

Affordable Change or Expensive Whim?

Introduction

- 3.1 Concerns regarding the affordability of the model proposed by the committee were raised by a number of submissions. Press reports also indicated that affordability may also have been a concern of the current Government.¹ Surprisingly, these comments were not focused on Recommendation 3, which proposed acquiring an ability to expand the army by a further eight brigades within two years of warning. Rather, the concerns centred on:
- The cost of heightened readiness;
 - The dynamics of defence funding, including:
 - ⇒ Funding stability, and
 - ⇒ Funding competition;
 - The expense associated with the personnel model; and
 - The expense associated with fully equipping units.
- 3.2 These issues will be discussed below. This chapter will conclude by suggesting any amendments to the committee's approach on army funding.

1 Ferguson, G., 'Report calls for a smaller, tougher Australian Army', *Australian Defence Magazine*, Vol. 8, No. 10, October 2000, p. 5

The Cost of Heightened Readiness

- 3.3 Following the release of *From Phantom to Force* the Defence White Paper was released in October 2000, which significantly changed the Defence funding environment. It announced an increase to the extent that ‘defence spending over the decade is expected to increase by a total of \$23.5 billion.’² The committee welcomes this funding increase and considers it is a major step towards many of the recommendations made in *From Phantom to Force*.
- 3.4 The recent Defence White Paper determined that the Army should ‘be able to sustain a brigade deployed on operations for extended periods, and at the same time maintain at least a battalion group available for deployment elsewhere.’³ *From Phantom to Force*, in similar fashion, recommended in Recommendation 2 that the Army ‘be capable of the sustained dominance of one major (brigade level) and one minor (battalion level) focal area located anywhere within our region.’
- 3.5 The difference between the two proposals, however, is that the White Paper indicates that Army will use three brigades, each with two infantry battalions, and support from the Army Reserve. *From Phantom to Force* determined that Army required four standardised brigades, each of three infantry battalions, with a Regular / Reserve mix decided by Army, to carry out that same role.
- 3.6 The committee is concerned whether the role can be adequately carried out by a force of six infantry battalions groups, structured into three brigades, as proposed in the Defence White Paper. The committee questions whether this level of deployment can be sustained and rotated with the current force.
- 3.7 These concerns are highlighted by the force structures of the two proposals outlined in Figures 3.1 and 3.2. Figure 3.1 compares the force structure and readiness levels of the current brigades (*as detailed in the White Paper*) and the number of brigades proposed in *From Phantom to Force*.⁴ Figure 3.2 details the number of battalion groups available under the two proposals. It is clear from these two figures that the force proposed in *From Phantom to Force* results in a larger effective force, in large part by removing those elements of the Army that appear to provide little capability.

2 Defence White Paper, *Defence 2000: Our Future Defence Force*, Commonwealth of Australia, 2000, pp xvii

3 *ibid*, p. 80

4 The recommendation made by the committee was for all brigades to be on 120 days or less warning for operations.

Figure 3.1 Comparison of the current force with the force proposed by the committee in *From Phantom to Force*. Each vehicle represents an army brigade.

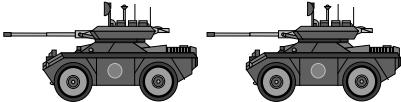
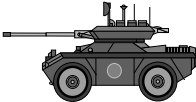
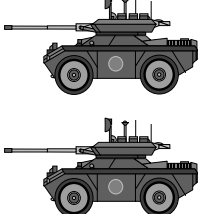
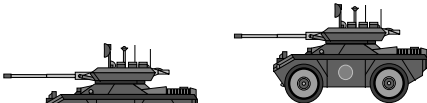
Days	Current Force (9 Brigades)	Proposed Force (4 Brigades)
30		
90		
120		
180		
360		

Figure 3.2 Comparison of the number of battalions with the number of battalions proposed by the committee in *From Phantom to Force*.

Current Deployable Force (White Paper) (6 Battalion Groups in 3 Brigades)			Proposed Deployable Force (From Phantom to Force) (12 Battalion Groups in 4 Brigades)			
Battalion Battalion Brigade	Battalion Battalion Brigade	Battalion Battalion Brigade	Battalion Battalion Battalion Brigade	Battalion Battalion Battalion Brigade	Battalion Battalion Battalion Brigade	Battalion Battalion Battalion Brigade

- 3.8 The expense associated with the committee's proposal lies in bringing two additional brigades to 120 days notice for operations, including equipping and fully manning these brigades⁵. The committee has not been able to cost this increase accurately and independently, but notes that the cost of the change in Notice to Move of 1 Brigade from 180 days to 30 days prior to East Timor was approximately \$140 million⁶. It would be reasonable to assume that additional brigades would be of the same order of magnitude.
- 3.9 Army's figures indicate that the recurring annual expense in moving an infantry battalion from 180 days to 90 days is in the order of \$8 million. This roughly equates to a cost in the vicinity of \$50 million for an infantry brigade⁷, which is consistent with the stated cost for increased readiness of 1 Brigade⁸.
- 3.10 Evidence received in *From Phantom to Force* estimated the Army's equipment shortfall at \$4.5 billion⁹. The committee also notes that Army indicated the equipment shortfall for the entire Army is between \$2.3 and \$4.5 billion, depending on the level to which units are equipped in relation to their Notice to Move.
- 3.11 This is a large cost, but the committee notes that the *From Phantom to Force* proposal recommends a force of four effective brigades rather than the nine currently on the Army Order of Battle (ORBAT). As a result there will be some ability to redistribute equipment from the units and headquarters removed from the Army ORBAT, potentially significantly reducing the cost. The committee understands major work is required to cost this complex issue in detail. The committee would be concerned with any solution that does not fully equip the total force.
- 3.12 In the recent ANAO report on the Australian Defence Force Reserves¹⁰, it was estimated that the indicative annual cost of the Army Reserve was

5 This assumes that most Reserve brigades are, for practical purposes, resourced to a readiness level of between 360 and 180 days notice for operations.

6 Army Submission, Submission 42.

7 Derived from Department of Defence Submission 73, pp. 1110 – 1111. The estimate made here is that a brigade will be made of three infantry battalions and a number of combat and combat support units of similar cost – Artillery, Engineers, Signals.

8 Note that 1 Brigade went from 180 days to 30 days, whereas these figures are from 180 days to 90 days. In broad outline, the shorter the notice to move the greater the cost.

9 Australia, Parliament, *From Phantom to Force: Towards a More Efficient and Effective Army*, Report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, Canberra, August 2000, p.190.

10 Australian National Audit Office, *Australian Defence Force Reserves*, Audit Report No 33 2000-01, 7 May 2001, p. 120.

\$952 million. It therefore appears that the cost of the committee proposal can be offset by annual savings which could accrue from:

- Maintaining a reduced number of unit depot locations;
- A reduction in Reserve Brigade and Divisional headquarters, units and administration overheads by redirecting staff to more operationally deployable elements.

Depot Costs

- 3.13 The Army, either singularly, or with the other services, maintains 235 Reserve depots. In the ANAO audit report¹¹ it was estimated that the asset value of those facilities was \$1.114 billion, with an annual repair and maintenance cost of approximately \$25 million¹². In support of the committee's contentions in *From Phantom to Force*, the ANAO report stated that 'there is evidence that some country depots are being retained despite low levels of active membership, or insufficient numbers attending, to enable proper training to be conducted.'¹³
- 3.14 In the broadest terms, a halving of the force structure could see up to a 50 per cent reduction in the facilities which the army has to maintain. The committee still considers this to be worth exploring.

Redirection of Headquarter and Administration Staff

- 3.15 The committee's model involves a phasing out of five Reserve brigade headquarters and a Reserve divisional headquarters. The saving here is not only one of dollars but also summary redistribution of personnel assets from areas of lower operational relevance to areas of higher operational relevance. Some positions will be redistributed and others eliminated.
- 3.16 These personnel would be used to help fill the vacancies that currently exist in the higher readiness units. In essence, this could be seen as the amalgamation of a large number of hollow units to form a lesser number of fully manned units.

Effect on Personnel Costs

- 3.17 Most significantly, there is potential for improved retention within the part-time elements of the force. Current separation rates run at close to

11 *ibid*, p. 118.

12 1999 – 2000 Defence Annual Report, p. 300

13 Australian National Audit Office, *Australian Defence Force Reserves*, op cit, p. 119.

one-quarter of all those enlisted.¹⁴ The annual recruitment rate, recently, has been approximately 4000 part-time personnel each year. Recruitment and initial training costs amount to \$20,000 per person. Hence \$20m is lost each year through separations. Bringing this separation rate down to levels commensurate with the permanent forces would save between \$8 and \$10 million each year.

- 3.18 These figures must be offset by the increased training required of part-time personnel. Currently, as much as 70 per cent of staff within some brigades are not qualified in their trade. In essence, a significant number of part-time soldiers appear to be inducted, given initial training, and then leave. Hence, the costs of the additional training associated with trade and promotion courses do not have to be borne. Trade courses vary significantly in duration and expense.

Conclusion

- 3.19 This chapter has not been able to cost accurately and fully the proposals nor include a detailed costing of all aspects of the *From Phantom to Force* model. Inherent in the proposals, however, are a serious reduction in personnel and administrative overheads and major savings, as detailed in the recent ANAO audit report¹⁵. What it has shown is that significant amounts of money could be made available for upgrading the readiness of specific brigades by reducing the number of hollow structures in the Army Reserve.
- 3.20 The committee still remains of the view that the force structure of four brigades outlined in *From Phantom to Force* is viable and affordable. It also raises concern that the structure outlined in the White Paper does not have the personnel to achieve the deployment and sustainment of both a brigade and a battalion group with only six battalions.
- 3.21 Additionally, the committee can see that if Army persists in funding Reserve formations that provide a limited capability in proportion to the resources allocated, the capability the community receives for the investment will continue to diminish. This may also impact on Reserve morale.

14 See Australian Army Submission 61 to *From Phantom to Force*

15 Australian National Audit Office, *Australian Defence Force Reserves*, Audit Report No 33 2000-01, 7 May 2001