noting that the broad direction of Navy workforce 2007-17 remains valid'.

65   These ten signature behaviours are: respect the contribution of every individual; promote the wellbeing and development of Navy people; communicate well and regularly; challenge and innovate; be cost conscious; fix problems, take action; drive decision making down; strengthen relationships across and beyond Navy; be the best I can; and make Navy proud, make Australia proud.

66   New Generation Navy Strategy, April 2009, p. 4.

personnel' to one that 'makes and executes strategic decisions, supports people during and beyond their service and empowers them to make a respected contribution'.[67] Many of the initiatives and activities directly targeted the recruitment and retention of Navy's workforce (Table 2.1).

Table 2.1:   New Generation Navy 2009, initiatives targeting the recruitment and retention of Navy's workforce

Priority	Recommendation
Theme 1: Lead	
Align promotion and advancement of leaders with New Generation Navy	Selection criteria and promotion processes to reinforce and recognise New Generation Navy cultural values and behaviours.
Modernise our customs and strengthen Navy heritage	Modify existing customs and traditions to reinforce what it means to serve in today's Navy.
Theme 2: Raise	
Improve responsiveness to those re-joining Navy	Remove cultural and systemic barriers to attract and encourage former Navy personnel to re-join.
Recruit more people, send them to sea earlier	Focus ADF recruitment and initial Navy training on enabling more Navy people to serve at sea earlier.
Ensure participation in Navy reflects Australian diversity	Adapt Navy culture to provide an environment supportive and representative of the diverse needs and make-up of Australian society.
Theme 3: Train	
Reform category training and job roles	Switch focus of initial and category training from the civilian qualification-focused career progression to operator competencies at sea.
Continue Plan Train initiatives	Continue Plan Train as a medium term initiative to facilitate a training led recovery of critical categories that rely heavily on platform based training.
Manage careers more flexibly	Provide flexible career models to respond to the life and career 'ages and stages' needs of the workforce.

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67   Ibid., p. 13.

Priority	Recommendation
Theme 4: Sustain	
Deliver people focused work practices	Achieve an appropriate balance between operational and 'home/personnel' tempo.
Provide supportive employment conditions and increase family connection	Improve the experience of the non-financial employment conditions and increase Navy's connection to families.
Review financial employment conditions	Financial conditions match or remain competitive with equivalent job roles in relevant industries.

Source: New Generation Navy, April 2009, pp. 16–18.

2.28   In February 2013, in response to changes within Navy and externally since the program's launch in 2009, the then Chief of Navy released a revised New Generation Navy strategy to guide Navy through to 2017. The revised strategy represents a significant departure from the original. It groups initiatives and activities under three pillars:

- warfighting and seaworthiness: trusted to defend;

- improvement and accountability: proven to deliver; and

- values-based, people-centred leadership: respectful always.

2.29   The revised strategy contained fewer specific activities and initiatives directly targeting the recruitment and retention of Navy's workforce, and only one such initiative was to be delivered as part of the revised strategy (Table 2.2).[68]

Summary—workforce strategies

2.30   Defence and Navy strategies have consistently identified workforce planning risks and acknowledged the need for timely and ongoing action to mitigate them. There have also been some consistent themes throughout the range of Defence and Navy plans that address workforce planning, including the benefits of innovation and cultural change. The plans emphasise the need to increase workplace diversity and flexibility, including through lateral recruitment, mid-career entry and amendments to personnel policies.

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68   A number of initiatives included in the revised strategy were to be supported or monitored, rather than delivered by the New Generation Navy program.

Table 2.2:   New Generation Navy 2013, initiatives targeting the recruitment and retention of Navy's workforce

Initiative	Outcome
*To be **delivered** by New Generation Navy 2013:*	
Embed people focused work practices	A balanced tempo of work improves the health, wellbeing and effectiveness of Navy people and sustains the Navy workforce.
*To be **supported** by New Generation Navy 2013:*	
Increase diversity and flexibility	Navy optimises available resources by having a diverse and flexibly managed workforce.
*To be **monitored** by New Generation Navy 2013:*	
Develop leadership capability	Navy leaders enable people to be the best that they can.
Improve responsiveness to those re-joining Navy	Improved ability to meet Navy capability through a larger trained force.
Modernise customs and traditions	Customs and traditions appeal to and connect the diverse Navy workforce.

Source: New Generation Navy, February 2013, pp. 13–20.

Overview of recruitment and retention performance for Navy

2.31   Every year, Navy People Branch provides Defence Force Recruiting[69] with a targeted number of *ab initio* recruits for each employment category. The branch consults widely in determining the number of *ab initio* recruits needed, including with the commanders of Navy's surface and submarine fleets. This process is intended to align Navy's recruitment targets with its personnel supply targets, training pipelines and employment category plans.

2.32   Defence Force Recruiting has recruited close to 90 per cent of the target number of recruits set for it by Navy since 2009.[70] However, once recruited, personnel can opt to discharge from Navy within their first three months of

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69   As mentioned in paragraph 1.23, Defence Force Recruiting has primary carriage of *ab initio* recruitment.

70   For example, for 2013–14, Navy set an overall recruitment target of 1290 recruits (made up of separate targets for each employment category), and 1196 recruits joined the Navy during the financial year (92.7 per cent of the overall target).

service without penalty.[71] Figure 2.1 shows that recruiting achievement dropped by an average of 8.5 per cent between 2008-09 and 2013-14 when separations within the first 90 days of service are taken into account.

Figure 2.1:   Recruiting achievement between 2008 and 2014
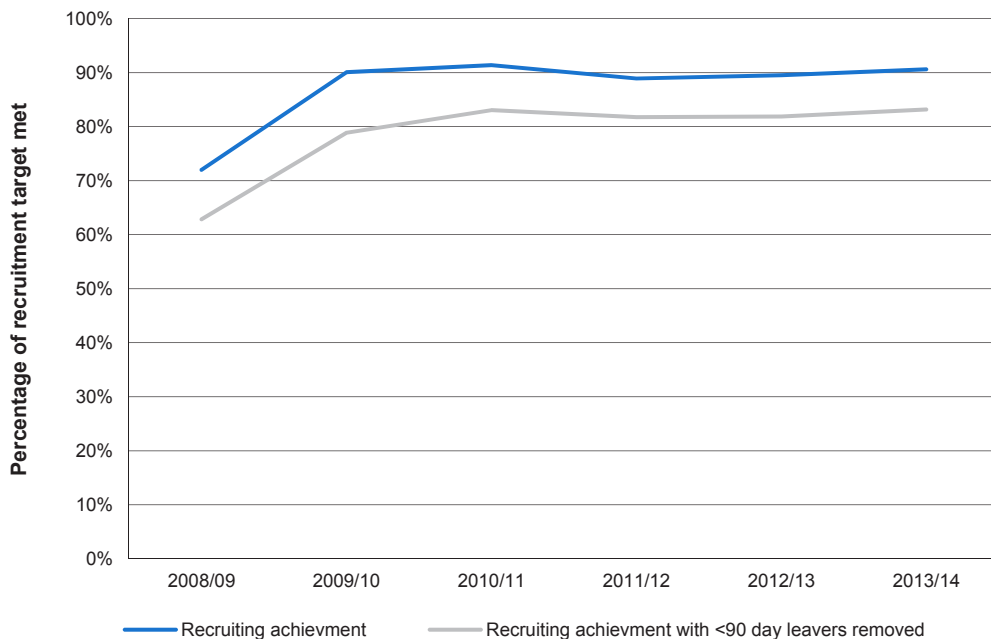
Source: ANAO analysis of Navy workforce data.

2.33   Figure 2.2 shows the number of personnel who left Navy within their first year of service, between 2002 and 2014. The most common time for a recruit to leave Navy is within their first 90 days of service. Ten per cent of all personnel recruited into Navy since 2002 left within the first 90 days of service.

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71   The Australian Book of Reference 10 RAN Sailor's Career Management Manual (ABR 10) states that:

At the end of a trial period, a New Entry Recruit is given the option of resignation if the recruit considers that they are unsuited to a Navy career. On completion of the trial period the sailor's option for resignation lapses and the sailor is expected to fulfil the terms of the enlistment. A sailor with previous Australian Defence Force (ADF) experience (in any Service) is not entitled to an Optional Resignation.

ABR 10 further states that:

The trial period for the option of resignation from the Permanent Navy as a General Entry … is after 64 days of training to be separated on the 70th day of training. The Commanding Officer (CO) Recruit School may use the discretion to grant a resignation to a recruit who opts for a resignation prior to the completion of the stipulated trial period.

Source: ABR 10 RAN Sailor's Career Management Manual, Chapter 22, Annex F.

2.34   The Defence Strategic Workforce Plan attributes the propensity to leave within the first year of military service to a poor fit between the individual and the organisation. Military life is very different to civilian life, it is challenging, often physically demanding, and not for everyone.[72] For this reason the Strategic Workforce Plan recognises the need to continually validate recruit quality measures and their ability to predict success.

Figure 2.2:   Number of personnel who left Navy within the first year of service, 2002–2014
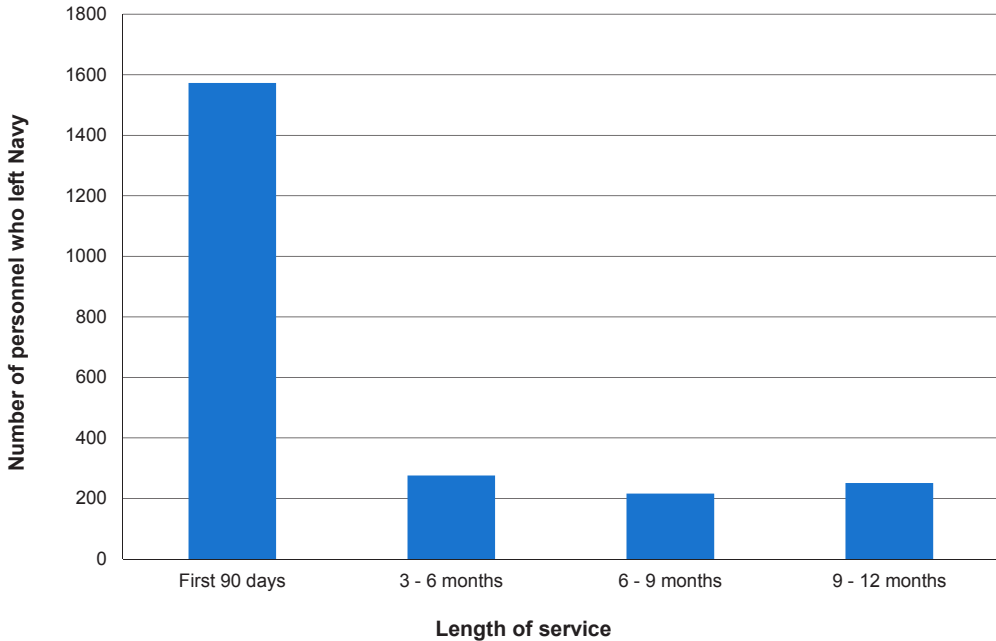
Source: ANAO analysis of Navy workforce data.

2.35   While acknowledging that not all recruits will be well-suited to Navy life, Navy itself recognises the risks of recruiting personnel simply to achieve targets:

> To achieve recruiting targets, over the last couple of years Navy have been accepting a larger number of candidates within the lower range in the order of

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72   Defence informed the ANAO in October 2014 that: 'Service lifestyle and its demands are emphasised throughout the recruiting process and is raised with each candidate at every interview with a [Defence Force Recruiting] staff member'.

merit for recommended applicants, where candidates' motivation/ commitment/knowledge of Navy is at a lower level.[73]

2.36   The ANAO sought Defence advice on analysis undertaken in relation to personnel who leave Navy within their first 90 days, which may be used in assessing recruitment processes. In October 2014, Defence informed the ANAO that:

> Defence People Group (DPG) does not conduct analysis in relation to leavers in the first 90 days as the only information available … is limited to age and gender; it does not provide why they elected to discharge. DPG understands that reports are raised upon intake graduation which lists those who discharged and reasons why. This information is sent to [the Director-General Navy People, Commander Training in Navy and Defence Force Recruitment].

2.37   Defence could strengthen its analysis of the profile of personnel that leave Navy shortly after commencing service, and the reasons they cite for departing. Analysis of this type could usefully inform a review of upstream recruitment and assessment processes, as a first step in minimising downstream losses shortly after personnel have been recruited.

Recruitment pathways including lateral recruitment

2.38   There are two main pathways for recruitment into Navy:

- *Ab initio* **recruitment** for personnel entering into Navy for the first time, without any prior military experience. This group includes personnel recruited by direct entry, from the Australian Defence Force Academy and undergraduate officer entry.

- **Lateral recruitment**[74] for personnel returning to Navy from civilian life; transferring from the Navy Reserve, Army or Air Force; or personnel with prior foreign military service.

2.39   Figure 2.3 shows the number of *ab initio* and lateral recruits accepted into Navy between 2009–10 and 2013–14. The number of lateral entries as a proportion of Navy's total recruits has remained relatively stable over the past

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73   Navy People Report March 2013, p. 10.

74   The Lateral Recruitment Directive sets out Navy's lateral recruitment targets. It is prepared by the Directorate of Navy Workforce Management, in consultation with the Navy People Career Management Agency. This Directorate references the Navy Workforce Supply Analysis and the annual Navy Critical Category Assessment to ensure that the recruitment targets are aligned with Navy's current and forecast workforce shortfalls.

five years. In 2013–14 the large majority of recruits were *ab initio*, however 182 or 13 per cent were recruited laterally, which represents an important contribution towards meeting workforce requirements. Lateral recruitment enables Navy to address workforce hollowness in a more immediate fashion than *ab initio* recruitment, and was identified in the Navy Strategy 2012–17 as a key initiative to address workforce shortfalls.

Figure 2.3:   Number of *ab initio* and lateral Navy recruits, 2009–10 to 2013–14
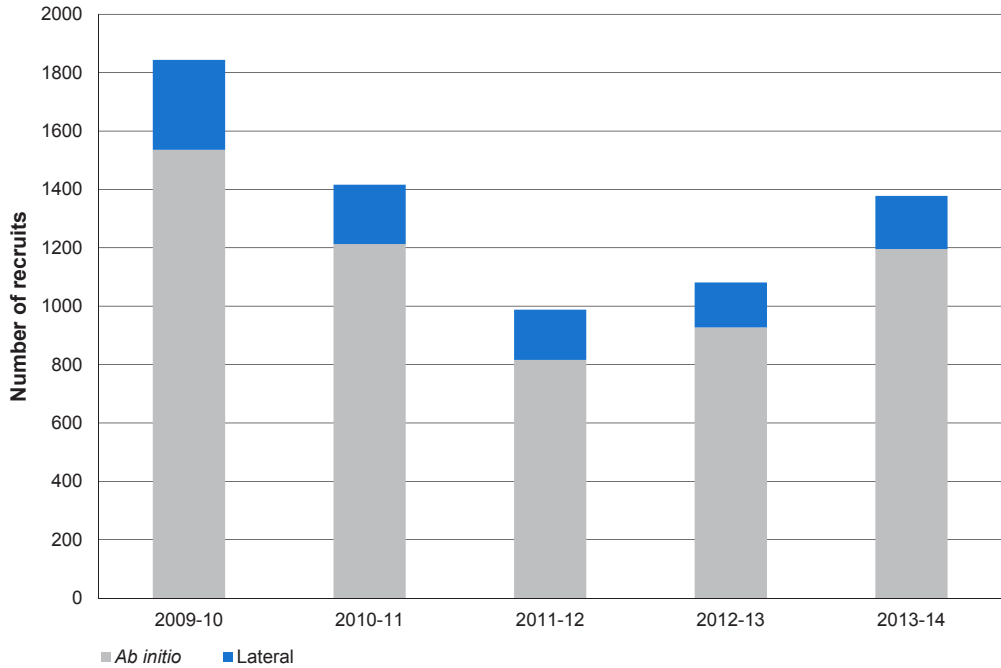
Source: Navy workforce statistics.

Note: The figures for lateral recruits include in-service transfers, for example, sailors transferring to officer categories.

2.40   Table 2.3 below outlines the achievement of targets for lateral and in-service[75] recruitment, compared to *ab initio* recruitment, for officers and sailors in 2013–14. The achievement against targets for lateral and in-service recruitment is lower than for *ab initio* recruitment for both sailors and officers.

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75   In-service recruitment involves the transfer of a sailor to an officer primary qualification.

Table 2.3: Achievement of recruitment targets by type, 2013–14

Recruitment type	Percentage of target achieved
Ab initio—Sailors	94%
Ab initio—Officers	86%
Lateral (including re-entry) and In-Service—Sailors	79%
Lateral (including re-entry) and In-Service—Officers	59%

Source: Navy Recruiting Progress 2013-14.

Re-joining the Navy

2.41   Navy established its Re-join Case Management Team in 2009 to more effectively manage, on a case by case basis, personnel with prior Navy experience re-joining the Permanent Navy. The team is part of the Navy People Career Management Agency and has two key goals: to achieve 10 re-enlistments per month (or 100 per year); and to process re-enlistments in a time of 25 days or less. To date neither of these goals has been achieved. During 2013–14, the average rate of re-enlistment was approximately five per month, and the average processing time was 90 days.

2.42   The June 2014 quarterly Navy People Report noted that the main barrier to re-enlistment was a lack of ex-members contacting Navy to re-join. To address this, the Re-join Case Management Team has recently developed a process for cold calling Navy Reserve members to encourage re-enlistments. One of the impediments to encouraging ex-Navy personnel to re-join Navy is the lack of recognition of their employment experience outside the military. Personnel often re-join at the same rank at which they left Navy. Navy informed the ANAO in October 2014 that recognising civilian qualifications and experience was particularly difficult when establishing the relevance of these qualifications and experience to a Navy job at sea.[76]

2.43   The Navy People report noted that recruitment processing times can be delayed by: the need to align an individual's return to Navy with their desired timeframe; the time it takes an individual to respond to their Conditions of

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76   Project Suakin is aiming to address this and related issues across the ADF. Defence launched the project in November 2013. It seeks to end the legal and administrative barriers faced by Service members looking to switch between full-time, part-time and reserve service or between Services. Currently these changes are often highly complex and time-consuming. By allowing near seamless transitions between types of service the ADF intends to provide options that suit members' individual situations. A further key change is to make permanent (continuing) part-time service readily accessible to full-time members.

Service; and the time it takes an individual member to have their re-entry medical examination. Navy informed the ANAO in October 2014 that delays are also caused by time taken to complete background checks for potential candidates re-joining Navy, to confirm that the candidate has no outstanding ADF or civilian disciplinary or administrative matter against them and that they are of good character.

Lateral Recruitment Program

2.44 Navy also has a Royal Australian Navy Overseas Lateral Recruitment Program to encourage officers and sailors who have served in navies overseas to join. This program operates under a Labour Agreement between the ADF and the Department of Immigration and Border Protection, which allows the ADF to recruit skilled overseas workers within specific occupational groups, and includes both critical skills and future capability needs. Overseas lateral recruitment has increased over the past few years, as shown in Table 2.4.

Table 2.4:   Overseas Lateral Recruitment Achievement from 2011–12 to 2013–14

Year	Recruiting Achievement—Officers	Recruiting Achievement—Sailors	Total Recruiting Achievement
2011–12	9	14	23
2012–13	11	26	37
2013–14	22	44	66

Source: Quarterly Navy People Report to Chief of Navy Senior Advisory Committee.

2.45 Navy informed the ANAO in October 2014 that to encourage overseas lateral recruitment, it arranges biennial visits to the United Kingdom to provide information on service in the Navy to potential candidates and to undertake selection interviews. Additionally, opportunities for transfer of service are advertised on the Navy Career Management Website and via Navy signals.

Mid-Career Entry Scheme

2.46 The Navy Strategy 2012–17 identified mid-career entry as a further strategy for addressing workforce shortfalls (see paragraph 2.16). This involves employing *ab initio* recruits with technical and management skills, and experience acquired from civilian jobs, as officers and sailors further up Navy's rank structure. The primary intent of the Mid-Career Entry Scheme is to assist Navy in addressing issues of 'structural hollowness' within its workforce in specific categories:

The intent of [mid-career entry] … is to provide rapid workforce augmentation at the [Petty Officer] and [Chief Petty Officer] ranks by recruiting skilled personnel with no prior military experience and providing the minimum training required to enable them to perform their roles successfully and safely.[77]

2.47 The Mid-Career Entry Scheme is a new initiative for Navy. At the March 2013 CNSAC meeting, the Chief of Navy noted that:

we need to address the Mid-Career Specialist Entry and Technical Supervisor concepts as quickly as possible as we have been deliberating on these issues for a long time and meanwhile are missing potential candidates being 'laid off' from industry.

2.48 Following this meeting, in July 2013, a brief to the Chief of Navy identified a number of risks with the scheme. These included:

- Navy's overwhelming preference to recruit personnel with prior relevant military experience;

- the loss of morale amongst current sailors associated with mid-career recruits being posted to shore-based positions instead of them, limiting their opportunities for respite and career development;

- the perception by current sailors that mid-career recruits would be receiving an unfair level of remuneration, and skills and experience recognition, compared to them; and

- the need to redirect scarce resources from more fruitful and lower-risk workforce augmentation measures to pursue this scheme.

2.49 A Mid-Career Specialist Entry Implementation Plan was presented to CNSAC on 29 August 2013[78], and the scheme began in 2014. The positions Navy identified as suitable to be filled by a mid-career recruit are shore-based with no requirement for the personnel to be sent to sea or deployed. In October 2014, Navy informed the ANAO that as at 24 September 2014, three sailors had been recruited through the scheme, and that another sailor and an officer may also join depending on the results of their medical examinations.

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77   Brief to the Chief of Navy, Mid-career Entry Recruitment, July 2013, p. 3.

78   At this meeting, CNSAC discussed the poor perception of the Mid-Career Entry Scheme by some members of the Permanent Navy, and their resulting resistance to the scheme.

2.50   If Navy continues to experience workforce shortfalls that cannot be addressed though its preferred raise, train and sustain approach, it may need to consider whether mid-career entry should have an enhanced role, as well as strategies to manage the risks discussed in paragraph 2.48.

2.51   Navy informed the ANAO in December 2014 that while the Mid-Career Entry Scheme will initially be small, Navy intends to expand the scheme in the future. Navy further informed the ANAO of its intention for the scheme to have a significant effect in addressing workforce shortfalls.

Use of Navy Reserves

2.52   Use of members of the Naval Reserve in Continuous Full-time Service (CFTS) is a key component of Navy's approach to mitigating workforce shortfalls. The Defence Strategic Workforce Plan 2010–20 notes that:

> Entry into the Naval Reserve is generally by transfer from the permanent force … which accounts for about 100 people in a given year. The Naval Reserve is integrated with the permanent force and is used to provide a surge capacity and provide specific skills at short notice. Hence, the use of people with permanent force experience is advantageous for Navy. …

> Reservists on CFTS provide the ADF with an effective individual augmentation policy. The use of CFTS allows the ADF to fill permanent roles on a temporary basis to reduce force hollowness.[79]

2.53   Table 2.5 below shows the number of Naval Reserve members over the past three years, including those that are active or employed to provide CFTS. To provide CFTS, members of the Naval Reserve enter into full-time contract employment with the Permanent Navy.

Table 2.5:   Number of Navy Reserve members, 2012 to 2014

Navy Reserves	June 2012	June 2013	June 2014
Active	4795 (94%)	4702 (92%)	4714 (92%)
Continuous Full-time Service	295 (6%)	409 (8%)	399 (8%)
Total	**5090**	**5111**	**5113**

Source: Defence's Human Resource Metric System, June 2014.

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79   Defence Force Strategic Workforce Plan 2010–20, January 2010, p. 72. In contrast to Navy Reservists, Army Reservists tend not to have prior military experience.

2.54   Part of the focus of Project Suakin[80] is to streamline the process for Service members looking to move between Permanent and Reserve service. For example, Defence has reported that it can take up to 47 weeks to transfer from the full-time Navy to the Active Reserve. Project Suakin is expected to run for several years because it involves complex legislative and administrative changes.

A diverse and flexible workforce

2.55   The ADF and Navy have pursued a number initiatives aimed at increasing workforce diversity and flexibility in recent years. These include the Defence Diversity and Inclusion Strategy[81] and New Generation Navy strategies.

2.56   Workforce diversity rates across the three Services are similar. Table 2.6 shows the participation rates of certain minority groups within Navy, Army and Air Force, as at June 2014. These participation rates lag well behind the proportional representation of relevant groups in the Australian population. In 2012, Defence set a target of achieving 2.7 per cent Indigenous participation in the ADF by 2015. Navy recently pushed back the timeframe for achieving this target to 2017.

Table 2.6:   Diversity in the ADF, as at June 2014

Service	Indigenous	Non-English Speaking Background	Disabled
Navy	1.5%	4.8%	0.4%
Army	1.3%	6.0%	0.4%
Air Force	0.8%	5.7%	0.3%
Australian population	**2.5%**	**17.3%**	**18.5%[1]**

Source: Defence workforce data. Statistics for Australian population sourced from Australian Bureau of Statistics.

Note: The Australian Bureau of Statistics defines a disability as any limitation, restriction or impairment which restricts everyday activities and has lasted, or is likely to last, for at least six months.

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80   See footnote 76.

81   The Defence Diversity and Inclusion Strategy set Defence five strategic goals for improving workforce diversity and inclusion, with a particular focus on improving the participation rates of women, Indigenous Australians, people from culturally and linguistically diverse backgrounds, people with a disability, lesbian, gay, bisexual, transgender and intersex persons, and mature age workers.

2.57 Defence's Military Personnel Policy Manual states that flexible working arrangements are to be mutually negotiated and accepted between Defence personnel and their supervisor or commanding officer. Further, requests for flexible working arrangements are to be accommodated except where genuine operational priorities exist.

2.58 Navy's current workforce categorised by permanent and part-time uniformed personnel, and civilian personnel, is shown in Table 2.7 below. Members of the Permanent Navy may work part-time for a specified period, usually to allow them to care for a member of their family. As at 30 June 2014, 52 members of the Permanent Navy (0.4 per cent) worked part-time.

Table 2.7: Navy workforce: full-time and part-time uniformed and civilian personnel, 30 June 2014

Type of personnel	Number (Percentage)
Full-time uniformed personnel[1]	14 101 (86%)
Part-time uniformed personnel[2]	1 664 (10%)
Civilian personnel (APS and contractors)	667 (4%)
Total Navy Workforce	**16 432 (100%)**

Source: Navy workforce statistics.

Note 1: Full-time uniformed personnel include: members of the Permanent Navy (from both the Trained and Training Forces) and members of the Naval Reserve employed on CFTS.

Note 2: Part-time uniformed personnel include: 52 members of the Permanent Navy working part time for a specified period, 3 members of the Navy Reserve employed on CFTS who are currently working part-time due to personal circumstances (for example a medical condition), and members of the Navy Reserve who are not posted to a Navy position but provide Reserve Service Days to Navy.

Note 3: There are a further 2746 members of the Navy Reserve who are not currently employed by Navy but may render either CFTS or provide Reserve Service Days to Navy.

2.59 A 2014 Defence Workforce Outlook report noted that while flexible working arrangements are available within Navy, encouragement for and the ability of Navy personnel to maintain work-life balance had decreased noticeably in 2013, with less than half of respondents feeling that they were able to balance their personal and professional life. In April 2014, a report on Defence's main attitude survey for ADF and Defence APS staff, the YourSay Organisational Climate Report, found that more Navy personnel were accessing both formal and informal flexible work arrangements in February 2014 compared with the previous year, but their satisfaction with work-life balance remained below 50 per cent.

2.60 The report for the New Generation Navy project 'Enhancing Capability Delivery through Flexibility' was delivered in August 2013. It identified a number of extant administrative, cultural, managerial and structural barriers to

introducing greater flexibility into Navy working arrangements and career management, and noted that it would take a number of years for Navy to adopt and implement contemporary flexible work practices. In an environment characterised by key workforce shortfalls and some traditional mindsets[82], there was a lack of guidance on how to apply flexible working arrangements. Navy informed the ANAO in October 2014 that the first deliverable in response to the Enhancing Capability Delivery through Flexibility report would be an awareness and education package for Navy personnel on a new policy for accessing flexible work arrangements.

Female participation at 25 per cent by 2023

2.61   In 2013, Navy set a goal of increasing the participation rate of women in its workforce to 25 per cent by 2023. To achieve this, in January 2014 Navy set specific female recruiting goals for all employment categories, with particular emphasis on those categories with female participation below 20 per cent.[83] In March 2014, Navy established a Specialist Recruiting Team to assist Defence Force Recruiting in recruiting women into Navy.[84]

2.62   As at June 2014, the female participation rate for the Permanent Navy was 18.6 per cent and varied within employment categories from less than 10 per cent to greater than 50 per cent. Navy People reported in its March 2014 report to CNSAC that women in Navy predominated 'in health and clerical vocations much the same as in Australian society generally'.[85]

2.63   As at June 2014, 26 per cent of women in Navy were classified as non-deployable compared to 12 per cent of men. The percentage of non-deployable personnel has increased noticeably over the last three years

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82   The report noted that: 'there are significant barriers to the adoption of flexibility because some traditional mindsets hinder a flexible workplace'. Navy, Enhancing Capability Delivery through Flexibility, New Generation Navy Flexibility Initiative Recommendations Report, August 2013, p. 9.

83   Categories with female participation less than 20 per cent as at 30 June 2014 included for officers: the maritime warfare officer family, aerospace engineers, marine engineers, maritime aviation warfare officers, weapons electrical engineers and pilots; and for sailors: combat systems operators, aviation support, electronic warfare submariners, electronics technicians, marine technicians and clearance divers.

84   In August 2012, the Australian Human Rights Commission released its Review into the Treatment of Women in the ADF, Phase 2 Report. The report found that female progression beyond ADF mid-career ranks was lower than would be expected given the proportion of women in the ranks below. In response to this finding, the ADF has indicated that it intends to increase training and promotion opportunities for women.

85   Quarterly Navy People Report 31 March 14 for the 11 June 2014 Chief of Navy Senior Advisory Committee meeting, p. 23.

(Figure 2.4). Increasing female participation may create challenges for Navy if women are more likely to be unavailable for sea positions and deployments.

Figure 2.4: **Navy Trained Force—non-deployable personnel, 2009 to 2014**
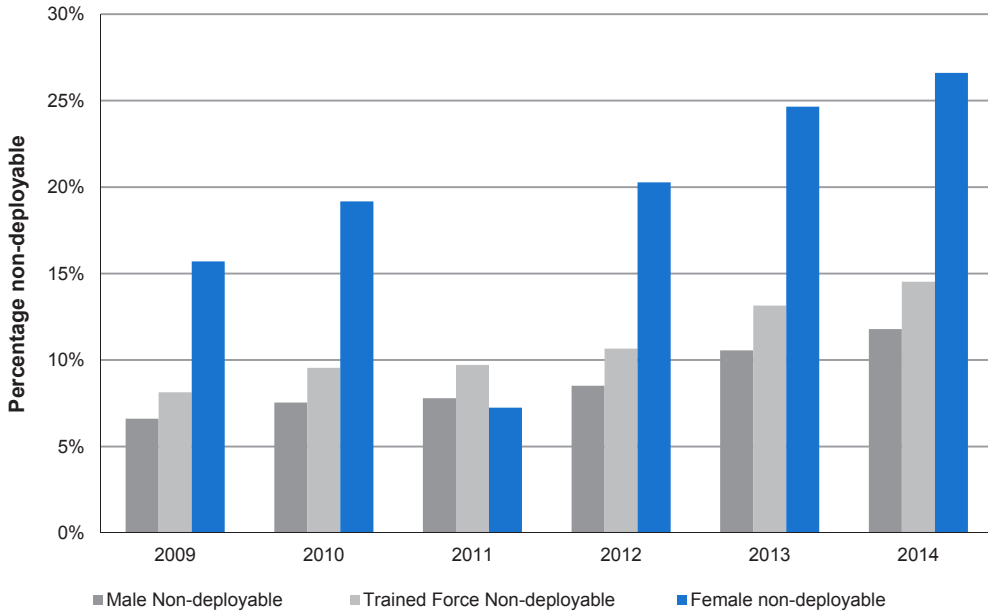
Source: ANAO analysis of Navy workforce data.

2.64 The CNSAC meeting of 1 November 2013 noted that many female sailors left Navy at the Leading Seaman rank. CNSAC discussed factors influencing this and the committee agreed that 'a likely key factor was the 20 year workforce model that, in order for sailors to progress, requires [them at] every rank to serve at sea.' The then Chief of Navy directed Navy People to investigate initiatives to promote the retention of primary caregiver sailors, noting that most were female. The CNSAC meeting on 4 December 2013 noted that the separation rate for female sailors had increased. CNSAC attributed this to 'sea-shore ratio, career continuum, and [Navy's] workforce model.'[86,87]

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86   CNSAC minutes, 1 November 2013 and 4 December 2013.

87   At the time of the audit, Navy had developed a proposal to improve the balance of sea and shore service at the Leading Seaman rank within the electronics technician employment category.

Separation rates for Navy

2.65 Over the last ten years, separation rates in Navy peaked in 2007 at 12.3 per cent (or 13.6 per cent and 9.3 per cent for sailors and officers respectively). Since that time separation rates have mostly declined, with the exception of sailors in 2012 and 2013 (Figure 2.5). Navy's 12 month rolling separation rate as at June 2014 was 8.4 per cent (or 9.4 per cent and 5.1 per cent for sailors and officers respectively). Navy attributes the decline in separation rates to the use of retention bonuses, allowances and other financial incentives, and external factors including the Global Financial Crisis.

Figure 2.5:   Separation rates for Navy, by officer and sailor, June 2004 to June 2014
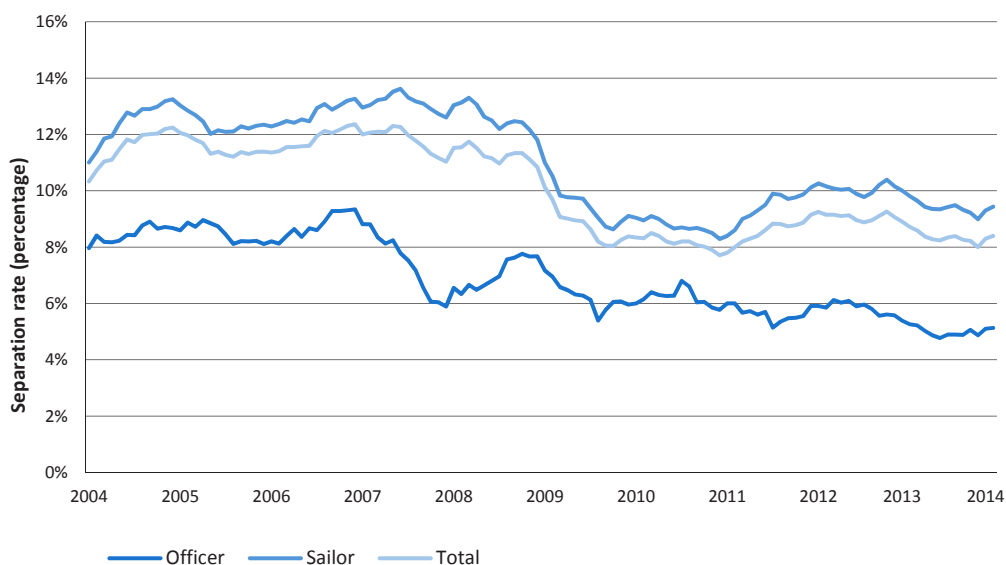
Source: ANAO analysis of Navy workforce data.

2.66 Despite the improvement in the overall separation rate since 2007, separation rates for certain employment categories and ranks still remain high. For example:

- As at June 2014, medical officers had a separation rate of 16.7 per cent compared to the overall officer separation rate of 5.1 per cent.

- As at June 2014, submariner sailors had a separation rate of 17.3 per cent compared to the overall sailor separation rate of 9.4 per cent. The separation rate for submariner sailors has remained high over the last two years, at between 16 and 20 per cent.

- The number of separations is greater for the middle sailor ranks, particularly for Leading Seaman and Petty Officers, when compared to other sailor and officer ranks. Some key workforce shortfalls in Navy's sailor critical employment categories are at the supervisor level (Leading Seaman to Chief Petty Officer ranks).

Conclusion

2.67 Defence and Navy strategies have consistently identified common workforce issues, including historic difficulties experienced in attracting diverse talent, achieving recruiting targets and high separation rates, which contributed to workforce gaps in certain employment categories. The strategies propose similar potential solutions to address these issues, by increasing workplace diversity and flexibility, including through lateral recruitment, mid-career entry and amendments to personnel policies. This strategic emphasis responds to the changing demographics and work preferences of the Australian population.

2.68 The Navy Strategy 2012–17 sets out where Navy wants to be in 2017, how it plans to get there and the risks it will face along the way. The strategy identifies five enterprise risks including the 'failure to attract, retain and generate a capable and integrated Navy workforce'. As such, Navy clearly identifies recruitment, retention and training as central to its ability to fulfil its obligations. In addition to the Navy Strategy, Navy's Workforce Plan 2007–17 is Navy's key planning guidance for workforce management. It was released in February 2008, and a revised version is under development. Navy continues to face challenging workforce shortfalls, and delays in promulgating a new workforce plan have meant that it has lacked an up-to-date edition of its primary workforce planning guidance.

2.69 Navy sets *ab initio* recruitment targets for Defence Force Recruiting, and in the period following the Global Financial Crisis in 2008, Defence Force Recruiting has achieved close to 90 per cent of these targets. However, the most common time that recruits leave the Navy is within their first 90 days of service, and taking these separations into account, recruiting achievement dropped by an average of 8.5 per cent between 2008–09 and 2013–14. While recognising that military life is demanding and not for everyone, and that a proportion of recruits will decide to separate prior to the 90 day point, Defence could strengthen its analysis of the profile of personnel that leave Navy shortly after commencing service and the reasons they cite for departing. Analysis of this type could usefully inform a review of upstream recruitment and

assessment processes, as a first step in minimising downstream losses shortly after personnel have been recruited.

2.70   Navy's separation rates have generally improved over the last several years. The June 2014 overall separation rate of 8.4 per cent compared to a peak of 12.3 per cent in mid-2007. Despite this overall improvement, certain employment categories and ranks still have high separation rates. For example, in June 2014 the separation rate for submariners was 17.3 per cent and the separation rates for middle sailor ranks, particularly Leading Seaman and Petty Officers, were higher than for other sailor and officer ranks. Further, following their first 90 days of service the next most common time for sailors to leave Navy is at the end of their Initial Minimum Period of Service, at which point they are relatively junior sailors. As a result of these factors, workforce pressures and shortfalls accrue within some of Navy's critical employment categories at the supervisor level (Leading Seaman to Chief Petty Officer ranks).

2.71   Broadening Navy's recruitment intake to include personnel with prior military and civilian experience has the potential to assist Navy address workforce shortages at supervisory ranks for officers and sailors. Navy has made good progress in implementing its Lateral Recruitment Program, which is intended to recruit personnel with prior military experience, and the skills and experience to work in employment categories with significant workforce shortfalls. During 2013–14, 13 per cent of Navy's total recruits were laterally recruited including personnel: returning to Navy; transferring from the Navy Reserve or other Services; and personnel with prior foreign military service. However, Navy has been slow to progress its Mid-Career Entry Scheme. This scheme is designed to employ ab initio recruits who previously worked in civilian jobs, at a rank commensurate with their qualifications and experience, in shore-based positions. As at October 2014, Navy reported that only three sailors had been recruited through the scheme.

2.72   In recent years, Navy has pursued a number of other initiatives aimed at increasing workforce diversity and flexibility, including female participation and work-life balance. As at June 2014, the female participation rate for the Permanent Navy was 18.6 per cent, and Navy has set a goal of increasing the participation rate of women in its workforce to 25 per cent by 2023. At the time of the audit, the representation of certain minority groups within the Navy

workforce was also relatively low[88], highlighting the need for Navy to actively pursue initiatives aimed at diversifying its workforce. In relation to work-life balance, a 2014 survey found that more Navy personnel were accessing both formal and informal flexible work arrangements compared with the previous year, however, their satisfaction with work-life balance remained below 50 per cent. In an environment characterised by workforce gaps and some traditional mindsets, there has been a lack of guidance within Navy on how to apply flexible working arrangements.

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88   For example, as at June 2014: 1.5 per cent of the Navy workforce was Indigenous, which compared to 2.5 per cent of the Australian population; and 4.8 per cent of the Navy workforce was from a non-English speaking background, which compared to 17.3 per cent of the Australian population.

3.   Workforce Planning and Category Management

This chapter examines Navy's workforce requirement planning and management of critical employment categories.

Introduction

3.1   Navy's workforce requirement consists of all positions in its workforce. The number and type of Navy workforce positions is based on government funding, operational requirements, and current and future Navy platforms and systems. Significant changes in Navy capability are outlined in Defence White Papers[89] and the Defence Capability Plan.[90] Navy's management of its workforce requirement, and in particular employment categories classified as critical, is fundamental to the delivery of naval capability.

3.2   In this chapter, the ANAO examines Navy's:

- workforce requirement planning; and

- management of critical employment categories.

Workforce requirement planning

3.3   The Directorate of Navy Workforce Requirements within Navy People Branch determines the structure of the workforce Navy needs to deliver its current and future capabilities, and analyses the workforce structure for sustainability. Navy defines each position in its workforce by rank, employment category, whether the position is at sea or ashore, and for shore positions, whether or not it is a military specialist or combat related position. This workforce definition approach is directed toward Navy having a sufficient number of positions:

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89   Defence White Papers are the Australian Government's primary guidance on Australia's long-term defence capability. The White Papers allow the Government and community to understand the opportunities and challenges for Australia's future defence and security needs. The most recent Defence White Paper was released in 2013, and the Government has announced that it will release a new White Paper in 2015.

90   The Defence Capability Plan provides guidance on Defence's capability development priorities.

- within each employment category to form effective crews for each of Navy's platforms and support the effective running of Navy;

- at each rank to support individual career advancement; and

- at sea and ashore to provide respite for sailors.

3.4 In determining its workforce requirement, Navy allocates:

- an additional 4.3 per cent of positions overall as a Personnel Contingency Margin (PCM). These positions account for members of the Trained Force who are not contributing to the workforce at a particular time, including personnel on long service leave, maternity leave, or absent or unable to perform their role due to a medical condition;

- additional positions as an Advance Training Requirement (ATR) to account for Trained Force personnel undertaking advanced training for periods of 12 weeks or longer.[91] ATR is calculated for each rank, within each employment category, based on the average number of trained personnel at that rank required to undertake training courses of 12 weeks or greater duration per year; and

- additional positions to account for personnel who are in a position that is filled on rotation, by either a member of Navy, Army or the Air Force.[92]

3.5 In June 2014, Navy reported that 14.6 per cent of its Trained Force was unavailable to go to sea. There is a gap between Navy's PCM and the proportion of its workforce unavailable to go to sea. This gap complicates Navy's workforce requirement planning, particularly for critical employment categories with sea-based positions.[93] Navy informed the ANAO in October 2014 that a review of PCM and ATR was ongoing:

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91   Personnel posted to training courses for 12 weeks or longer have their positions backfilled (they are provided relief).

92   In December 2013, Navy assigned 92 positions to be filled on rotation by Navy.

93   In a similar vein, a brief to the Chief of Navy in May 2014 highlighted shortcomings in Navy's approach to workforce modelling:

   No consideration [when modelling workforce supply and demand for critical categories] has been taken of temporary or hidden demand nor have the actual non-deployable rates by category been applied; both of these issues continue to place considerable strain on the workforce.

The intent with ATR is to assign an allowance by category and rank that more accurately identifies the actual generic advanced training requirement, while for PCM, the intent is to allocate a workforce allowance that matches the expected PCM for each category and rank based on empirical evidence.

3.6 The defined workforce requirement represents Navy's demand for personnel and the Directorate of Navy Workforce Requirements provides this information to the Directorate of Workforce Modelling, Forecasting and Analysis (Navy) within the Defence People Group. The latter Directorate in turn provides reports on the supply of Navy personnel to Navy People Branch, including:

- Monthly Workforce Status Reports, which provide an overview of the number of personnel within Navy including rank, position and category of employment, and identify the number of positions Navy has to fill.

- Forecasts of Navy's workforce situation over a ten year modelling period using estimated future separation, recruitment and promotion rates to predict the status of employment categories.

Defence Instruction (Navy) Personnel 2.1: RAN Manning Policy

3.7 Defence's current policy and guidance for Navy workforce requirement planning is the Defence Instruction (Navy) Personnel 2.1 'RAN Manning Policy'. The Instruction outlines Navy's approach to determining its workforce requirement, including:

- identifying sufficient positions at each rank within employment categories to accommodate personnel spending an average time in each rank;

- identifying sufficient positions ashore within employment categories to provide respite for seagoing personnel, taking into account Navy's ideal sea to shore ratios for personnel at each rank; and

- assigning a level of priority to filling each position within an employment category.[94]

3.8 While the Instruction has not been updated for over twenty years, a review of the policy was underway at the time of this audit.[95] Navy plans to make a number of changes to the policy to assist workforce planning. These changes include:

- Identifying positions that have been allocated to a specific employment category but do not require the specific skillsets associated with that category, so as to remove these positions from critical categories.

- Removing the fixed PCM and sea to shore ratios from the workforce requirement planning process. The aim is to allow for different requirements across categories and ranks.

- Considering geographic stability in workforce planning to provide opportunities for personnel to remain in the one location and reduce posting instability.

- Assessing workforce sustainability to determine whether the workforce requirement for a given rank in an employment category can be filled sustainably in light of current and expected recruiting targets, training and retention trends. If an assessment is made that critical shortfalls at ranks within a category will impact on capability, then the category's requirement will be re-examined.

Management of critical employment categories

3.9 As previously discussed, officers and sailors are employed in the Navy in occupationally based groups called 'categories'.[96] The category is used for workforce planning and structure, remuneration and competency development. Individuals are recruited, trained, employed and promoted within a category

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94 The status of any position usually falls into one of the following categories: **active** – high priority positions; **inactive** – lesser priority positions which cannot be filled with available personnel in the immediate future; **future** – positions normally established inactive and will be activated when required provided there is a disestablishment of an existing and manned position; and **rotational** – positions usually filled by one of the three Services on a rotational basis.

95 In August 2014, Navy informed the ANAO that the draft version of the new Instruction was under review, and was expected to be finalised by the end of the year.

96 For officers in Navy, employment groups are called Primary Qualifications (PQs). For ease of reading, officer PQs and sailor employment categories are collectively referred to as 'categories' in this audit.

during their service with Navy. Categories that are experiencing significant workforce shortages are classified by Defence as 'perilous' or 'critical'.

3.10   Employment categories classified as perilous and critical are collectively referred to by Defence as 'critical categories'.[97] Defence's definitions of perilous and critical categories are:

- A perilous category is one that is experiencing a shortfall in the numbers of Service personnel at required skill and rank levels to the extent that the possibility of mission failure at the strategic or operational level has been raised significantly.

- A critical category is one that is experiencing or anticipated to experience a shortfall in the numbers of Service personnel at required skill and rank levels, to the extent that this could severely limit the range of strategic and operational options available to achieve the Defence mission.

3.11   The language and definitions adopted by Defence to classify employment categories experiencing shortages—as 'perilous' or 'critical'— convey a sense of urgency for the development and implementation of remediation strategies. In particular, the heightened possibility of mission failure or severe limitations in strategic and operational options, indicate the need for a timely and effective response to manage these risks, including appropriate senior leadership attention.

3.12   The Chiefs of Services Committee (COSC) has been receiving reports on ADF employment categories identified as perilous or critical since 2005. Defence informed the ANAO in October 2014 that while the single Services maintain ownership for recovering their workforce groups, reporting on critical categories to COSC is intended to provide for a high level of defence leadership on the issue, including a coordinated ADF approach to the identification, reporting and remediation of critical categories.

3.13   Figure 3.1 illustrates the number of critical employment categories in the ADF and for each of the Services from 2005 to 2014. During this period, Navy has had a higher number of critical categories compared to Army and Air Force. In 2014, all thirteen critical categories were in Navy.

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97   Defence informed the ANAO that prior to 2004, each of the Services defined and managed critical employment categories independently (with Navy using the term critical categories since at least 1999), and that since October 2004, a common methodology has been used to classify all ADF employment categories presenting as perilous or critical to capability.

Figure 3.1:   Critical categories in the ADF, 2005 to 2014
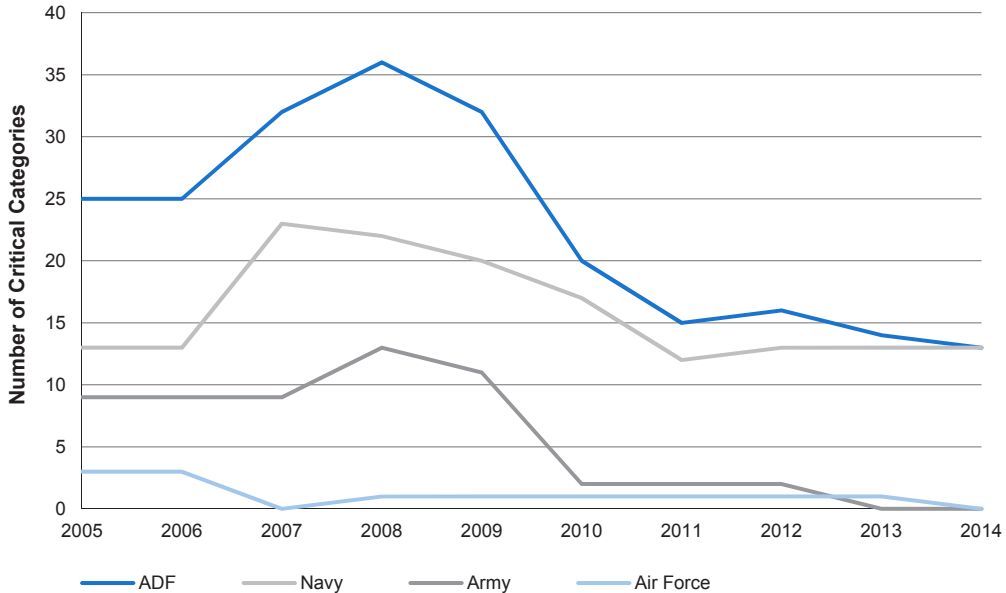
Source: ANAO analysis of Defence workforce data.

Process to determine critical categories

3.14   Table 3.1 outlines the process Navy uses to determine its critical categories of employment. The process involves both quantitative and qualitative assessment, as well as a range of stakeholders. The agreed list of critical categories is considered by COSC.

Table 3.1:   Navy's process to determine critical categories

Process	Description
1. Develop workforce demand and critical category criteria	Known workforce demand is determined by the Directorate of Navy Capability, Structures and Guidance. Critical category criteria are developed and authorised by the Director General of Navy People.
2. Data and criteria used to develop initial quantitative assessment of categories	Analysis of employment categories is undertaken by the Directorate of Workforce Modelling, Forecasting and Analysis (Navy) in Defence People Group.
3. Further analysis of categories is undertaken to produce a detailed qualitative assessment	The Director General of Navy People coordinates this part of the process with assistance from the Directorate of Navy Workforce Management, Commodore Training, the Directorate of Navy Category Management, the Directorate of Recruiting Management - Navy, the Navy People Career Management Agency and the Directorate of Navy Health.

Process	Description
4. Annual assessment provided to Chief of Navy in April	A brief is prepared for the Chief of Navy by the Director General of Navy People. The Chief of Navy agrees on the list of critical categories.
5. Agreed list of critical categories considered by the COSC	COSC considers the critical categories in May each year. An update on the remediation of critical categories is provided to COSC in November each year.

Source: Defence documentation.

3.15 Table 3.2 describes the seven criteria and weightings which are used to assess the status and sustainability of Navy employment categories. These criteria involve a mix of quantitative and subjective assessments.

Table 3.2: Criteria for assessing Navy employment categories

Criteria	Description	Weighting	Responsible Area
1. Capability value	Relative importance to capability, recognising that some categories are more important than others.	30 per cent	Director General Navy People
2. Asset establishment coefficient	The forecast quantitative gap between the asset supply and establishment demand at each rank level over the next 10 years. The forecast gaps in the later years receive less weighting due to greater uncertainty in the forecast.	30 per cent	Directorate of Workforce Modelling, Forecasting and Analysis (based on demand data supplied by Directorate of Navy Workforce Requirements)
3. Recruiting performance	The expected enlistment achievement for each category (quantitative) based on past performance and a subjective assessment of future trends.	10 per cent	Directorate of Workforce Modelling, Forecasting and Analysis; and Director General Navy People
4. Transfer of category performance	Quantitative assessment of the likelihood that transfer of category targets (or internal movement into a category) are achievable based on past performance and a subjective assessment of future trends.	10 per cent	Directorate of Workforce Modelling, Forecasting and Analysis; and Director General Navy People
5. Training performance	Subjective assessment of the capacity of the training pipeline for each category, which recognises that some categories may have restraints in their respective training system.	10 per cent	Director General Navy People (with input from Commodore Training)

| Criteria	Description	Weighting	Responsible Area
6. External market	Subjective assessment of the pull factors from commerce and industry for Navy personnel.	5 per cent	Director General Navy People
7. Medical employment category	Quantitative assessment based on the propensity a particular category has for a greater or lesser number of members who will be non-deployable due to medical reasons.	5 per cent	Directorate of Workforce Modelling, Forecasting and Analysis

Source: Defence documentation.

3.16   While there may be debate about the weighting of different criteria, the criteria and descriptions show that Navy considers the impact of a broad range of factors on the status and sustainability of its employment categories. As indicated in Figure 3.1, Navy has been managing a large number of critical employment categories for at least a decade, and detailed category assessment processes are in place to help it do so.

Status of critical categories

3.17   Figure 3.2 shows the number of critical employment categories in Navy since 2006. The figure separately presents officer and sailor categories classified as critical.

Figure 3.2:   Navy's critical employment categories, 2006 to 2014
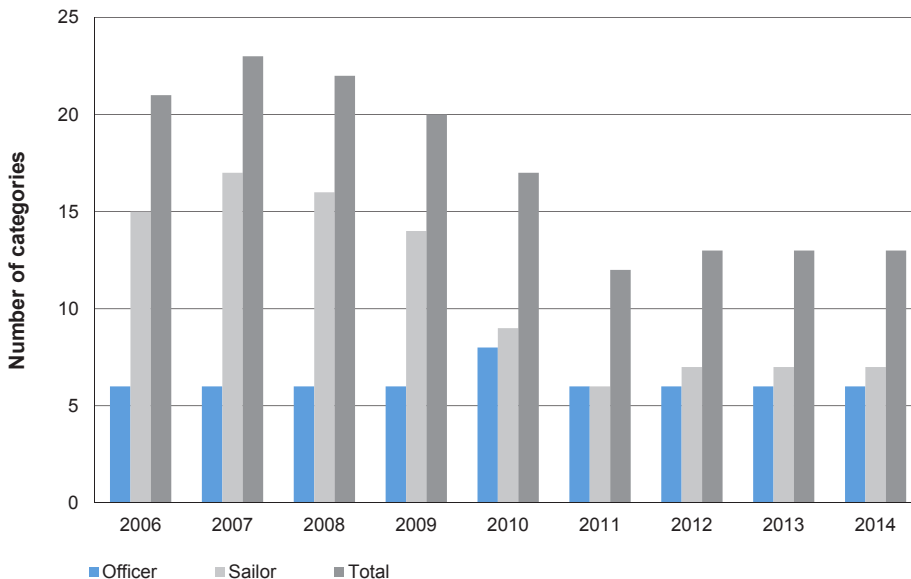
Source: Defence documentation.

3.18 The number of critical sailor categories decreased from 17 in 2007 to six in 2011. In August 2014, Navy informed the ANAO that it attributes this decrease to several internal and external factors, including:

- 23 different retention bonuses and allowances paid between 2005 to 2008;

- other financial incentives including the implementation of the Graded Officer Pay Structure (GOPS) and Graded Other Ranks Pay Structure (GORPS) in 2008 and 2009 respectively, and the Defence Home Ownership Assistance Scheme in 2008;

- non-financial retention initiatives, including New Generation Navy and the Submarine Sustainability Review;

- the impact of recruiting initiatives on the level of achievement against recruiting targets for sailors, which increased from 75 per cent in 2005—06 to 95 per cent in 2010–11; and

- a decrease in separation rates for sailors from 13.6 per cent in late 2007 to 8.6 per cent in mid-2010. Navy attributes this decrease to factors discussed above and the Global Financial Crisis.

3.19 Table 3.3 identifies when the current Navy critical categories were first declared critical, and the year they are expected to recover. The marine technician, marine technician submariner and electronics technician submariner categories have been critical for fifteen years. Seven of the 13 critical categories are not expected to recover within the 10 year forecasting period to 2024. In the case of marine technicians and marine technician submariners, this will mean that these categories are expected to remain critical for at least 25 years.

Table 3.3: **Navy's critical categories—length of time critical and forecast recovery periods**

	Category	Declared critical	Forecast recovery
Officer Category	Maritime Aviation Warfare Officer	2002	2017
	Pilot	2002	2017
	Maritime Warfare Officer	2002	2023
	Marine Engineer Submariner	2004	2017
	Weapons Electrical Engineer Submariner	2004	2019
	Medical Officer	2004	2024+[1]
Sailor Category	Marine Technician Submariner	1999	2024+[1,2]
	Electronics Technician Submariner	1999	Leading Seaman and Chief Petty Officer ranks by 2017, Able Seaman rank by 2019
	Cryptologic Systems	2007	2024+[1]
	Marine Technician	1999	2024+[1]
	Electronic Warfare Submariner	2006	2024+[1]
	Communication and Information Systems Submariner	2002–2010, 2012	2024+[1]
	Medical	2008, 2014	2024+[1]

Source: Defence documentation.

Note 1:   Recovery for the medical officer, marine technician submariner, cryptologic systems, marine technician, electronic warfare submariner, communication and information systems submariner, and medical categories is expected to occur outside the ten year forecast period.

Note 2:   The marine technician submariner employment category was classified as 'perilous' at the time of the audit.

3.20   The very lengthy period that many employment categories have been and are expected to remain critical is a matter of concern for Navy. Based on the ADF's definition of a 'perilous' and 'critical' category, the indications are that Navy will continue to operate for the next 10 years with workforce shortfalls that could significantly raise the possibility of mission failure at the strategic or operational level, or severely limit the range of strategic and operational options available to achieve the Defence mission. This raises questions for Navy as to whether the identified mitigation strategies for the critical categories are the most appropriate, and whether alternative approaches should be considered. These matters are discussed further in Chapter 4.

3.21   More fundamentally, it is doubtful how accurate forecast recovery periods of significant length—such as an expected recovery period of 2024 for

some submariner categories—are likely to be, given the significant economic, labour market and industry changes which can occur over the long-term. Potentially significant changes in equipment, such as a new and enlarged submarine fleet, add to the challenges of long-term forecasting of this type.

Management arrangements for critical categories

3.22 The Directorate of Navy Category Management in Navy People Branch mange Navy's employment categories for officers and sailors. Category sponsors manage individual categories, including those regarded as critical.

3.23 Defence Instruction (Navy) (DI(N)) Personnel 2-2 'Instructions for Category Sponsors' provides guidance to category sponsors on managing their employment categories. Under the Instruction, category sponsors undertake strategic planning for the category, while day-to-day management of the personnel within the category, such as postings, movements and training, is undertaken by other groups in Navy. The main responsibilities of category sponsors include: assessing and redesigning career structures as necessary; monitoring and providing input into the recruiting process for the category; monitoring and adjusting the sea to shore ratio for the category; liaising regularly with personnel in the category on issues affecting their employment within Navy; and proving input into the competency standards and training continuum for the category.

3.24 The Instruction notes the complexity and long-term focus of restructuring employment categories:

> In an internal labour market like that of the Navy, corrections to the workforce to address structure issues or new capability requirements may take several years to take effect. Consequently considerable ongoing planning and thoughtful adjustment is required to ensure the Category can achieve its tasks in an efficient manner.[98]

3.25 The Navy Workforce Plan 2007–17 noted the importance of appropriate support and training for category management staff in ensuring the recovery of categories with critical shortages:

> The complex and inter-related myriad issues facing Navy in stabilising and recovering its workforce, necessitates substantial ongoing commitment to those involved in workforce planning and management, category and

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98   Defence Instruction (Navy) (DI(N)) Personnel 2-2 'Instructions for Category Sponsors', p. 3.

PQ [Primary Qualification] sponsors, and career management agencies. This support needs to include training, professional development and the availability of appropriate resources consistent with Navy's commitment to address and resolve the problem of workforce shortages.[99]

3.26 The issue of skilled leadership and appropriate human resource training for staff was also identified in the 2009 Strategic Review of Naval Engineering. The review noted that Navy needs qualified and experienced human resource practitioners:

> HR [Human Resource] and project management are the two most obvious areas where Navy has suffered from lack of experience and skills. It is almost serendipitous if an officer in an HR job has prior experience or relevant higher education qualifications and yet Navy's people are its most important and valuable resource. It is lack of suitably trained and experienced people that is the biggest threat to naval capability, but leaders at all levels continue to act in ways that put a lie to the oft quoted maxim that "people are our most important resource". This is first and foremost an issue of leadership; but having well intentioned generalists in key HR positions rather than qualified and experienced practitioners is another important factor.[100]

3.27 Until recently, personnel in Navy People Branch have not undertaken human resource training to assist in performing their roles. Category sponsors were primarily placed in their roles because of their experience and training within the category. For example, a category sponsor responsible for managing a technical sailor category would themselves be a technical sailor, with no additional human resource training.[101]

3.28 The Workforce Management Capability Improvement Program commenced in 2013 within the Navy People Branch, and is implementing processes aimed at more effective management of the Navy workforce. One of the program's areas of focus is the professionalisation of staff within Navy People Branch so that they have the appropriate professional skills and competencies to deliver on their roles. Professionalisation of Navy People Branch staff was to begin in July 2013.

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99   Royal Australian Navy, Navy Workforce Plan 2007–17, p. 5.

100   Navy, Report on the Strategic Review of Naval Engineering, November 2009, paragraph 3.27, pp. 3–18.

101   In October 2014, Navy informed the ANAO that category sponsors are able to draw on general human resource expertise from Defence People Group when needed.

3.29 Navy informed the ANAO in October 2014 of the progress made in this area:

> Some Category Managers and supervisors of Category Managers have undertaken tertiary training such as a Masters of Business with HR [Human Resource] relevant subjects … Other initiatives to develop niche HR skills are under consideration by Navy People Branch Directors. Navy places one person in the US Navy Post Graduate School … each year to develop deep expertise in workforce management. This person graduates with a post graduate degree in workforce systems analysis, and applies this knowledge in the RAN on return to Australia with postings within Navy and Defence Personnel Group to maximise the investment.

3.30 In light of the complex set of workforce challenges that Navy is dealing with there is a need to apply human resource expertise to the task. This can be achieved by actively pursuing the development of human resource expertise within Navy People Branch, and by engaging human resource professionals with relevant experience.

3.31 Consistent with the current focus on the professionalisation of staff within Navy People Branch, Navy should explore ways to draw on external human resource expertise, from the public or private sector, to inform its planned workforce approaches and their implementation. This would be particularly beneficial for Navy as it finalises its new workforce plan[102] (refer to paragraph 2.25).

Recommendation No.1

3.32 To inform the development and implementation of Navy's revised Workforce Plan and associated workforce initiatives, the ANAO recommends that Navy draw on external human resource expertise to complement internal expertise.

Defence response:

3.33 *Agreed.*

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102 Navy's new workforce plan is to be released as the Navy People Plan in 2015.

Workforce management plans for critical categories

3.34 A 2013 brief to the Chief of Navy noted that:

> the rate of progress in remediating [critical] categories is indicative of the piecemeal and poorly coordinated attempts to develop and implement effective initiatives over the last decade.[103]

3.35 As indicated in paragraph 3.28, Navy's Workforce Management Capability Improvement Program aims to improve category management within Navy People Branch by enhancing the ability of category managers to perform their roles. The program instigated the development of workforce management plans for each employment category. These plans are intended to be the single authoritative document for the management of the employment category over a one to five year timeframe, and are to be reviewed annually.

3.36 In October 2014, Navy informed the ANAO that all category management plans had been completed and were being considered for endorsement by the Director General Navy People. The plans reviewed during the audit included information on:

- the current status of the employment category, including demand and supply data, separations and levels of achievement against recruiting targets;

- workforce shortfalls, workforce plans and training needs; and

- for employment categories classified as perilous or critical, specific remediation activities to assist in addressing shortfalls in personnel numbers.[104]

3.37 Overall, the category management plans provide a useful tool to assist category sponsors manage their categories. The plans centrally document the often large body of work underway for employment categories, which should assist monitoring and follow through. Nonetheless, the category management

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103 Chief of Navy Brief, Critical Category and Operational Critical Skills assessment, April 2013.

104 By way of example, the workforce management plan for the marine engineer officer category (which includes submariner marine engineering officers) details 37 remediation activities involving input from 16 different areas or individuals in Navy. These activities include improving undergraduate recruitment, amending the engineering training continuum, conducting retention surveys and individual career planning. Chapter 4 examines the remediation activities identified in category management plans for the four employment categories examined by the ANAO.

plans have only been developed within the last year, and there is scope to improve the documents. In particular:

- The plans include little detail on how the critical shortages in some employment categories may, or have, affected capability. For example, the electronics technician category management plan notes that 'the health of the Electronics Technician Submarine sailor category remains 'perilous', which is directly impacting sea going capability', without providing detail on how the capability is being impacted.

- The level of detail on remediation activities varies across the plans, with some linking the proposed remediation activity to identified benefits and others not.

- While some of the remediation activities have related key performance indicators, overall the plans do not list specific performance measures or define how or when the success of the remediation activities will be assessed. The template for the remediation activities does not specifically address key performance indicators, and instead indicates that an optional 'statement identifying milestone target' may be included.

- The plans do not include budget information for remediation activities, or identified priority activities to help drive their implementation.

Conclusion

3.38   Defence uses a range of quantitative and qualitative measures to assess employment categories, including the future supply of Navy assets and related demand for personnel. The classification of categories is considered annually by the Service chiefs. Since 2005, Navy has had a significantly higher number of critical categories than Army or Air Force and in 2014 all 13 critical categories across the ADF were in Navy. Seven of the 13 critical categories are not expected to recover within the ten year forecasting period to 2024. However, it is difficult to predict the status of employment categories in 10 years' time, particularly given the significant economic, labour market and industry changes which can occur over the long-term.

3.39   Navy assigns a category sponsor to manage each of its employment categories. The category sponsors engage regularly with personnel within the category on issues affecting their employment within Navy. Category sponsors have been primarily placed in their roles because of their experience and

training within the category, and until recently, the sponsors may not have undertaken any human resource training to assist them in performing their role. A 2013 Navy People Branch initiative planned to provide some human resource training to these personnel, and at the time of the audit, additional work was required to progress the initiative. In light of the complex set of workforce challenges that Navy is dealing with, there is a need to apply human resource expertise to the task. This can be achieved actively pursuing the development of human resource expertise within Navy People Branch, and by engaging human resource professionals with relevant experience.

3.40 In 2013, Navy developed category management plans with a view to creating a single authoritative document for managing employment categories. These plans document the broad range of remediation activities underway or planned for critical categories. The development of the category management plans is a positive step towards strengthened oversight and coordination of the remediation of critical categories. However, the plans generally do not establish performance measures and assessment techniques to gauge the cost-effectiveness of the remediation activities, nor do they identify priority activities to help drive their implementation.

4.   Employment Category Case Studies

This chapter examines Navy's approach to recruiting and retaining personnel in four employment categories. It also examines the payment of retention bonuses to personnel in critical employment categories.

Introduction

4.1   In Chapters 2 and 3, the ANAO examined Navy's retention and recruitment strategies and its approach to managing critical employment categories. To assess the effectiveness of Navy's strategies and management approach, the ANAO, in consultation with Navy, chose four employment categories to examine in depth. Two technical sailor and two officer categories were chosen, namely: marine technicians, electronics technicians, aerospace engineers and medical officers. Two of the categories chosen – marine technicians and medical officers – are classified as 'critical' by Defence.

4.2   In this chapter, the ANAO examines:

- technical sailor supply and remediation strategies;

- aerospace engineer officer supply and remediation strategies;

- medical officer supply and remediation strategies; and

- Navy's use of retention bonuses as its principal approach to retaining personnel in critical employment categories.

Technical sailor supply and remediation strategies

4.3   Marine technicians and electronics technicians are Navy's two largest employment categories. The status of these categories is central to the overall state of Navy's workforce, as the category skills are essential for Navy's ships and submarines to operate.

Marine technicians

4.4   Marine technicians perform tasks ranging from operating, maintaining and repairing a ship's machinery and systems, to welding a ship's hull and fittings. The machinery and systems managed by marine technicians include:

- propulsion machinery, such as gas turbines, diesel engines and diesel electric plants, and associated propulsion control and monitoring systems;

- electrical power generation and distribution systems;

- auxiliary systems such as air conditioning, ventilation and refrigeration; and

- liquid and cargo handling systems.

4.5   Marine technicians are Navy's largest employment category. As at 30 June 2014, there were 1202 marine technicians in Navy.[105] These personnel work on all of Navy's sea platforms in both seagoing and shore-based positions. During the first four years of their career, marine technicians may choose to undertake additional specialised training in a particular field within the employment category. Marine technicians are a diverse group of sailors with skills drawing on their general and specific training, the platforms they have served on and the experience they have gained.

4.6   The marine technician employment category is classified by Defence as 'critical', and has been classified as either 'critical' or 'perilous' since 1999. The category is not expected to recover in the next decade.[106] At 30 June 2014, Navy had a shortfall of 370 trained marine technicians, which was 23.5 per cent of the targeted workforce for the category.

4.7   Figure 4.1 shows supply and demand for trained marine technicians between 2008 and 2014. A shortfall of around 200 trained marine technicians steadily improved from 2009 but then deteriorated significantly from November 2012. This followed Navy's decision in November 2012 to change the definition of the Trained Force from one based on rank (Able Seaman) to one based on competency, which resulted in the return of some 320 Able Seaman marine technicians from the Trained Force back to the Training Force to complete their on-the-job training. Navy now promotes junior sailors to the Trained Force only when they have completed recruit and category schooling, any task books or competency logs and any on-the-job training required for their category. Navy considers that this approach avoids overstating the size of the Trained Force and better supports monitoring of the workforce.

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105   The marine technicians who work on submarines form a separate employment category within Navy and have not been included in this analysis. The marine technician submariner category is experiencing significant workforce shortfalls. It was classified as perilous in mid-2014, and Navy has forecast that the category will not recover in the next decade.

106   Refer to Table 3.3 on page 79.

Figure 4.1:   Supply and demand of Able Seaman, Leading Seaman, Petty Officer and Chief Petty Officer ranked marine technicians, January 2008—April 2014
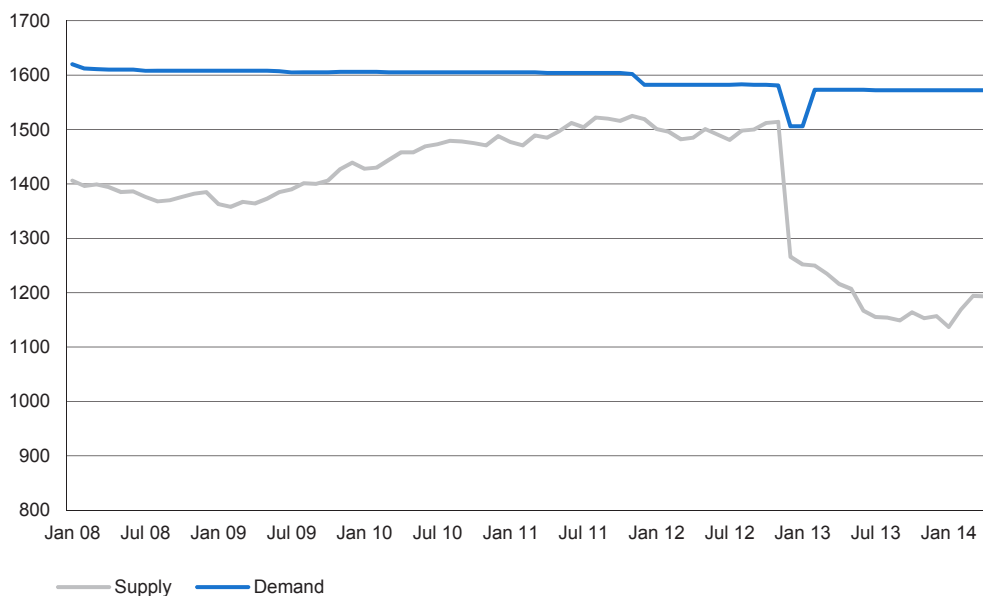
4.8   During 2013–14, Navy had a shortfall of some 250 to 300 trained Able Seaman marine technicians (Figure 4.2). The overall workforce shortfall across the more senior ranks of Leading Seaman, Petty Officer and Chief Petty Officer has remained significant and reasonably steady for the last six years at, on average, 257 marine technicians (Figure 4.3).[107]

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107   The shortfall of Chief Petty Officers has halved since July 2013 and the shortfall of Petty Officers has also improved in the same time period.

Figure 4.2: Supply and demand of Able Seaman ranked marine technicians, January 2008–April 2014
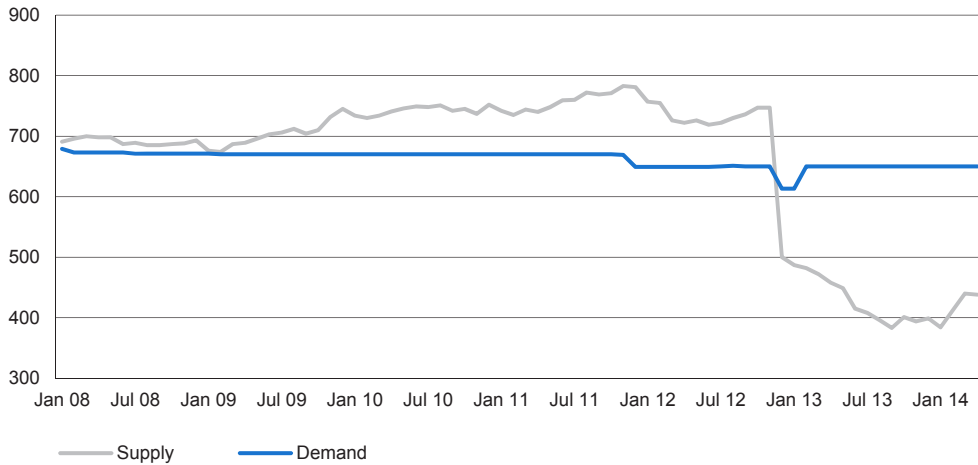
Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

Figure 4.3: Supply and Demand of Leading Seaman, Petty Officer and Chief Petty Officer ranked marine technicians, January 2008–April 2014
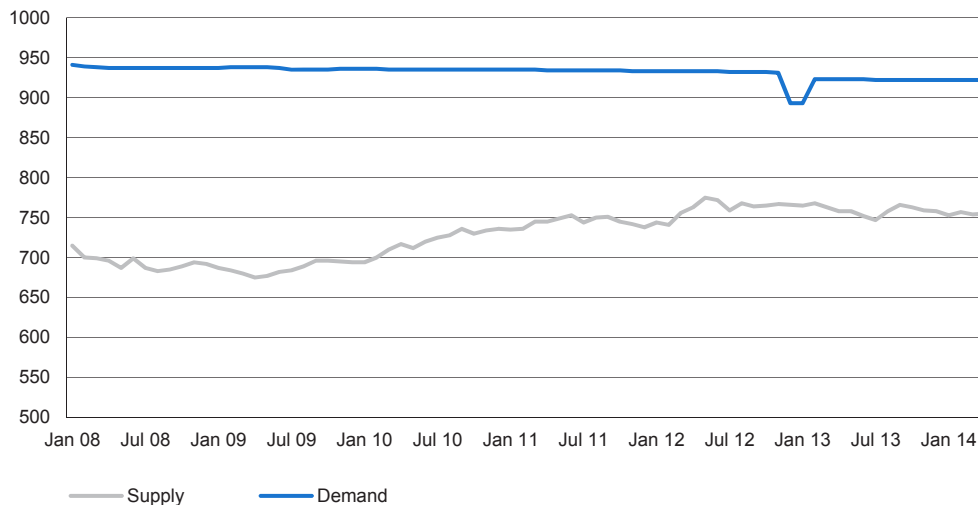
Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

Electronics technicians

4.9   Electronics technicians specialise in a ship's electronic components and related systems. They operate, maintain and repair a variety of electronic systems, including a ship's: RADAR system; navigation aids; command and control systems; weapons systems (guns, missiles and torpedo systems); fire control systems; satellite equipment; communications systems; electronic surveillance and warfare systems; and underwater systems (SONAR, echo sounders and torpedo countermeasures).

4.10   At 30 June 2014, there were 1089 electronics technicians in the Navy.[108] These personnel work on all of Navy's sea platforms in both seagoing and shore-based positions.

4.11   Defence first classified the electronics technician employment category as critical in 2006. In May 2014, Defence reclassified the category from critical to at-risk.[109] At 30 June 2014, Navy had four more electronics technicians than required.

4.12   Figure 4.4 shows supply and demand for trained electronics technicians between 2008 and 2014. The supply of electronics technicians also declined significantly around November 2012 as a consequence of the more stringent arrangements for promotion of junior sailors to the Trained Force.

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108 Electronics technicians that work on submarines are a separate employment category and have not been included in this analysis. The electronics technician submariner category is experiencing significant workforce shortfalls, and it was classified as critical in mid-2014.

109 Categories that are 'at risk' are experiencing or expected to experience a shortfall in numbers of Service personnel at the required skill and rank levels to the extent that this could limit the range of strategic and operational options available to achieve the Defence mission.

Figure 4.4: **Supply and demand of Able Seaman, Leading Seaman, Petty Officer and Chief Petty Officer ranked electronic technicians, January 2008–April 2014**
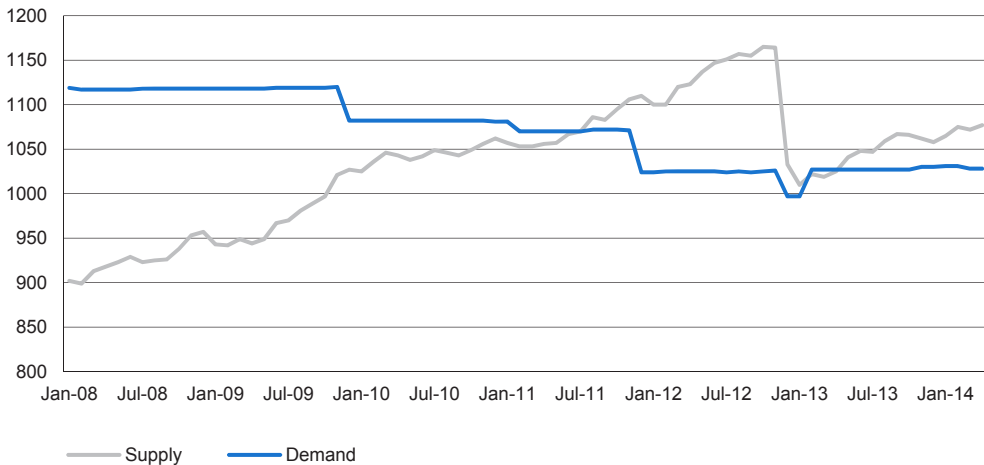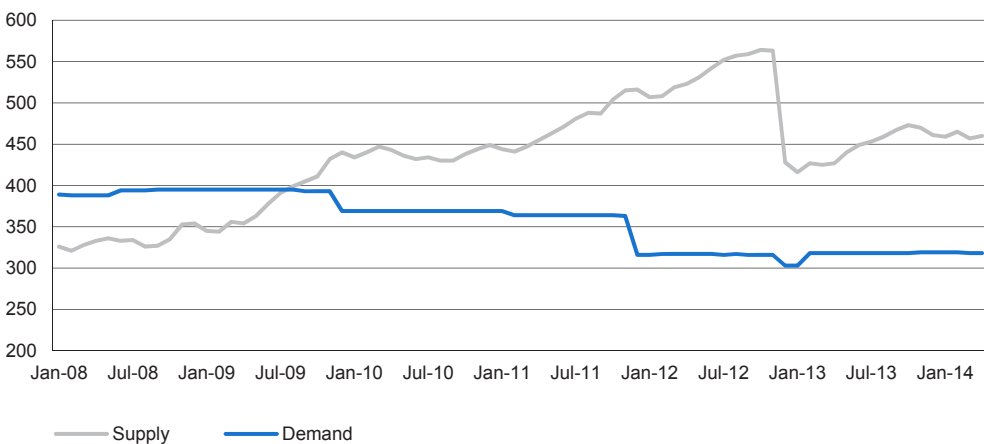

Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

4.13 While there has been an excess of junior sailors in the electronics technician category (Figure 4.5), not enough of these sailors have stayed in Navy long enough to bolster the more senior ranks of Leading Seaman, Petty Officer and Chief Petty Officer (Figure 4.6).
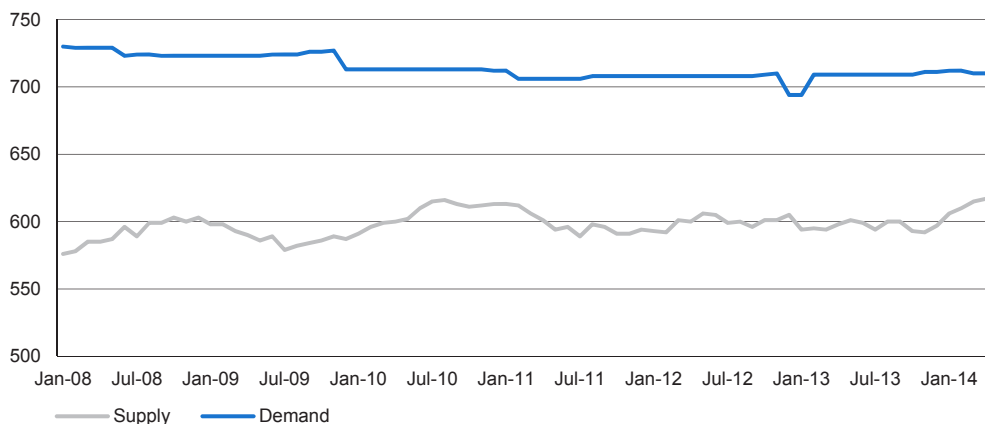
Figure 4.5: **Supply and demand of Able Seaman ranked electronics technicians, January 2008–April 2014**

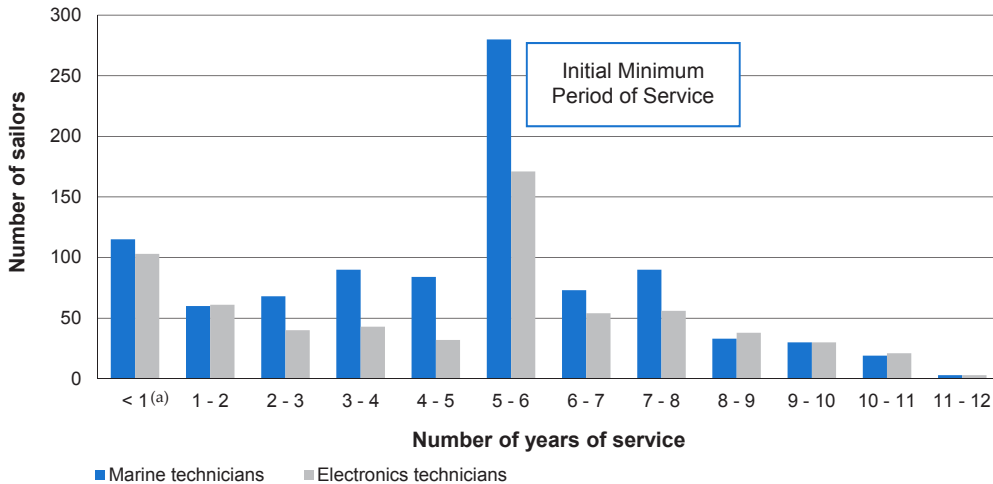Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

Figure 4.6: **Supply and demand of Leading Seaman, Petty Officer and Chief Petty Officer ranked electronics technicians, January 2008–April 2014**

Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

Length of service of marine and electronics technicians

4.14 Upon enlistment, sailors are obligated to serve an Initial Minimum Period of Service with Navy, which is between four and six years. The point at which this period of service ends represents Navy's lowest return for the training invested in a qualified sailor. From that point on, the ratio of operational service to training generally improves, as do a number of other positive factors such as experience, productivity and the ability to train and mentor others.

4.15 Figure 4.7 shows the number of years of service for all marine and electronics technicians who joined and left Navy between July 2002 and July 2014. As discussed in paragraph 2.33, the most common time for any sailor to leave Navy is within the first 90 days of service. Once a marine or electronics technician serves longer than 90 days, the most common time for them to leave is in their sixth year of service, at the end of their Initial Minimum Period of Service.

Figure 4.7: Length of service of marine and electronics technicians who joined and left Navy between July 2002 and July 2014

Source: ANAO analysis of Navy's workforce data.

Note (a): Between July 2002 and July 2014, 507 marine and electronics technicians who joined Navy left in the first 90 days of their service. To make the graph easier to read these sailors have not been included.

4.16   The 2009 Strategic Review of Naval Engineering found the high separation rate at the end of technical sailors' Initial Minimum Period of Service was a significant concern. It also reported that the primary causes of high separation rates in Navy's technical workforce were not in the main monetary. The review attributed separation rates to: dissatisfaction with trade qualifications; insufficient opportunity to use skills in the workplace; the time taken to complete training; and low levels of respite from sea-based duties. These matters are considered in the sections below.

Sailor trade qualifications

4.17   The Defence jobs website advertises trade jobs in Navy with the tagline 'not all tradies need a ute'. It states that recruits receive 'trade skills and experience that [are] nationally recognised and sought after in the civilian world', and that recruits earn 'highly regarded qualifications'. [110]

4.18   Navy is an Australian Skills Qualification Authority accredited Registered Training Organisation. Navy provides courses for sailors to achieve

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110   The website is accessible at: www.defencejobs.gov.au; accessed 6 August 2014.

Certificate III, Certificate IV, diploma and advanced diploma level trade qualifications. These qualifications enable sailors to operate and maintain a wide range of equipment in the maritime environment.

4.19 The 2009 Strategic Review of Naval Engineering reported that some sailors complained that they were promised a trade by the recruiters but considered they were misled and 'sold a pup'. The Strategic Review found this to be a widely held and passionately voiced view. Sailors also raised the issue of trade qualifications with the ANAO during this audit. Some sailors commented that they were told by recruiters that by joining Navy they would get a trade, but this had not been their experience. These sailors considered that they needed to undertake further education, at a civilian institution and in their own time, to become trade qualified.

4.20 The Strategic Review understood the main issue with trade qualifications to be that Navy's qualifications were not necessarily widely sought after by industry, because in the main, Navy training was broad but had little depth. As a consequence, some sailors needed to go back to TAFE, perhaps become an apprentice again, and study for up to 18 months to convert their Navy trade into a usable civilian trade. In a similar vein, one sailor informed the ANAO during this audit that he had undertaken an electrician apprenticeship in his own time, while still in Navy, by working for a Defence contractor on days off.

4.21 Sailor dissatisfaction with trade qualifications was also identified as an issue in Defence's 2013 internal audit review on the ADF' management of critical employment categories. The audit noted that Navy provides marine technician submariners with a 'restricted' electrical license rather than a Certificate IV 'A Grade' electrical license that would be in excess of capability requirements, and that the 'A Grade' license is more attractive in the wider employment market. The audit stated that:

> An expectation gap exists between the qualifications [marine technician submariners] understood they would receive upon completion of the … training course and the actual qualifications received. Service members interviewed considered they had been misled by [Defence Force Recruiting], and, that [Defence Force Recruiting] continued to mislead new recruits in relation to the

type of qualification awarded to the [marine technician submariners] upon completion of their training.[111]

4.22   Recommendation 3(b) of the internal audit was that:

Navy, in conjunction with [Defence Force Recruiting], revise the current content on the Defence Jobs website relating to the [marine technician submariners] qualifications to clearly stipulate that recruits will obtain a restricted commercial trade as opposed to an 'A Grade' electrical trade.[112]

4.23   In response to this internal audit recommendation, Navy did not make any changes to the qualifications listed on the Defence Jobs website. The website focuses on the qualifications Navy provides and does not inform potential recruits about the 'A Grade' licence that Navy does not provide.

4.24   In October 2014, Navy informed the ANAO that:

Navy does not require, or issue, any form of electrical license. The awarding of an 'A Grade' licence does not result from a Cert IV. Navy cannot meet the requirements of an 'A Grade' licence [because sailors do not] work on any equipment that is directly connected to the national electricity grid hence they could not achieve, nor consolidate, a Certificate III in Electro technology—Electrician, which is the trade requirement for the 'A Grade' license.

Opportunities to utilise skills

4.25   The 2009 Strategic Review of Naval Engineering reported that over the last two decades Defence had implemented multiple reform and efficiency initiatives designed to harvest savings, reduce overheads and transition work to the private sector. These initiatives led to the privatisation of government dockyards and the increased use of contracted support. For technical sailors this resulted in the loss of a large number of shore-based jobs, which provided meaningful work for sailors when not at sea, enabling skills consolidation, skills enhancement and some degree of respite. The Strategic Review of Naval Engineering found that in 2009 there were few opportunities for technical sailors to undertake meaningful work ashore.[113]

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111   Audit and Fraud Control Division, ADF Critical Employment Categories, September 2013, p. 10.

112   Ibid, p. 11.

113   The shift in the 1990s towards using civilian contractors to undertake Navy's deeper maintenance work meant that Navy's Fleet Support Units had reduced work in this area. The Strategic Review of Naval Engineering suggested these units were the obvious organisations within Navy to provide gainful and rewarding work for technical sailors ashore.

4.26 A lack of meaningful shore work remained a pertinent issue for the sailors the ANAO spoke to during this audit. The sailors spoke of Navy's aversion to the risks involved in tasking sailors to undertake deeper maintenance work, and its preference to use contractors instead.[114] Junior sailors in particular talked about having a lack of meaningful work when they were still developing their skills.

4.27 In recent years, Navy has identified initiatives aimed at providing marine technicians with the skills to undertake deeper maintenance of platforms and more meaningful work ashore.[115] The effective implementation of these initiatives would contribute to addressing the underlying causes of dissatisfaction in the marine technician workforce and improving retention rates.

Timeliness of training

4.28 The 2009 Strategic Review of Naval Engineering reported that Navy had a growing backlog of untrained sailors waiting in Fleet Support Units for their first seagoing position. Navy subsequently pursued initiatives to address this training backlog, including:

- Plan TRAIN, launched in 2009, to improve the way Navy conducted training and sailors' access to training programs; and

- the Sea Training Campaign Plan, launched in 2011, which involved a range of initiatives to increase sea training throughput.

4.29 The average number of days that marine technician recruits spent in the Training Force decreased by 150 days between 2003 and 2011. However, the average number of days electronics technician recruits spent in the Training Force did not decrease noticeably during the same period (Figure 4.8).

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114   Navy's practice of posting senior technical sailors back to a ship at short notice has also made it more difficult for Fleet Support Units to take on more challenging work. The sailors needed to ensure a ship can go to sea often have the skills to undertake deeper maintenance of platforms ashore. The sailors the ANAO spoke to noted that these sailor postings sometimes led to delays in completion of maintenance jobs allocated to Fleet Support Units, usually by the Defence Materiel Organisation's (DMO's) Systems Program Offices. The sailors considered that, as a result, DMO viewed Fleet Support Units as unreliable and, at times, preferred the reliability of a civilian contractor instead.

115   Refer to paragraphs 4.47 and 4.52.

Figure 4.8: **Average number of days technical sailor recruits spent in the Training Force, 2003–2011**
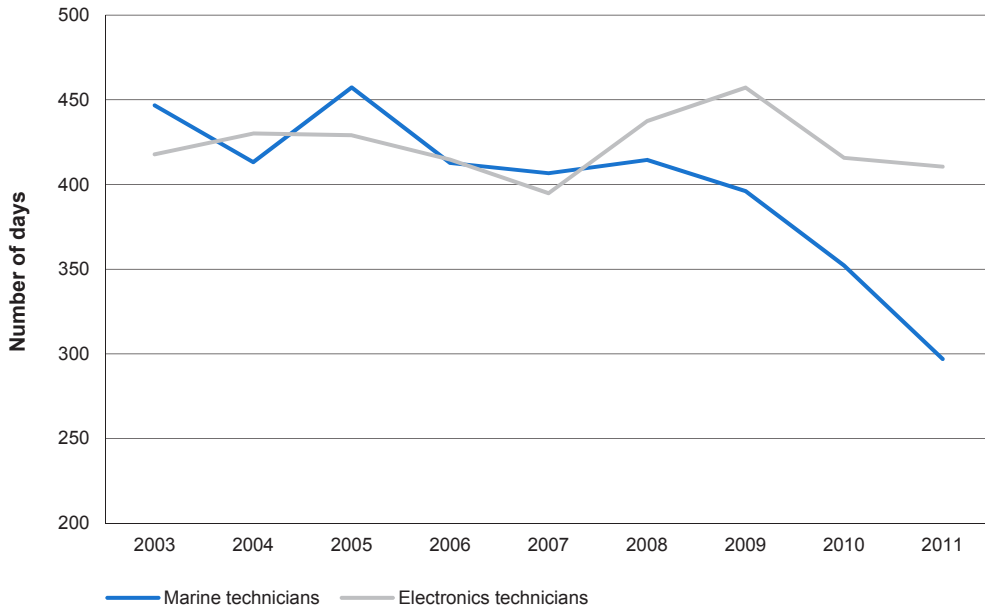
Source: ANAO analysis of Navy workplace data.

4.30 While there has been progress in reducing the length of time that marine technicians stay in the Training Force, training periods remain a significant issue for Navy. In March 2014, the Deputy Chief of Navy informed the ANAO that the key limiting factor in generating the Trained Force was 'the availability of sea training bunks and timely completion of on-the-job training by trainees'. He also identified one of the key actions to remediate critical categories as follows:

> Increased training capacity, through reduced reliance on training at sea to achieve initial qualifications is fundamental to recovery. Initiatives to increase training capacity comprise increased use of simulation and active management of trainee progress. These initiatives have increased completion rates and reduced training duration for the associated workforce categories. Simulation training facilities are a feature of all current and future Major Projects.[116]

4.31 In October 2014, Defence informed the ANAO that the Chief of Navy had directed the Deputy Chief of Navy to prioritise the use of Navy's

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116 Deputy Chief of Navy advice to the ANAO, 17 March 2014.

hydrographic ships for training junior marine technicians, where this is consistent with government requirements.

Respite from sea-based duties

4.32 Low levels of respite from sea-based duties have been a significant problem for technical sailors for many years. This problem stems from the workforce shortages in the marine and electronics technician employment categories. It has also been exacerbated by an increase in the number of sailors not available to be deployed to sea over the last five years.[117] These two factors increase the proportion of time an available sailor can expect to spend posted to a sea position, and the likelihood of them being called back to sea, at short notice, as an operational relief.[118]

4.33 Sailors spoke to the ANAO about the length of time they spent at sea, and the difficulties they had in taking leave, seeing their family or undertaking additional training because Navy's operational requirements took precedence. Sailors also talked about being posted from one ship to another as an operational relief, and the difficulty this caused them in being able to make plans in other areas of their lives. These sailors felt that relief from sea duties would only occur if they left the Navy or were classified as non-deployable for medical reasons.
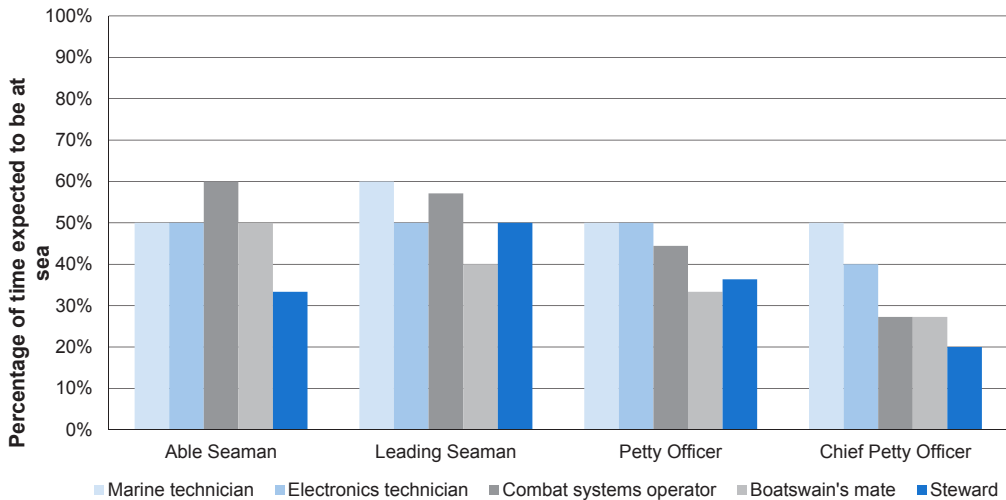
4.34 Navy's sea to shore ratios provide sailors with guidance as to the proportion of time they can expect to spend at sea and ashore while they are at a certain rank within their employment category. Navy aims, where possible, to have no sailor spend more than three and a half years between shore postings, and no less than one and a half years ashore between sea postings.

4.35 Examples of Navy's preferred sea to shore ratios, presented as the percentage of time a sailor can expect to be at sea, are shown in Figure 4.9. These ratios show that over the course of their career marine technicians can expect to spend more than half their time at sea; and electronics technicians can expect to spend half their time at sea until they reach the rank of Chief Petty Officer. In comparison, a boatswain's mate or a steward can expect to spend most of their time ashore, particularly as they advance in their careers.

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117 Refer to paragraph 4.38.
118 An operational relief replaces a sailor on a ship who needs to return to Australia on medical grounds or to undertake advanced training.

**Figure 4.9:   Preferred sea to shore ratios for a selection of employment categories**

4.36   Figure 4.10 shows the actual sea to shore ratios for the same five employment categories. Marine technicians are spending most of their time at sea, particularly early in their careers, while electronics technicians are spending more than half their time at sea early in their careers.

Figure 4.10:   Actual sea to shore ratios for a selection of employment categories
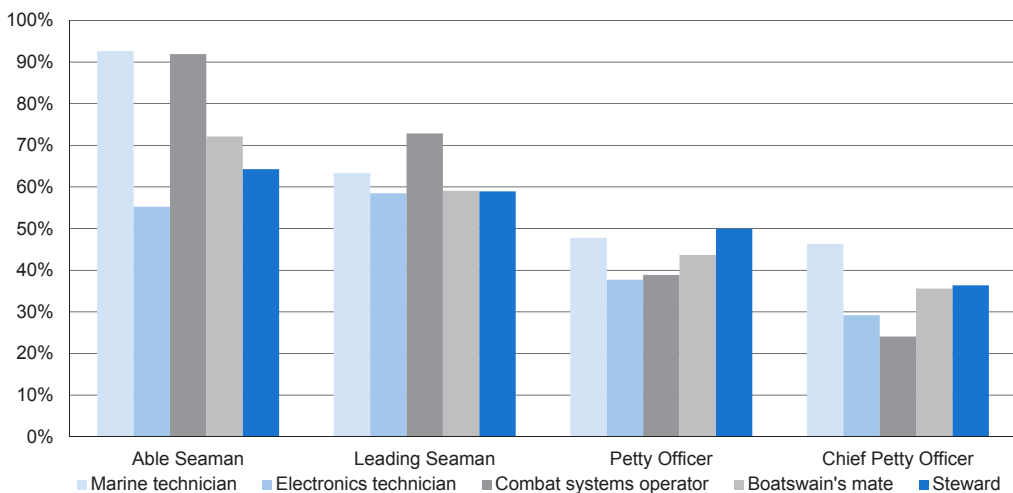
4.37 Navy's *Sailors' Career Management Manual* notes the impact that workforce shortages can have on sea to shore ratios:

> Overall personnel shortages necessarily affect sea/shore ratios. Reductions in the periods of shore service, or extensions in the periods of sea service are then inevitable for some personnel, resulting in an increased turnover of personnel ashore.[119]

Proportion of Navy's workforce unavailable to go to sea

4.38 Navy measures the proportion of its workforce unavailable to be deployed and regularly reports this to CNSAC. In June 2014, Navy reported to CNSAC that 14.5 per cent of its Trained Force was unavailable go to sea, and 6.4 per cent of this group were not available to be posted to a position ashore either. These personnel either:

- had a medical condition or a compassionate reason precluding them from going to sea or being available for employment;

- were on extended leave (such as leave without pay, maternity leave, long-service leave or leave between postings);

- were undergoing advanced training, or were retraining to change employment category; or

- were being detained for disciplinary reasons, or had deserted Navy.

4.39 The proportion of Navy's workforce unavailable to be deployed has increased over the last five years by approximately five per cent (Figure 4.11).[120] This has placed more pressure on the sailors available to go to sea.

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119 *Australian Book of Reference (ABR) 10: Royal Australian Navy Sailors' Career Management Manual*, Edition 5, 30 December 2012, section 4-10, paragraph 4.40.

120 Defence conducted an internal audit in November 2013 on the manning, sustainment and availability of Navy's Armidale Class Patrol Boats. The internal audit found that: 'The number of [Personnel Deficiency Reports] submitted for the [Armidale Class Patrol Boat] fleet has risen steadily from 271 in 2008 to 594 in 2012. Factors which are contributing to [Personnel Deficiency Reports] include personnel reporting as Temporarily Medically Unfit, and Navy wide personnel deficiencies in identified critical categories.' As a result of this increase in personnel deficiency reports, the internal audit found that there had also been an increase in the number of operational relief postings for sailors: 'the number of [Personnel Deficiency Reports] being filled by 'Op Relief' rose from 150 instances in 2008 to 306 in 2012.' Audit and Fraud Control Division, Final Audit Report: Armidale Class Patrol Boat, November 2013, p. 8. See also paragraph 4.43 of this ANAO audit report.

Figure 4.11:   Proportion of Navy's Trained Force and sailors unavailable to be deployed to sea, 2009–2014
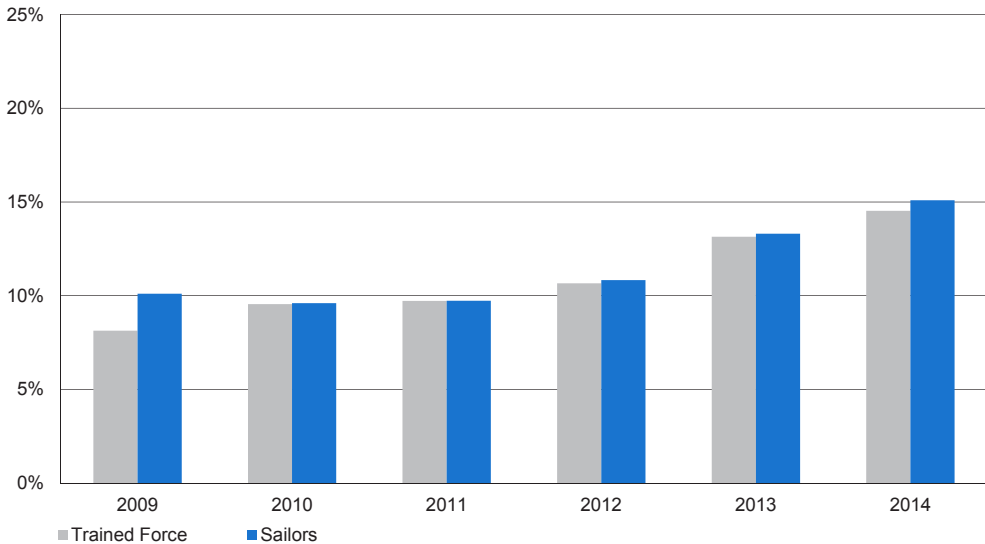
Source: ANAO analysis of Navy workforce data.

4.40   In February 2014, Navy reported to CNSAC the measures being taken to address the high proportion of personnel unavailable to be deployed:

> Initial action to reduce the number of non-deployable Navy people is through active case management within [Personnel Support Units] as well as reinvigoration of the MECRB [Medical Employment Classification Review Board] process (for MEC 4+)[121] and MEC review assessment for members who have been MEC 3 for longer than 12 months (24 months for maternity). … As at 9 Aug 13, 189 members were identified as overdue for MEC 3 reviews and referred for MEC review action by [Commanding Officers] and Joint Health Command; this number had reduced to 132 as at 31 Dec 13. The Individual readiness achievement rate has improved from 65% in Oct 12 to 68% in Dec 13 against a target of 80%.[122]

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121   ANAO comment: Navy members are assigned a Medical Employment Classification (MEC) standard between 1 and 4. Members assigned a MEC standard of 1 or 2 are deemed medically fit for deployment. Members assigned a MEC standard of 3 or 4 are deemed medically unfit for deployment, either temporarily or in the long term. A member's MEC standard is reviewed at least annually or whenever they seek medical attention.

122   Chief of Navy Senior Advisory Committee, Enterprise Risk 3 - Workforce Briefing Papers, 5 February 2014, p. 7.

Implications of workforce shortfalls for operations and training

4.41 The 2009 Strategic Review of Naval Engineering found that severe shortfalls of technical sailors from the Leading Seaman to the Chief Petty Officer ranks had the potential to adversely affect the operational availability of ships. In many cases ships had sailed only after one or more experienced technical sailors had been removed from a shore posting with little notice to fill vacant positions at sea. The review commented that doing this worsened 'the overall manning situation in the medium-term by heightening dissatisfaction amongst sailors subject to such arbitrary postings.'[123]

4.42 A 2013 report commissioned by the Head Naval Engineering identified a number of issues arising from the workload for senior technical officers on the Armidale Class Patrol Boats. The report stated that:

> the current [senior technical officer] workload [is] unsustainable, predicts that this will manifest as 'burn-out' that will result in limited awareness of materiel and maintenance status, lack of training for subordinates and risk-averse decision-making regarding defects and issues.[124]

4.43 In a similar vein, a brief to the then Chief of Navy in June 2014 noted the impact of the high separation rate of marine technicians on Navy's Frigate Helicopter (FFH) ship community:

> The demanding sea service obligations currently facing … [marine technicians] will continue to drive high separation rates, retarding recovery. Ongoing shortages in the FFH community will continue to pose seaworthiness risk and require existing waivers to be provided to seagoing platforms.[125]

4.44 In the 1980s, Navy adopted a policy of reducing the size of crews on platforms to the minimum possible. Sailors informed the ANAO during this audit that Navy's minimum manning approach put more pressure on the higher,

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123 Royal Australian Navy, Report on the Strategic Review of Naval Engineering, November 2009, p. 4–10.

124 Information Brief for Chief of Navy Armidale Class Patrol Boats Senior Technical Manning, 2 April 2014. See also footnote 120 of this audit.

125 Information Brief for Chief of Navy: Plan for Generation of 7th FFH Crew – June 2014 Update, June 2014.

supervisory ranks on board ships, with some sailors putting in 18 hour days.[126] The Defence internal audit (discussed at footnote 120) and the Strategic Review of Naval Engineering (discussed at paragraph 4.42) suggest that a range of work health and safety issues may also be arising in respect to certain platforms; a situation which requiring timely and appropriate senior leadership attention.

Strategies to address technical sailor shortfalls

4.45   Navy has pursued a range of initiatives to address the significant shortfalls in its technical sailor workforce. The main initiatives have included retention bonuses (discussed from paragraph 4.71) and other financial incentives; restructuring marine technicians' training and career continuum; and lateral recruitment.

4.46   Navy's approach to training and utilising technical sailors has undergone substantial change in recent decades, as discussed in the following text box.

Navy's evolving technical training continuum

Navy's technical training has evolved through three substantial training systems over the last 50 years. Up until 1972, all technical sailors undertook a traditional apprenticeship with Navy. In 1972, Navy introduced a second, semi-skilled, stream to its technical workforce. Navy trained these sailors more broadly than its traditional apprentice sailors and in a wider range of disciplines.

With the introduction of the Fremantle Class Patrol Boats, ANZAC Class Frigates, Collins Class Submarines, Mine Hunter Coastal and Seahawk Helicopters into Navy's fleet, Navy no longer saw the need for a large number of personnel to have deep craft skills. In 1992 Navy introduced a new training system, referred to as Technical Training Plan 1992 (TTP 92), which established a single stream of broadly trained, multi-skilled technical sailors. In order to deepen their skills sets, these sailors could undertake specialist training later in their careers.

4.47   In 2009, the then Chief of Navy directed the Head Navy Engineering to improve the training delivered to marine technicians and restructure their career continuum. In September 2010, Navy started using the Marine

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126   The Strategic Review of Naval Engineering noted the impact of the minimum manning policy: 'There are not enough sailors on board Navy major fleet units to achieve all the routine maintenance tasks while providing opportunities for leave, individual training, and preparatory team training. … The end result is that sailors have difficulty in being released for courses, they are not having sufficient leave, and maintenance is falling behind. Additionally there are not sufficient spare bunks at sea for trainees and the reduced number of supervisors struggle to deliver on the job training to those on board in addition to their already heavy workloads.' Royal Australian Navy, Report on the Strategic Review of Naval Engineering, 12 November 2009, p. 4.

Technician 2010 Category Career Continuum (MT2010) as its framework for training new marine technician recruits. The aim of this continuum is to:

- change the timing of training provided to marine technicians, by delivering the right training to them at the right stage in their career for the jobs they will undertake at sea;

- provide marine technicians with qualifications recognised within the civil maritime industry;

- reduce the time taken for marine technicians to complete their Initial Technical Training from 37 weeks to 26 weeks;

- provide a more efficient return for Navy's training investment; and

- address the dissatisfaction with training within the marine technician workforce, by providing marine technicians with the skills to undertake deeper maintenance of platforms.

4.48   Navy experienced difficulties transitioning to MT2010 as a result of:

- a backlog of TTP92 trainees who had not been successful in achieving their operator qualifications during their first sea posting, and who competed with MT2010 trainees for limited sea training bunks;

- insufficient sea training bunks, particularly following the decommissioning of HMA Ships *Kanimbla* and *Manoora* and the extended maintenance of HMA Ship *Success*;

- ongoing high separation rates within the marine technician employment category; and

- a mismatch between the qualifications achieved at each rank under the MT2010 training continuum, and the qualifications needed at each rank on board a ship.

4.49   In March 2012, the Deputy Chief of Navy directed that an audit be conducted to determine whether the MT2010 model would meet Navy's future marine technician workforce requirements. The audit made recommendations for the management of MT2010, including the appointment of a full-time project manager with support staff, and establishment of a steering committee chaired by the Deputy Chief of Navy. Navy informed the ANAO in October 2014 that the MT2010 steering committee had been established.

4.50   In a similar vein, a September 2013 Defence internal audit report on the ADF's management of critical employment categories found that Navy had

failed to adequately resource the MT2010 project. Significantly, the MT2010 project officer role was vacant for a key period of time after the project officer was posted to sea.[127] The internal audit report noted that the project stalled and critical communications about the project were not provided to the marine technician workforce.[128] Defence informed the ANAO in October 2014 that the Directorate of Navy Workforce Management has continued to engage the marine technical community in MT2010 developments as they occur.

4.51 Under the original MT2010 continuum, marine technician recruits were trained in operator skills during their first four years of service, and only started their trade training after this time. In June 2013, Navy amended MT2010 by providing for two training pathways for marine technicians: an operator and trade pathway. The amended continuum now allows junior marine technicians to undertake both operator and trade training; or higher level operator training in their first four years of service. This provides Navy with the flexibility to remediate operation and trade qualification shortfalls concurrently.

Remediation plans

4.52 Navy developed a workforce management plan, and a category remediation plan, for the marine and electronics technician employment categories, in 2014. The marine technician remediation plan outlines 21 activities, which involve input from 22 different areas of Navy, to remediate the category. Some of these activities are:

- Increasing recruiting targets (noting the impact on the training pipeline).

- Improving the re-entry process for sailors who have previously discharged from Navy.

- Providing meaningful employment for sailors ashore, including industry outplacements and developing engineering expertise in senior sailors.

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127   Defence informed the ANAO in October 2014 that the MT2010 project officer role was vacant from July 2011 when the project officer was posted to sea, and that while a project officer was in the position from January 2012 to June 2012, the project officer was involved in audit work at that time. Defence further informed the ANAO that the marine technician category manager has managed the MT2010 project since July 2011.

128   Experienced marine technicians thought the MT2010 training framework would only partially train new recruits and as such would place a further impost on their already heavy workloads.

- Providing more respite and flexible working conditions for sailors.

- Improving retention through financial retention initiatives.

- Developing Deliberately Differentiated Offers for sailors.[129]

- Setting and monitoring targets for the number of sailors attending and passing training courses.

- Investing in simulation training ashore.

- Reviewing the Marine Technician Career Continuum 2010.

4.53 The electronics technician remediation plan outlines 5 activities, which involve input from 7 different areas of Navy, to remediate the category. These activities include:

- improving recruiting and the progress of recruits through the training pipeline, in part, by using more simulators ashore to reduce a recruit's sea training phase;

- identifying actual workforce demand and, in particular, reducing the demand for submariner electronics technicians;

- improving retention through training and employment initiatives; and

- remuneration initiatives such as Deliberately Differentiated Offers and retention bonuses.

Aerospace engineer supply and remediation strategies

4.54 Navy's aerospace engineer officer employment category comprises aeronautical engineers and weapons electrical aircraft engineers. Officers with these qualifications maintain Navy's fleet of helicopters, as well as integrated weapons systems and flight simulators.

4.55 As at June 2014, there were 100 aerospace engineering officers in Navy. These personnel represent the smallest family of Navy engineers, and they comprise 21 per cent of all of Navy's engineers. Aerospace engineers mostly work in shore-based positions, and many are located at HMAS Albatross in

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129 The purpose of the Deliberately Differentiated Offer initiative is to identify individual retention strategies that could retain personnel, outside of those financial strategies that have previously been implemented. The work is currently in the analysis and consultation phase, with the identification of a package of measures that could include financial and non-financial incentives, planned for 2014.

Nowra and in Canberra. There are also a few employment category positions located in Sydney, Melbourne, Adelaide, Brisbane and Wagga Wagga.

4.56   Defence classified the aerospace engineer category as at risk in May 2013. By May 2014, the category had recovered.[130] As at June 2014, Navy had nine more aerospace engineers than it needed. Figure 4.12 shows the supply and demand of aerospace engineers between 2008 and 2014.

Figure 4.12:   Supply and demand of aerospace engineers, January 2008–April 2014
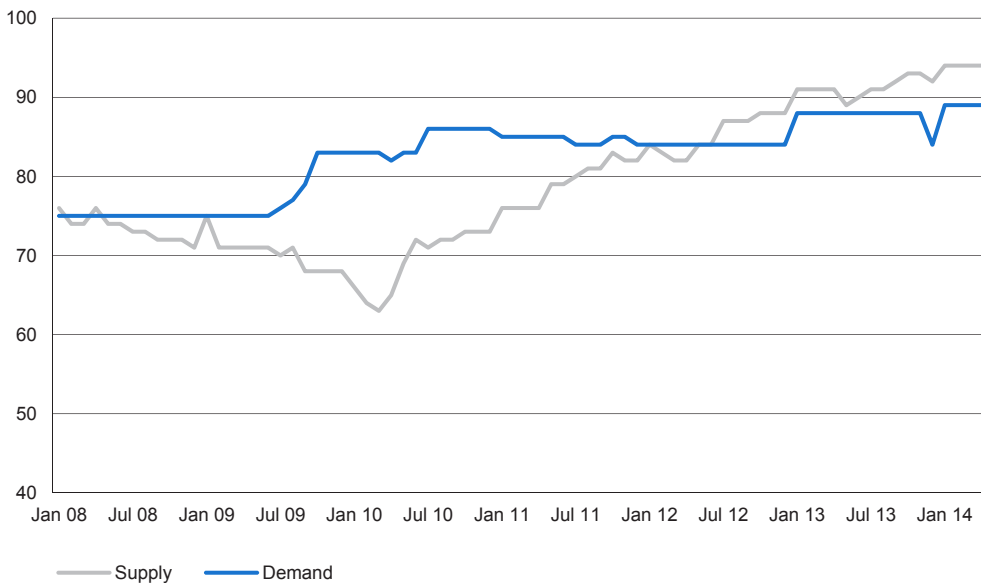
Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

4.57   Between 2009 and late 2013 there was a shortfall of aerospace engineers at the higher ranks of Lieutenant Commander, Commander and Captain. During the same period, there was generally an oversupply of engineers at the lowest rank, Lieutenant. By mid-2014 the category was in a stable position across all ranks. Navy attributes the improvement in the status of the category to: reduced external demand for aerospace engineers from the commercial sector; Navy workforce reforms, including changes in remuneration and

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130   The aerospace engineer employment category workforce management plan notes that as a small specialist group, the category is sensitive to small changes in demand and supply.

improved access to flexible working arrangements; and the use of senior personnel to individually counsel those who were considering leaving the Navy.

4.58 Aerospace engineers informed the ANAO that they could perform a variety of work within Defence, often at Nowra, and that their co-location with other engineers fostered a strong sense of community within the category. There is also no current requirement for aerospace engineers to go to sea, and some of the officers work part-time or from home for some part of their week. The aerospace engineers the ANAO spoke to considered that their careers were well managed, they had a clearly defined career path, and that trainees were valued, given challenging work and contributed to the workforce.

4.59 The status of the aerospace engineer employment category does not reflect the overall status of Navy's engineering employment categories. As previously mentioned in paragraph 2.4, in July 2011, the Rizzo Plan described Navy's engineering function as 'hollowed-out'. Navy has twelve engineering employment categories[131] and in 2011, eight of the categories were classified as critical or perilous. As at May 2014, five of Navy's engineering employment categories were classified as critical or perilous, including marine engineer submariners and weapons electrical engineer submariners.

Medical officer supply and remediation strategies

4.60 Navy's medical officers are doctors responsible for the general health of Navy's personnel. They provide the following health services:

- day-to-day health support for Navy personnel, including diagnosing and treating health conditions, and promoting good health practices;

- evacuating and treating maritime casualties; and

- providing medical support in maritime humanitarian aid and disaster relief operations.

4.61 Medical officers are employed under the Medical Officer Specialist Officer Career Structure. This career stream provides officers with the opportunity to attain both professional and military competencies as they are promoted through the ranks. Medical officers progress their career through

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131   Six of these categories are officer categories and six of them are sailor categories.

four medical levels and may become involved in specialist areas of medicine such as aviation, submarine and hyperbaric medicine. As at June 2014, there were 34 medical officers in the Navy Trained Force, and a further 31 in the Training Force.

4.62   Defence has classified the medical officer employment category as either critical or perilous since 2004. As at June 2014, Navy was short 15 trained medical officers, which was almost one-third of the workforce requirement. Figure 4.13 shows the supply and demand for medical officers between 2008 and 2014. The shortfall in Navy medical officers has remained relatively steady since at least 2008.

Figure 4.13:   Supply and demand of medical officers, January 2008–April 2014
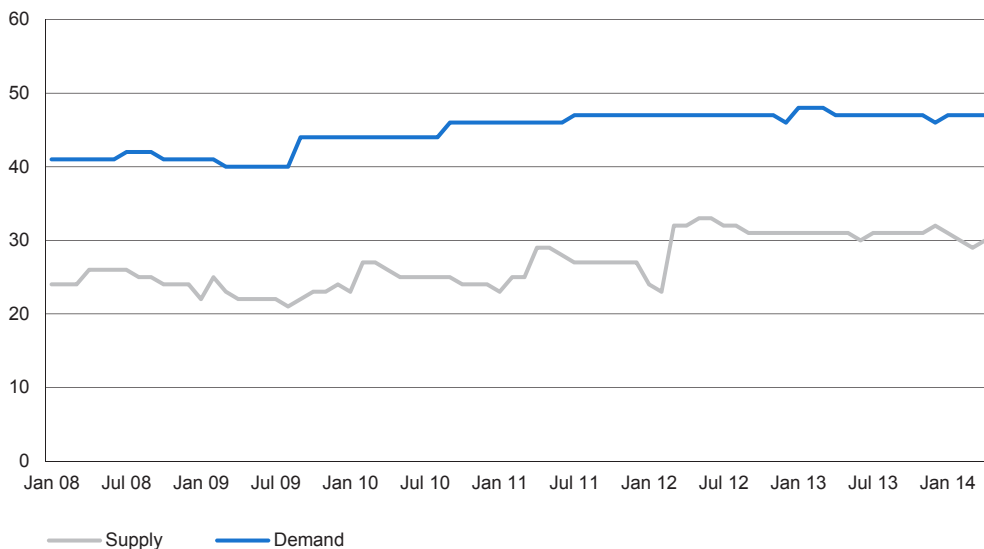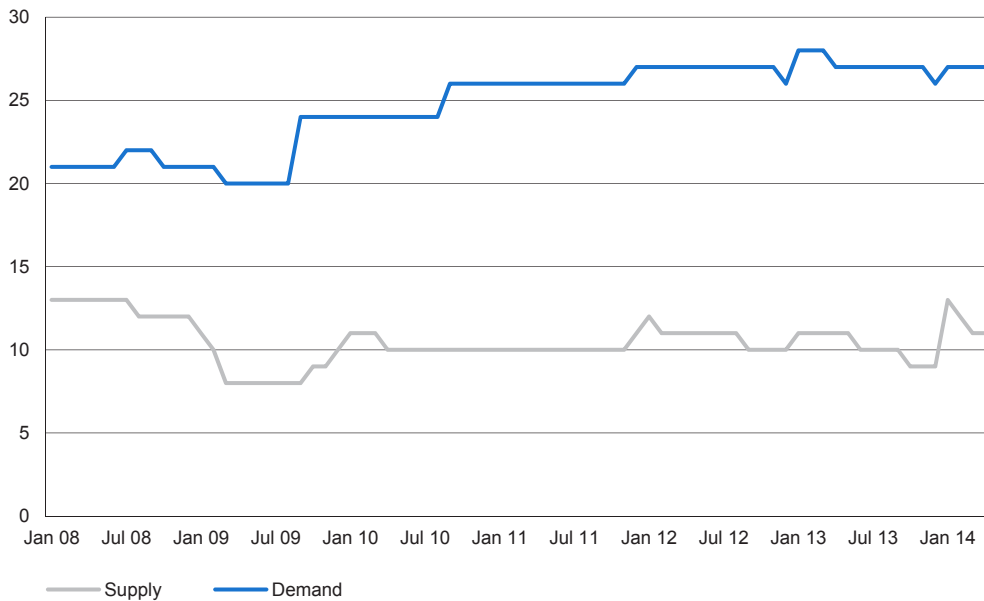

Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

4.63   Navy has substantial shortfalls of medical officers at the mid-senior ranks of Lieutenant Commander and Commander (Figure 4.14), which affect Navy's capacity to: provide advanced health services to its personnel; supervise and mentor junior medical officers; and provide guidance on Navy-specific medical policy and health matters. Since 2012, Navy's supply of

Lieutenant ranked medical officers has largely met demand. However, the loss of Lieutenant ranked medical officers at the end of their Return of Service Obligation remains a concern for Navy.[132]

Figure 4.14:   Supply and demand of Lieutenant Commander and Commander ranked medical officers, January 2008–April 2014

Source: ANAO analysis of Navy's workforce data.

Note: The data in the figure is for members of the Permanent Navy, and does not include members of the Navy Reserve undertaking Continuous Full-time Service.

4.64   While all three Services have struggled with recruiting and retaining medical officers, Navy has historically faced the greatest difficulties. Navy has been unable to meet its Direct Entry target of two medical officers per year

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132   All Navy officers appointed after 1 January 2003 are obligated to serve an Initial Minimum Period of Service. The length of this period varies across employment categories. In addition, Navy officers who have undertaken specific training, education, experiences or special duties may also be subjected to a Return of Service Obligation. This is the case for medical officers.

since 1995.[133] Instead, Navy relies on recruiting through Undergraduate Entry[134] and the Graduate Medical Scheme.[135]

4.65 Navy has identified discrepancies in the level of salary and conditions of service between military and civilian workforces, as a root cause of the current shortfall in the supply of Navy medical officers.

Remediation activities for medical officers

4.66 In 2009, Defence's Joint Health Command commissioned a report into ADF medical officer remuneration arrangements. The report found that there was a significant and growing divergence between remuneration available to ADF medical officers and civilian medical practitioners, and that remuneration influenced the retention of medical officers. It was also noted that there was a general perception amongst medical officers that they were being 'left behind' their civilian counterparts. In 2010, the Defence Force Remuneration Tribunal acknowledged the detrimental impact that medical officer workforce shortages were having on ADF capability, and accepted a proposed increase to tri-service medical officer salaries.

4.67 The workforce management plan for the medical officer employment category outlines six remediation activities. These activities include:

- setting appropriate recruitment targets to achieve demand;

- using a sign on bonus to improve direct entry recruitment;

- monitoring recruitment to ensure targets are achieved;

- promoting undergraduate interest in the Navy;

- improving access to continued professional training for medical officers to support retention; and

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133 To be eligible for Direct Entry, an individual needs to be registered as a general medical practitioner with the Australian Health Practitioners Regulation Agency and have completed two years of hospital residency.

134 Medical undergraduates must have successfully completed at least the first year of a five year degree or the first two years of a six year degree and require no more than four years study to complete their degree program. Undergraduates must have passed the prescribed examination or assessment for each year of the course up to date of entry. On completion of degree studies, medical officers undertake two years of compulsory residency training.

135 To join the Graduate Medical Scheme, applicants must have completed, or be in the final semester of study and in good standing, of an appropriate undergraduate degree, or have completed the Graduate Australian Medical Schools Admission Test and have been accepted into an Australian university.

- providing greater flexibility in, and improving the timeliness of career advancement.

4.68 Defence identified a lack of access to further education and training as a cause of medical officer departures when they complete their Return of Service Obligation. To address the issue, Navy has looked outside Defence for the delivery of specialist training to medical officers, particularly in the fields of general practice, medical administration, public health and occupational health. The ADF is also seeking to strengthen collaboration with civilian medical institutions. Plan Swift Incision is an ADF-wide initiative aimed at encouraging medical officers to extend their service by providing opportunities to undertake procedural specialist training.

4.69 Navy has also made adjustments to the medical officer career continuum to streamline the time taken for medical officers to progress through Initial Entry Training to Medical Level 2, which took between 18 and 24 months in 2009. Medical officers are now able to reach Medical Level 2 in under a year from commencing their Initial Entry Training, and having attained Medical Level 2, medical officers are required to undertake continued professional development to maintain and enhance their skills. Medical officers are offered financial assistance of up to $10 000 per year to participate in approved professional development activities, and can use work release provisions to do so.

4.70 Navy is also investigating the option of increasing the supply of senior medical officers by introducing greater flexibility into the promotion progression framework from Lieutenant to Commander. Navy informed the ANAO in October 2014 that this proposal is in the early stages of development and will require considerable work before being submitted to the Navy Capability Committee for consideration.

Payment of retention bonuses

4.71 A retention bonus is a payment made to an employee, which is intended to help retain the services of the employee. These bonuses are not usually linked to the employee's performance.

4.72 Since 2005, Navy has offered 27 different types of retention bonuses, generally ranging in value from $5000 to $100 000, at a total cost of approximately $311 million. The bonuses have been offered to Navy members within a range of employment categories, at different ranks, with certain

qualifications and/or working on specific platforms, in return for up to five years of additional service. [136]

4.73   The retention bonuses offered to marine technicians and submariners, electronics technicians and submariners and medical officers, between 2005 and 2014, have included:

- Five rounds of retention bonuses specifically targeted at marine technician sailors and/or submariners. These bonuses were available to members across ranks, at specified ranks and/or with particular qualifications, and in two cases were targeted at marine technicians working on certain ships. The bonuses ranged in value from $10 000 to $80 000, and were made in return for between one and two years of additional service.

- Four rounds of retention bonuses specifically targeted at electronics technician sailors or submariners. These bonuses were available to members across ranks, at specified ranks and/or with particular qualifications. The bonuses ranged in value from $10 000 to $80 000, and were mostly made in return for up to two years of additional service.

- Additional bonuses for Able Seaman, Leading Seaman, Petty Officer and Chief Petty Officer sailors and submariners of between $12 000 and $60 000 in return for six to twelve months of service; and to individuals critical to Navy capability of up to $100 000 in return for one or two years of additional service.

- Sign-on bonuses available between 2007 and 2010 to Direct Entry medical officer recruits. The bonuses were $120 000, and were made in return for between three and four years of service.

Impact of retention bonuses

4.74   In June 2014, the then Chief of Navy informed the ANAO that the payment of retention bonuses has enabled the Navy to maintain a viable workforce. Navy has used retention bonuses as its principal retention initiative

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136   To be eligible for a retention bonus, members must be able to contribute to the full range of jobs, at sea and ashore, for which they are qualified.

during a period when its workforce has been under significant pressure as a result of shortages in key elements of it.

4.75   Retention bonuses are usually applied as a short to medium-term strategy to mitigate potential workforce shortfalls, rather than as a long-term solution. The use of retention bonuses does not of itself resolve underlying workforce issues, and there may be negative second order consequences from their use such as raised expectations and perceptions of inequity in remuneration.

4.76   Navy reported to CNSAC in June 2014 that retention bonuses are a short-term strategy to 'restrain separation rates while other workforce remediation initiatives are developed, such as the [Collins Class submarines] Deliberately Differentiated Officer initiative with [Defence People Group] and the dual qualification pathway for [marine technician] sailors.'[137] However, the payment of retention bonuses to segments of the Navy workforce has been ongoing[138], and as indicated in paragraph 4.72, various retention bonuses have now been paid to eligible Navy members for a decade at a notable cost.[139] The repeated payment of retention bonuses can create an expectation amongst eligible Navy members that additional bonuses will be paid in the future. It also raises questions for Navy as to whether such payments are more akin to higher ongoing remuneration or an allowance, rather than a retention bonus.

4.77   In 2010, a review of a now discontinued retention and recruitment program within the ADF noted that research examining the effectiveness of retention bonuses within the ADF was scarce, and the results of this research were inconsistent.[140] Further, in 2011, when Navy was preparing to offer a retention bonus to selected marine technicians between the ranks of Leading Seaman and Chief Petty Officer aboard the ANZAC class ships and Collins class submarines, Navy People Branch briefed the Chief of Navy that 'there

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137   Enterprise Risk 3 Report for the Chief of Navy Senior Advisory Committee, 11 June 2014. The dual pathway for marine technicians refers to the amended MT2010 training continuum, which now includes two training pathways for marine technicians: an operator and trade pathway. See also paragraph 4.51.

138   In February 2014, in response to a growing number of sailors intending to discharge Navy when their Return of Service Obligation associated with a previous retention bonus finished, the then Chief of Navy directed that a new retention bonus scheme be announced and offered.

139   For example, Navy estimated that the cost of one retention bonus scheme, for marine technician sailors aboard Navy's Frigate Helicopter ships and marine technician submariners who had achieved particular qualifications, was $10.59 million.

140   The review also stated that 'what is commonly accepted … is the short-term benefit of such initiatives and the requirement for more holistic strategies to affect longer-term retention'.

has been no comprehensive statistical analysis of the effectiveness of these schemes (or any other retention bonus schemes implemented within Navy) and thus the performance of each scheme in retaining personnel is not quantitatively known.'[141] These findings indicate that Navy has generally not evaluated the impact of its retention bonus schemes.

4.78 A further second order consequence of retention bonuses relates to their impact on segments of the workforce not targeted. A pertinent example is the 2007 Navy retention bonus scheme targeting discharging submariners, which was expanded due to 'significant disquiet'[142] amongst those submariners not targeted. In a similar vein, during this audit, Navy members who had received retention bonuses informed the ANAO that the bonuses had been successful in encouraging members to stay but also led to expectations of further bonuses, as well as disillusionment within non-targeted workgroups. The general thrust of feedback from the Navy members was the need to address the underlying workforce issues.

4.79 In summary, Navy has relied on retention bonuses to encourage personnel with critical skills to stay in the Navy workforce in the short to medium-term. However, the ongoing use of retention bonuses has not resolved underlying workforce issues and there are mixed perspectives within Navy on their overall benefits and costs. Navy should formally evaluate the impact of its retention bonus schemes to assist it to determine their future role within its overall workforce strategy.

Recommendation No.2

4.80 To refine its workforce strategy, the ANAO recommends that Navy:

- evaluate the impact of retention bonus schemes on the Navy workforce; and

- determine the future role of retention bonus schemes within its overall workforce strategy.

Defence response:

4.81 *Agreed.*

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141 MT Category Retention Bonus Proposal, Brief for Chief of Navy, p. 6.
142 Ibid., p. 9.

Conclusion

4.82   Navy's two largest employment categories are marine technicians and electronics technicians. As at June 2014, Defence had classified the marine technician category as 'critical', it had a shortfall of some 370 trained marine technicians or 23.5 per cent of the targeted workforce. At the same time the electronics technician category was classified as 'at-risk'. While Navy had four more electronics technicians than required, there were 96 fewer electronics technicians than required at more senior ranks. For both of these employment categories, there has often been an excess of sailors at lower ranks to assist in addressing shortfalls at higher ranks subject to their promotion. However, many sailors have left Navy following their Initial Minimum Period of Service, and these departures have detracted from the effectiveness of Navy's attempts to grow its workforce from within.

4.83   During the audit, technical sailors raised a number of workforce issues affecting their employment with Navy. These issues were similar to those identified by the 2009 Strategic Review of Naval Engineering. Technical sailors expressed dissatisfaction with the trade qualifications they received, and considered there was a need to pursue external opportunities to improve those qualifications. Other factors mentioned affecting their decision to depart or stay with Navy were a lack of meaningful shore-based jobs, low levels of respite and the payment of retention bonuses. The proportion of Navy's workforce unavailable to go to sea has also increased over the last five years, from eight per cent in 2009 to 15 per cent in 2014. This has added to the pressure on technical sailors available to go to sea. Navy's initiatives to address shortfalls in its technical sailor workforce have included paying retention bonuses, managing the training pipeline and increasing lateral recruitment.

4.84   The ANAO also reviewed Navy's management of two officer categories—aerospace engineers and medical officers. As at June 2014, there was a surplus of aerospace engineers, partly reflecting a reduced external demand for engineers in the broader economy. The category is also more readily amenable to flexible workplace conditions. On the other hand, Navy has had a significant shortage of medical officers for a considerable period of time, and as at 30 June 2014, Navy employed 29 per cent fewer medical officers than needed. While Defence has pursued initiatives to strengthen training opportunities, streamline career progression and financially reward medical officers, differences between remuneration available to ADF medical officers and civilian

medical practitioners are likely to continue to pose a major challenge to remediating Navy's medical officer workforce.

4.85   Over the past decade, Navy has relied heavily on the use of retention bonuses to stem the separation of personnel in critical categories, having made over 22 000 retention bonus payments, with a total value of $311 million, to personnel within a range of employment categories. For example, there have been five rounds of retention bonuses specifically targeted at marine technicians and/or submariners in return for between one and two years of additional service; and four rounds of retention bonuses specifically targeted at electronics technicians or submariners in return for up to two years of additional service. While Navy has relied on retention bonuses to encourage personnel with critical skills to stay in the Navy workforce in the short to medium-term, their ongoing use has not resolved underlying workforce issues, and there are mixed perspectives within Navy on their overall benefits and costs. Navy members emphasised the need to address the underlying workforce issues, which reflect deeper structural issues in terms of the work performed by technical sailors ashore, their timely transition to the Trained Force and low levels of respite. Navy has not formally evaluated the impact of its retention bonus schemes, and should do so to help determine their future role within its overall workforce strategy.

Ian McPhee

Auditor-General

Canberra ACT

18 December 2014

Appendices

Appendix 1:   Entity Response

Australian Government

Department of Defence

Mr Dennis Richardson
Secretary

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

SEC/OUT/2014/325
CDF/OUT/2014/1288

Mr Ian McPhee PSM
Auditor-General for Australia
Australian Nation Audit Office
GPO Box 707
CANBERRA ACT 2600

Dear Mr McPhee

Australian Nation Audit Office Performance Audit of Recruitment and Retention of Specialist Skills for the Navy.

Thank you for the opportunity to provide comment on the Proposed Report provided to Defence on 5 November 2014.

Defence's comments and suggested editorial amendments are included at Enclosure 1. The response to requests for information are included at Enclosure 2. The Defence response to the proposed report is included at Enclosure 3, for inclusion in the published report. Enclosure 4 sets out our response to the recommendations included in the proposed report.

Should you have any queries, please contact Mr Geoffrey Brown, Chief Audit Executive.

Yours sincerely

Dennis Richardson
Secretary

M. D. BINSKIN, AC
Air Chief Marshal
Chief of the Defence Force

November 2014

November 2014

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Defending Australia and its National Interests

Appendix 2:   Navy Employment Categories

Table A.1:   Officers

Abbreviation	Primary Qualification
AE	Aerospace Engineer
WEA	Weapons Electrical Aircraft Engineer
AVWO	Maritime Aviation Warfare Officer
BD	Band
DN	Dentist
INT	Intelligence
LE	Legal
MA	Medical Administrator
ME	Marine Engineer
ME SM	Marine Engineer Submariner
MO	Medical Officer
MX	Management Executive
MLO	Maritime Logistics Officer
MGO (H)	Maritime Geospatial Officer (Hydrographer)
MGO (M)	Maritime Geospatial Officer (Meteorologist/Oceanographer)
MCD	Mine Clearance Diver
PWO	Principal Warfare Officer
MWO	Maritime Warfare Officer
MWO SM	Maritime Warfare Officer Submariner
NPC (O)	Naval Policy Coxswain (Officer)
NS	Nurse
P	Pilot
TS	Training Systems
WE	Weapons Electrical Engineer
WE SM	Weapons Electrical Engineer Submariner
WO (E)	Warrant Officer (Entry)

Source: Navy data.

Table A.2:   Sailors

Abbreviation	Category
A	Aircrew
AWA	Acoustic Warfare Analyst
AVN	Aviation Support
ATA	Aviation Technician Aircraft
ATV	Aviation Technician Avionics
BM	Boatswain's Mate
CD	Clearance Diver
CIS	Communications Information Systems
CIS SM	Communications Information Systems Submariner
CSO	Combat Systems Operator
CSOMW	Combat System Operator Mine Warfare
CTL	Cryptologic Linguist
CTS	Cryptologic Systems
DEN	Dental
ET	Electronics Technician
ET SM	Electronics Technician Submariner
EW	Electronic Warfare
EW SM	Electronic Warfare Submariner
HSO	Hydrographic Systems Operator
IS	Imagery Specialist
ML(C)	Maritime Logistics Chef
ML(C) SM	Maritime Logistics Chef Submariner
ML(P)	Maritime Logistics Personnel Operations
ML(S)	Maritime Logistics Steward
ML(S) SM	Maritime Logistics Steward Submariner
ML(SC)	Maritime Logistics Supply Chain
ML(SC) SM	Maritime Logistics Supply Chain Submariner
MED	Medical
MED SM	Medical Submariner
MT	Marine Technician

Abbreviation	Category
MT SM	Marine Technician Submariner
MUSN	Musician
NPC (S)	Naval Police Coxswain (Sailor)
PT	Physical Trainer

Source: Navy data.

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