

The Defence Portfolio

November 2008

MINISTRY OF DEFENCE
MANATU KAUPAPA WAONGA

NEW ZEALAND DEFENCE FORCE
TE OPE KAATUA O AOTEOROA

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Introduction

1. This brief sets out the issues facing the Defence portfolio in the short and medium term. It does so under seven headings: people, equipment and infrastructure, operational activity, funding, organisational capacity, major challenges for the three Services, and assessment and audit. Each section lists the key issues, and describes the current state of affairs. Some supporting material is contained in the annexes, but much more is available on demand. The websites of the New Zealand Defence Force (www.nzdf.mil.nz) and of the Ministry of Defence (www.defence.govt.nz) also contain the bulk of the publicly available information on the portfolio.

2. The Defence portfolio encompasses two distinct organisations, established in their present form by the Defence Act 1996 - the New Zealand Defence Force (NZDF) and the Ministry of Defence (MoD). As Minister of Defence you have responsibility for both organisations and their respective vote appropriations - Vote Defence Force and Vote Defence. The 2008/9 appropriations are \$2.086 billion and \$9.6 million respectively¹. There is a separate Vote: Veterans Affairs (\$6.7 million in 2008/9)² for which the Minister of Veterans' Affairs is responsible. In this brief Defence can mean the two organisations treated together, or be shorthand for the NZDF.

3. The NZDF comprises a total of 14175³ personnel with 9432 regular force members, 2157 territorial and reserve forces and 2586 civilian personnel. On average more than 1600 service members at any time are on active duty; operational deployments (394)⁴, other deployments (445), involved in supporting domestic security or on standby for contingent tasks (775). The Ministry of Defence has 60 staff in Wellington, plus project offices overseas staffed by both Ministry personnel and NZDF secondees.

4. The Chief of Defence Force (CDF) is appointed by the Governor-General in Council under the Defence Act. He has command responsibility for all the armed forces of New Zealand. The current Chief of Defence Force is Lieutenant-General Jerry Mateparae. His term ends on 1 May 2009.

5. The Secretary of Defence and Chief Executive of the Ministry of Defence is appointed by the State Services Commissioner under the State Sector Act 1988. The current Secretary is John McKinnon. His term expires on 17 June 2011.

6. The Chief of Defence Force and the Secretary of Defence are members of the Officials Domestic and External Security Committee (ODESC). The ODESC provides leadership, coordination and support of whole-of-government responses to national security issues. The ODESC also considers some major defence capability advice before it is submitted to Ministers.

¹ The Vote: Defence figure does not include capital funding expended by MoD Acquisition Division on behalf of the NZDF.

² The Vote: Veterans' Affairs figure does not include payments to veterans

³ Total numbers as of 1 October 2008.

⁴ Numbers in Parentheses as of 31 October 2008.

7. The Defence Act 1990 is administered jointly by both organisations. There are a number of other Acts of Parliament which are administered exclusively by the New Zealand Defence Force (see Annex 6). The NZDF is responsible for the Armed Forces Canteen Council, and as Minister, you are ex officio chair.

8. In terms of the Defence Act, the Chief of Defence Force is the principal military adviser to the Minister of Defence and the Secretary of Defence is the principal civilian adviser to the Minister. While each has sole and distinct responsibilities, the bulk of advice to the Minister is submitted by them together. For a more detailed breakdown of the functions of the two organisations see Annex 7.

9. To produce coordinated advice, the Ministry and the NZDF operate a number of joint committees. The peak committees - the Executive Capability Board (ECB) and the Office of the Chief Executives (OCE) - are chaired by the Secretary and the Chief of Defence Force respectively. The ECB oversees the management of the defence capability programme, and the OCE considers shared NZDF and Ministry governance issues.

10. The three Chiefs of Service (Navy, Army, Air Force), are appointed by the Governor-General in Council. The Vice Chief of Defence Force is appointed by the Governor General on the advice of CDF. All other appointments in the New Zealand Defence Force, military and civilian, are made by the Chief of Defence Force. The Secretary makes all appointments in the Ministry of Defence.

11. Veterans Affairs New Zealand, until 1 July 2008 a semi-autonomous body, is now an output of the Defence Force, administered by a General Manager appointed by the Chief of Defence Force.

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Overview

12. The major issues which confront Defence are common across most Western defence organisations. These include the challenge of recruiting and retaining skilled people in a competitive employment market; the cost of acquiring new capabilities, and the time to do so; the need to deploy more frequently and for longer periods of time than policy settings or funding levels envisage; and the constant requirement to ensure that Defence is managed efficiently.

13. The range of contingencies to which modern defence forces might be asked to deploy and the level of threat or capability to which they might have to respond are alike highly variable. Further, New Zealand is distinguished from other developed countries with a comparable economic base by the range of environments in which Defence has to operate (at a minimum from the Equator to the South Pole) and the range of tasks Defence has to undertake. This gives New Zealand Defence an unusually high level of complexity for its size. These features put a premium on strategy and planning, and suggest that regular reviews of defence, as envisaged in the Defence Act 1990, are essential. This need is reinforced by the fact that current defence funding arrangements will come under pressure in the near term. These pressures will be sharpened by the global financial crisis.

14. Balancing the three tasks of operations, training, and introduction of new capabilities is the key challenge for the NZDF.

People

15. Defence's people are central to its capability – attracting, training, and retaining the appropriate people is vital. Recruiting presents a range of challenges, but retention is the more pressing concern. Retention rates in the NZDF are lower than desirable. Low retention not only reduces the pool of people available for operational deployment, but perversely those in highest demand for operational deployment are also the very people needed to train new recruits and introduce new capabilities. High turnover increases the NZDF's training burden, and reduces the overall level of "skill" across the force. Part of the problem is that the NZDF's people face very attractive opportunities in the private sector. A high tempo of operational deployments over the past ten years is also a factor.

16. Improving retention has to be a major focus for the NZDF. Recent retention initiatives, including the revised remuneration system, are having an effect.

Equipment and infrastructure

17. Defence has been undertaking a major renewal of capability across the three Services, with the replacement or upgrade of most major platforms. Key delivered equipment includes the Multi-Role vessel (MRV), combination passenger/freight Boeing 757s (one delivered, the other due in January 2009), Light Armoured and Light Operational Vehicles (LAVs and LOVs) and anti-armour and air defence weapons. Key items in the acquisition pipeline include two Offshore Patrol Vessels (OPVs), four Inshore Patrol Vessels

(IPVs), upgraded C-130 Hercules and P-3 Orion aircraft, and new NH-90 and A109 helicopters.

18. Further ahead, the scope and cost of a self-defence upgrade of the ANZAC ships is being investigated. This will require government direction in the course of 2009. A major programme to upgrade and integrate Defence's digital communications ('networked enabled capability') is under-way.

19. Work at Ohakea to provide facilities for the new helicopter fleets has commenced. At the same time options for further consolidation at Ohakea are being examined. This work will now need to be calibrated against your party's decision to retain Whenuapai as an air base.

20. The new acquisitions represent a major advance over the NZDF's largely 1960's era equipment. But there have been challenges. Some are project specific: the C-130 Hercules and P-3 Orion projects have been subject to delay; while delivery and introduction into service of the Project Protector vessels is being hampered by disputes with the main contractor over seaboats and some other issues.

21. More generally, personnel shortages in key trades adversely affect the NZDF's capacity to introduce and operate its new and upgraded equipment. And while the need to bring these new and upgraded capabilities into service is naturally a significant focus of NZDF activity, operational tempo is much higher than envisaged when the acquisition and update programmes commenced.

22. The NZDF and the Ministry are working together to improve their capability selection and equipment acquisition systems. There are a number of work streams which are contributing to this objective:

- improving Defence's internal Capability Management Framework;
- implementing new government-wide Capital Asset Management (CAM) requirements;
- implementing the findings of the review of the Safety and Functionality of HMNZS CANTERBURY (the Coles Review), which made wide ranging acquisition, governance and management recommendations;
- reviewing the resources and operation of the Ministry's Acquisition Division; and
- collaborating with the Office of the Auditor-General on the next stage of its review of the reporting of defence projects.

Operational activity

23. Over the past ten years the NZDF has been involved in an unprecedented number of international peacekeeping missions. The current high level of commitments contributes to low retention, adversely affects force regeneration, and delays the introduction and renewal of capability. Each of those problems carries cost, in addition to the actual marginal cost of deploying and sustaining the NZDF overseas. Maintaining current operations is challenging, as well as limiting our scope to engage in new commitments.

The performance of our servicemen is well respected and fuels international expectations/requests for operational deployments by New Zealand forces.

24. The three major deployments in Afghanistan, Timor-Leste, and Solomon Islands, while very different in character, all present a common issue of determining under what circumstances New Zealand should draw down or pull back our forces.

Careful consideration of demands for further operational commitments, and improved retention, will also help with managing these burdens.

25. The marginal cost of mandated overseas deployments is covered by a dedicated output class, Output Class 16, in Vote: Defence Force. Fifty-four million dollars has been appropriated for this output for 2008/09.

Funding

26. Capital funding for Defence is sourced through (1) depreciation, (2) direct capital injections (\$1 billion in 2002 and \$209 million in 2005, to be drawn down as required); and (3) Defence being permitted to retain the proceeds of defence asset sales. Since FY2001/2002 \$2.9 billion of capital payments have been made (largely for Project Protector, medium utility helicopters and light armoured vehicles). Over the next four years \$1170 million is projected as payments for projects to which the Crown is already committed. Under current funding arrangements a further \$884 million is available for projects not yet approved. The list of projects on the recently updated *Defence Long-Term Development Plan* (LTDP) extends well beyond the notional end of the LTDP (2012), and would require expenditure much greater than \$884 million. A major issue for Defence is setting the level of capital funding required to cover these projects.

27. The NZDF's appropriation for operational expenditure for 2008/9 is \$2.086 billion for outputs other than Output Class 16. The Defence Sustainability Initiative (DSI) provided additional operational funding of \$4.343 billion phased in annual increments over ten years. This is about \$67 million per year (accumulating). There are pressures on this funding also, the most evident being the growing impact of depreciation on the operational funding of the Defence Force. If there is no further intervention, depreciation will consume most of the currently-scheduled DSI increments to Defence Force's operational funding by 2012.

28. The separate and related medium-term challenges to Defence's capital and operating budgets have been under review and are one of the drivers for a Defence White Paper. Such a paper will provide the basis for helping ensure that funding levels are appropriately geared to policy objectives, and that the link between operating and capital funding is properly managed.

Organisational capacity

29. Since the instigation of the Defence Sustainability Initiative (DSI) in 2005, Defence has been improving its organisational and management capability. Significant progress has been made since 2005 but there is still a good deal of work to do.

Work continues on improving the NZDF management and governance processes. An Executive Leadership Team (ELT) for the NZDF has been established, supported by a dedicated Planning Branch. The NZDF now has a published strategic plan. The deployment of a balanced scorecard throughout the NZDF continues and allows the senior leadership to track, manage and direct resources. New strategic management support models and tools are being developed. Work on the Defence Transformation Plan (DTP), a programme of work dedicated to preserving military capability by improving the efficiency and effectiveness of NZDF systems and processes, is continuing with a high priority.

30. Within the Ministry of Defence, the Strategic Capability Analysis Branch (a product of the DSI) is providing high quality advice across a range of defence issues. The resourcing and funding of the Ministry's Acquisition Division is being reviewed by a newly appointed deputy secretary.

Challenges facing the Navy, Army, and Air Force

31. The penultimate section of this brief outlines the challenges facing the Navy, Army, and Air Force. In summary, these are:

Royal New Zealand Navy

- filling every position in the Navy with the right person by 2014
- accepting and introducing the Project Protector ships into service
- maintaining credible maritime military capability across the fleet

New Zealand Army

- maintaining current operations
- being ready for an additional overseas deployment:
- growing personnel numbers

Royal New Zealand Air Force

- maintaining current operations
- introducing new capability
- growing personnel numbers

Assessment and Audit

32. The Ministry of Defence has an assessment and audit capability that is maintained to provide the Minister with independent advice on issues relating to the performance of the defence agencies. This function is responsive to your requirements and can be directed by you.

33. When not examining issues that have been directed by the Minister, the Evaluation Division operates to a programme of strategically focussed performance assessments that is approved by the chief executives on your behalf.

Defence Review 2009

34. There is provision in the Defence Act (s 24(2)) for the Secretary in consultation with CDF, to prepare from time to time a defence assessment, including a review of different options for achieving the Government's policy goals.

35. Your Defence Policy proposes a Defence White Paper to provide a fresh look at a range of issues, including procurement and the issues surrounding the personnel and capability of the Defence Force.

36. Terms of reference for the review could, inter alia, consider the review's scope (defence only, or security sector), its governance, and the mode of public consultation. We will be looking to discuss this with you at an early stage.

Major issues

37. From the above set of issues and challenges, the following are likely to require consideration by you over the next six months:

- a. Project Protector: as a matter of urgency, we will be seeking your direction on the range of Project Protector issues;
- b. Afghanistan: options for New Zealand's commitment to Afghanistan post September 2009, when the current mandate for the NZDF deployment finishes. (The process of developing these options is led by the Ministry of Foreign Affairs and Trade);
- c. Timor-Leste and Solomon Islands: options for the future of these two missions. (These submissions are also led by the Ministry of Foreign Affairs and Trade);
- d. War Pensions Act: the review of the War Pensions Act is progressing and will be brought to Ministers in December;
- e. Air Force bases: options for Whenuapai and Ohakea;
- f. Skyhawks and Aermacchis: disposal; and
- g. ANZAC ships: preliminary assessment of the cost and scope of the self-defence upgrade for the ANZACs.

Visits/commitments December 2008-June 2009

38. There are a number of international visits and commitments programmed in the next six months. See annex 2 for a complete list.

People

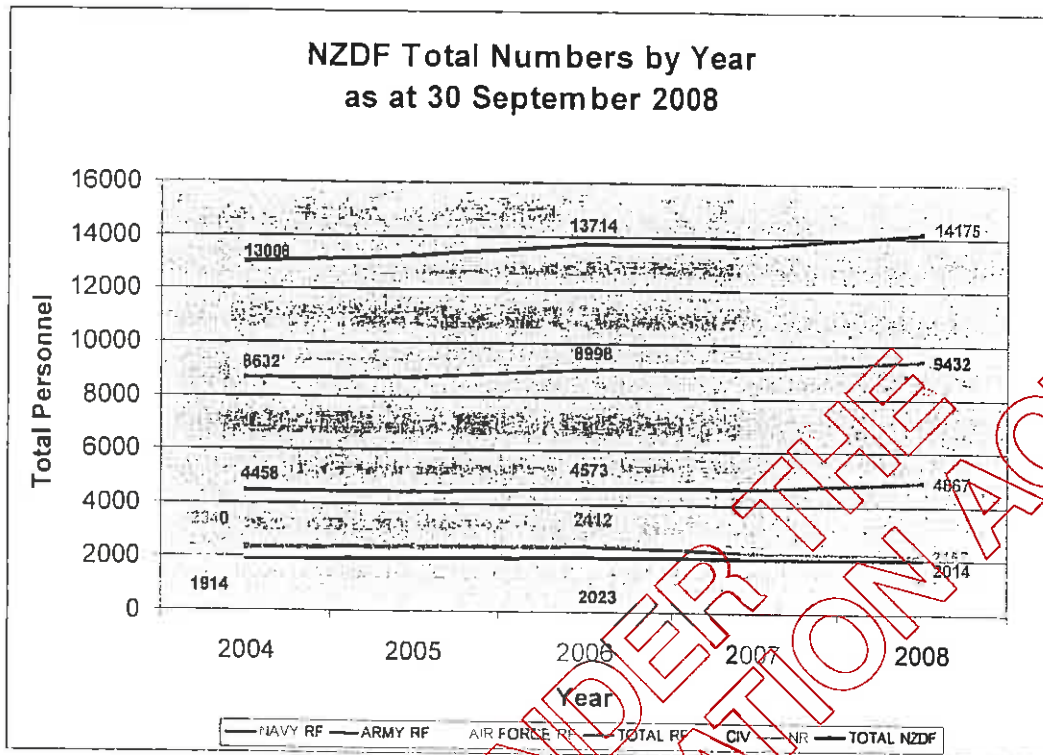
Key points

- NZDF personnel numbers are increasing, with 316 more personnel across the NZDF compared to 12 months ago.
- There remains a lack of skilled personnel in a number of critical trades and ranks.
- The ability to sustain current operations while introducing into service new capabilities is reliant on increasing personnel numbers in critical areas while increasing the length of service of personnel already serving.
- The NZDF has put in place a number of schemes to reduce attrition, including enhancing conditions of service, increasing remuneration, and improving housing and accommodation allowances. The NZDF is also developing new recruitment initiatives.
- The Army Transformation Programme provides advice on the future size and shape of the Army.

Personnel Growth

39. There has been positive growth in total NZDF personnel from 30 September 2007 to 30 September 2008, with total numbers now 14175. The average number of regular force personnel has increased by 154 since the last quarter, and has increased by 316 since the same period last year. This growth does not quite meet the targets set across the NZDF for the period, and future targets remain ambitious.

40. Non regular force personnel numbers have been steadily falling. There are now 376 personnel or 17% less than in 2003. There are, however, 123 non regular force personnel temporarily serving in the regular force while deployed operationally as of September 2008.



Attrition

41. Higher than anticipated attrition in the NZDF, particularly in core trades, is adversely affecting the regeneration of capability planned under the Defence Sustainability Initiative (DSI) (see Funding, and Organisational Capacity sections for more detail on the DSI). Overall, attrition in the Army and Navy has increased in the last quarter to September 2008, though it has dipped slightly for the Air Force.

NZDF Recruitment and Retention initiatives

42. The NZDF is recruiting the maximum number of personnel into initial and trade training courses while also targeting staff with previous military experience (from New Zealand and overseas) into trades where shortfalls are acute. Recruitment initiatives include a new advertising approach that more effectively utilises the internet and mobile phone technology while also continuing to focus on the traditional mediums of television, print media and road shows.

43. The main emphasis of retention work is on identifying the reasons why personnel – especially experienced staff – are choosing to leave and then tailoring strategies that encourage them to stay. The NZDF is:

- reducing the number of postings that require moving households;
- enhancing career management services;
- improving work-life balance by rationalising workloads; and
- improving accreditation and cross crediting of civilian qualifications.

44. Two further factors in particular, have been identified as areas that could significantly improve retention and are a strong focus: remuneration and housing and accommodation allowances

Remuneration

45. The new Military Remuneration System (MRS) was initiated on 1 July 2008 and will be fully implemented by July 2009. It will:

- enable the salary settings of military positions to be compared with similar jobs in wider employment market;
- institute an annual review that allows remuneration benefits to remain aligned to the appropriate market, therefore continuing to be competitive and attractive;
- provide Service personnel with more choice as to how they receive their total remuneration package; and
- give personnel a more transparent understanding of the total rewards they will receive as part of their remuneration package.

46. The NZDF has also aligned its superannuation policy with that of the previous Government's direction on saving for retirement through the use of KiwiSaver. On 1 April 2008, the current Armed Forces Superannuation Scheme (AFSS) was closed to new members. Current members of the AFSS have the option of remaining in the scheme, with their current contribution rate and employer contribution rate locked in. Those who choose not to remain in the existing AFSS will have the option of joining the new AFSS Category B - Defence Class section of the AFSS (once established) or joining a Kiwi Saver scheme. Current AFSS members can also join a Kiwi Saver scheme if they wish.

Housing and Accommodation Allowances

47. The housing and accommodation projects are intended to ensure that there will be suitable, affordable, and readily available accommodation for all personnel at every NZDF base or camp. From July 2008, the NZDF instituted a Universal Accommodation Component. It provides an increment within pay to all regular personnel not in military accommodation and appears to be having a positive impact on personnel retention.

48. The NZDF is also researching the merits of providing a Regional Accommodation Component to members posted to regions with high median accommodation costs. A business case is expected to be prepared for a decision by July 2009.

Army Transformation Programme

49. The Army Transformation Programme (ATP) is a project that considered what would be the best configuration of the Army to better match

contemporary operational requirements. The elements of the programme include force generation and management projects; structural projects; and personnel growth and infrastructure. Implementation of the ATP as a whole has been deferred, but a number of related projects and activities are being advanced that do not conflict with current policy settings. The Army has been authorised grow by an additional 220 personnel over the next two years to sustain operational commitments.

Ministry of Defence staffing

50. As at 17 November 2008 the Ministry of Defence had a staff of 60, all Wellington based with the exception of three project managers in Greenville Texas (P-3 project), Edmonton Alberta (C-130 project) and Marignane France (NH-90 project) respectively. There are also 19 NZDF personnel seconded to these and other projects in Wellington and offshore. Further comment is made on project staffing under the Organisational Capacity section. As well as acquisition staff, the Ministry has staff working on policy advice, and on audit and assessment (discussed in the final section).

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Equipment and Infrastructure

Key points

- Defence has been undertaking a major equipment procurement programme across the three Services.
- The key **Navy** project is Project Protector – seven new vessels to meet whole of government patrolling and sealift requirements. Delivery and introduction into service of the Project Protector vessels is being hampered by disputes with the main contractor.
- For the **Navy** also, major decisions will soon be required on the ANZAC ships' self-defence upgrade.
- The **Army** has introduced a range of new weapons and vehicles. Its main challenge is building its personnel numbers, skills and experience to operate this equipment. A decision will be sought next year on the Special Operations Training Facility project.
- For the **Air Force**, new NH-90 medium utility and A109 light utility helicopters are on order. Life-extended C-130 Hercules, upgraded P-3 Orion aircraft and modified B757 aircraft are due to be delivered from 2008 – 2012. Delays in the C-130 and P-3 projects are troubling in themselves and have required the Air Force to manage carefully the use of the remaining available aircraft.
- The future uses and infrastructure requirements at Ohakea and Whenuapai **Air Force** bases will need review in light of your Party's decision to retain Whenuapai as a military base.
- Efforts continue to sell the **air combat force**, i.e. the A-4K Skyhawk and Aermacchi aircraft.
- Defence's internal **Capability Management Framework (CMF)** is being updated to take account of new capital asset management guidelines and of recent reviews of capability.

Background

51. Major progress has been made in equipping the NZDF with new or upgraded capabilities. Since 2002 seven new projects have been completed, thirteen projects have been approved and are in the acquisition phase, and five projects have been approved in principle. Six former LTDP projects are being progressed through the NZDF Capital Programme Minor (NZDF CP-Minor).

52. Major projects which received initial consideration by the previous government but do not have final approval to proceed, and therefore funding committed, include:

- the Advanced Pilot Training Capability Project, which entails the acquisition (or lease) of new advanced training aircraft and training equipment;
- the upgrade of the ANZAC ships' self defence systems;
- elements of the Joint Command and Control System; and
- Air Force infrastructure projects at Ohakea and Whenuapai.

53. Other major projects under investigation include new trucks for the Army and upgraded Special Forces training facilities.

Current Defence Force

54. The Navy's major components are:

- Naval Combat Forces: Frigates HMNZS TE MANA, HMNZS TE KAHA;
- Naval Support Forces: HMNZS ENDEAVOUR, HMNZS CANTERBURY;
- Mine Countermeasures and Diving Force: HMNZS MANAWANUI, HMNZS KAHU and the Operational Diving Team;
- Naval Patrol Forces: 4 Inshore Patrol Vessels, 2 Offshore Patrol Vessels (to be delivered); and
- Military Hydrography: HMNZS RESOLUTION.

55. The Army's major equipment is:

- Land Combat Forces: 105 Light Armoured Vehicles, Medium Range Anti-Armour Weapons, and new special forces equipment and vehicles;
- Land Combat Support Forces: 321 Light Operational Vehicles, 105mm artillery, mortars, Very Low Level Air Defence System, combat engineering tractors, rapid gap crossing system, water purification and storage facility;
- Land Combat Service Support Forces: Combat service support vehicles, General service vehicles, field surgical team equipment; and
- Specialised Forces: Chemical, Biological, Radiological, Explosive, Improvised Explosive Device Disposal (CBRE IEDD) equipment.

56. The Air Force's major components are:

- Fixed Wing Transport Forces: Two Boeing 757 and Five C-130 Hercules transport aircraft;
- Maritime Patrol Forces: Six P-3K Orion reconnaissance and surveillance aircraft;
- Rotary Wing Transport Forces: Fourteen Iroquois and five Sioux helicopters (to be replaced by eight NH90 medium utility and five A109 training and light utility helicopters, plus spares);
- Naval Helicopter Forces: Six Seasprite SH-2G helicopters; and
- Training and VIP transport: Five Beech King Air B200.

Project Protector

57. Project Protector is the \$500 million project to acquire seven new ships to meet gaps in New Zealand's military and civil surveillance and sealift capabilities. The Project Protector fleet will comprise one multi role vessel (the MRV, now HMNZS CANTERBURY) for tactical sealift and patrol, two offshore patrol vessels and four inshore patrol vessels.

58. The Crown accepted the MRV in May 2007, but lodged a wide-ranging warranty claim in May 2008 with the main contractor, BAE Systems Australia (formerly Tenix). Neither the OPVs nor the IRVs have yet been offered by BAE to the Crown.

59. Since we have been not yet been able to resolve these issues with BAE we will, as a matter of urgency, be seeking your direction on these and related Project Protector matters. A separate submission is being prepared on these issues.

Air Projects

60. All the air force's platforms are either being upgraded or replaced. All the three upgrade projects (B757, C130, P3) are running behind the originally scheduled delivery dates, by up to 22 months in the case of the C130 upgrades. Delays are principally the result of the complexity of the integration being undertaken, and often flow from subcontractors

not delivering on time to the prime. As all contracts are fixed price with clear functional specifications, pressures on the contractor are more likely to be manifest through schedule delay, rather than through cost or performance. The impact of delays on RNZAF is two fold: the cost of alternative means of supplying capability for a longer period than expected; and disruption to personnel planning, with consequent effects on morale and retention. On the other side, the new platforms once delivered (as the first B757) are a very significant increase to Defence's capability and boost morale accordingly.

s. 9(2)(c)(a)
s. 9(2)(g)(i)

Ohakea and Whenuapai Air Force Bases

61. Since 2002 work has been proceeding on consolidating Air Force operations at Ohakea Air Force Base and closing Whenuapai Air Force Base (known as "Project Takitini"). The policy objectives have been to improve RNZAF operational effectiveness and efficiency, optimise NZDF real estate holdings, generate an integrated development plan for Ohakea; and realise revenue from the disposal of Whenuapai and off-base housing.

62. Defence has been investigating (with the assistance of external consultants: BECA and Deloitte) the costs of four options, including retaining Whenuapai as a military air base. Each option will require a very substantial capital injection into the NZDF. Further progress on Project Takitini awaits direction from you in view of your Party's announced intention to retain Whenuapai as an operational base.

63. Independent of the consolidation, a \$140 million essential infrastructure building programme is proceeding principally at Ohakea, with some work also at Whenuapai. The major works comprise the new buildings at Ohakea to house the NH90 and A109 helicopters; a new maintenance support building; an air movements terminal; repairing the runway at Whenuapai; and providing security fencing for both bases.

64. Full details on Project Takitini and the essential infrastructure programme are outlined in a separate brief.

Air Combat Force

65. Efforts are continuing to sell the 17 A4 Skyhawk aircraft which previously comprised the RNZAF air combat force and the 17 Aermacchi jet trainers which provided the lead-in training for the A4s.

5-9(c2)(i)
5-9(c2)(j)

Full details on this issue are outlined in a separate brief.

Networked capability

66. In the past ten years, the NZDF has made great strides in the development of networking capabilities. This is continuing under the Network Enabled Capability strategy. A key component of this is the Joint Command and Control Programme. Component projects under acquisition, which will provide efficient and effective command and control over NZDF forces, both within NZ and overseas.

Capability Management Framework

67. Defence capabilities rely heavily on capital equipment in most areas of activity. For that reason comprehensive processes are necessary to ensure that:

- capability requirements are properly defined;

- acquisition processes are sound;
- capital assets are managed properly during the course of their life; and
- capital replacement projects are initiated in a timely manner.

68. These processes are defined in Defence's internal Capability Management Framework (CMF), which is a governance and management system for long-term investments in defence capabilities. The CMF is designed to give clarity of responsibility, accountability and process throughout the life of a capital project. The CMF is under review, taking into account, inter alia, the OAG's review of the external reporting of the progress of Defence acquisition projects.

Defence Capital Acquisition Plan

69. Under current Cabinet delegations, decisions concerning the purchase of capital items costing less than \$7 million can be taken by the Chief of Defence Force. There is a programme of expenditure covering these items, known as the capital minors programme (CP Minor).

70. Capital items costing more than \$7 million but less than \$15 million can be approved by the Minister of Defence. Capital items costing more than \$15 million must be approved by Cabinet. The programme of expenditure on items costing more than \$7 million is known as the capital majors programme (CP Major).

71. Capital items costing more than \$7 million are deemed to be "significant military capability" under the Defence Act and thus are procured by the Secretary of Defence for the Defence Force through the Ministry's Acquisition Division. (The Ministry itself has a very small capital allocation of its own for IT and other office equipment and fittings.)

72. Bearing in mind the foreshadowed Defence Review to which your Government is committed, we will discuss with you how you wish to proceed with those projects already underway, especially those which would be ready to come to Cabinet in 2009.

73. The current major capital equipment plan for the NZDF is embodied in the previous government's *Defence Long-Term Development Plan* (LTDP). This covers the ten year period 2002/03 to 2011/12. Decisions on capital expenditure have been made on a case by case basis by the government but within the framework of the LTDP.

74. The LTDP has been useful in taking a comprehensive long-term view of likely calls on defence funding, so that decision making on individual items is informed by across the board understanding of the overall capabilities required by Defence. The expiry of the current LTDP requires consideration given to a replacement mechanism for managing capital acquisitions. This is being developed and could be integrated into the Defence Review.

Operational activity

Key points

- The NZDF is being stretched by the **sustainment** of existing peace support operations - particularly Afghanistan, Timor-Leste and Solomon Islands – as well as the NZDF's commitment to multi-agency and other tasks and training.
- **Low personnel retention** is adversely affecting force regeneration by delaying the introduction and renewal of some capabilities
- The challenge of sustaining existing operations allows for little scope to engage in **new commitments**. The NZDF does, however, retain the ability to respond to emergencies within New Zealand and abroad.
- External **expectations** for additional commitments are high and will need to be managed in the light of the above constraints.
- Defence, in collaboration with other agencies, is looking at ways of reducing the **strain** of current commitments and providing additional assistance **options** for the Government in the future.

Current situation

75. The NZDF is currently engaged in eight peace support missions in ten countries, with 394 personnel deployed on operational service. Our three major deployments are to Afghanistan, Timor-Leste and Solomon Islands. The pattern of our overseas deployments reflects the need to support peace and security in our neighbourhood and the obligation to be a good international citizen by contributing to global peace and security.

76. At any one time there may also be around 300 personnel participating in military exercises offshore, and a further 150 defence personnel employed in overseas posts, attending international training programmes, engaged in defence diplomacy, and providing assistance to our friends, partners and allies.

77. In New Zealand, the NZDF has approximately 800 personnel preparing to deploy or on standby for an emergency. NZDF personnel are continually engaged in domestic operations, including search and rescue, providing assistance to the Police in counter terrorism activities, explosive ordnance disposal and assisting with rural fire fighting. Personnel are also active in operations in our immediate region, such as patrolling the Exclusive Economic Zone, the Southern Ocean and our Pacific neighbourhood.

78. The exact numbers at 18 November are:

| | |
|---|-----|
| Peace support operations | 394 |
| Other overseas operations and exercises | 250 |
| Pre-deployment training | 19 |
| Domestic emergency standby | 775 |

79. The NZDF is being stretched by the **sustainment** of existing peace support operations - particularly Afghanistan, Timor-Leste and Solomon Islands – as well as the NZDF's commitment to multi-agency and other tasks and training.

80.

S 6(a)

NZDF operations

81. NZDF ships and aircraft play a leading role **patrolling New Zealand's EEZ**. The new Project Protector vessels and upgraded P3-K Orion Maritime Patrol Aircraft will significantly enhance the NZDF's maritime patrol capability.

S 6(a)

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International operations⁵

| Mission | Location | Mandate | Total Personnel Deployed |
|---|-------------------------|----------------|--------------------------|
| Afghanistan (ISAF, OEF, UNAMA) | Afghanistan & the Gulf | 31 Sept 2009 | 154 (157) |
| Timor-Leste (CJTF, UNMIT, F-FDTL) | Timor-Leste & Australia | 1 June 2009 | 155 (154) |
| RAMSI | Solomon Islands | Sept 2010 | 44 (50) |
| Multinational Force and Observers (MFO) | Sinai | April 2010 | 26 (26) |
| United Nations Truce Supervisory Organisation (UNTSO) | Israel, Lebanon, Syria | Sept 2010 | 8 (8) |
| United Nations Command Military Armistice Commission (UNCMAC) | Korea | 31 August 2009 | 3 (3) |
| United Nations Mission in Sudan (UNMIS) | Sudan | 1 October 2009 | 3 (3) |
| United Nations Assistance Mission to Iraq (UNAMI) | Iraq | 31 Dec 2009 | 1 (1) |
| TOTALS | | | 394 (402) |

82.

s-c(a)

83.

s-c(c)

84. New Zealand's contributions to the Regional Assistance Mission in Solomon Islands (RAMSI) are likely to be needed over the five years through to 2013 – although their scale and nature can be expected to change. Current troop numbers are mandated until September 2010, but once work is complete on proposals to adjust the overall size of the Combined Task Force and to determine appropriate representation by Pacific disciplined forces, the size of the NZDF contribution to RAMSI will again be reviewed by Ministers.

⁵ The numbers outside brackets indicate actual personnel deployed. Numbers inside brackets indicate authorised personnel levels.

85. Our longstanding contributions to the **Multinational Force and Observers (MFO)** and **United Nations Truce Supervisory Organisation (UNTSO)** are able to continue for the foreseeable future. Our contribution of a **Military Adviser to the United Nations Assistance Mission to Iraq (UNAMI)** in Iraq, however, is subject to the successful rollover of the UN's mandate in August 2009.

86. The present deployment of three personnel to **Sudan** can be sustained for the foreseeable future.

S 6(a)

87. New Zealand is able to support **United Nations Command Military Armistice Commission (UNCMAC)** for the foreseeable future.

S 6(a)
S 4(2)(g)(i)

International partnerships

88. New Zealand's international partners highly value our military contributions to international missions. From a New Zealand perspective, by stepping up to the responsibilities of good international citizenship we meet our UN obligations, enhance key bilateral and regional relationships, and support a safer, more stable world.

89. **Australia** values our cooperation in **Timor-Leste** and **Solomon Islands**.

Our alliance relationship means that **Australia** and **New Zealand** would automatically lend support to each other in the event of a serious threat.

S 6(a)
S 4(2)(g)(i)

90. **South Pacific** governments appreciate the **NZDF's** contribution to their security, such as the patrolling of their **EEZs**, the **Mutual Assistance Programme** (professional development for Pacific disciplined forces), aid projects (such as infrastructure development, or medical support), and disaster relief. The **Solomon Islands Government** values the **New Zealand military contribution to RAMSI**.

91. The **US** and **NATO** place a very high value on our contributions to operations in **Afghanistan** and the **US** to our contributions to its **Antarctic programme**.

S 6(a)

92. Asian countries value the contribution **New Zealand** makes to security in the **Asia-Pacific region**. This contribution is demonstrated by our involvement in the regional multilateral security architecture. The **NZDF's** participation in the **Five Power Defence Arrangements (FPDA)** underpins **New Zealand's** commitment to regional security in **South East Asia**, and complements the bilateral engagement we maintain with our bilateral partners - **Singapore** and **Malaysia**. The **ASEAN Regional Forum (ARF)** provides a framework for **New Zealand** to engage with countries in the wider **Asia-Pacific**,

including those with which we routinely have few opportunities for contact outside the UN, on security matters of concern for the region. In recent years the NZDF has become increasingly active in the widening ARF confidence-building/preventative diplomacy agenda, taking prominent roles in the Defence Officials' Dialogue component of the ARF and co-hosting workshops and meetings in peacekeeping and maritime security. Our role in developing the defence dimension in the ARF is appreciated by the ASEAN countries and also by China, Japan and the ROK. Australia and New Zealand are currently engaged in seeking inclusion in an expanded ASEAN Defence Ministers forum that is currently under consideration by the ASEAN members.

93. In terms of wider support to the international rule of law, New Zealand helps stop illegal fishing in the Southern Ocean, contributes to UN-mandated and UN-approved peace support missions in the Middle East, Africa, Asia and the Pacific, and promotes international treaties, such as the eradication of illicit small arms and light weapons from the South Pacific.

5.6(a)

A whole of government approach

94. In Afghanistan, Timor-Leste, and Solomon Islands, the international community seeks not only to restore security, but to promote good governance, the rule of law and improved living standards. This is a whole of government effort, of which New Zealand's military contributions represent one strand. Other agencies – notably the New Zealand Police – are increasingly deploying alongside the NZDF to these “complex interventions.”

95. While international deployments place new demands on otherwise domestically focused agencies, the whole of government approach does provide additional options for Ministers considering international contributions. The Ministry of Foreign Affairs and Trade is developing enhanced mechanisms for managing New Zealand's whole of government international deployments.

Funding

Key points

- The **capital expenditure** envelope is under **significant pressure** from the high and inflating costs of military equipment.
- The **operating expenditure** envelope is under **significant pressure** from the current high activity tempo, from the need to grow personnel numbers and remunerate them appropriately, from inflation and from increasing depreciation expenses.
- A **review of the funding envelopes is required**. Such a review could be conducted together with a Defence Review and White Paper in order to restore a balance between policy objectives and the operating and capital envelopes. A Defence Review would be an opportunity to re-orientate defence settings to your government's priorities.

Defence capital funding

96. Capital funding is currently managed within the *Defence Long-Term Development Plan* (LTDP) (see Equipment Section).

97. Capital funding for the NZDF is sourced through:

- depreciation;
- direct capital injections (\$1 billion in 2002 and \$209 million in 2005); and
- Defence being permitted to retain the proceeds of defence asset sales.

98. Since 2001/2002 \$2.9 billion of capital payments have been made by Defence. In addition, Defence is already committed to further expenditure of approximately \$1.2 billion over the next four years as payments fall due on projects that have been approved and are advanced in acquisition.

Defence operating funding

99. In 2008/09 the NZDF will spend approximately \$2.032 billion for outputs other than overseas deployments, and approximately \$54 million for the additional costs associated with overseas deployments.

100. The operating budget includes annual increments of around 5% per annum provided under the Defence Funding Package (DFP). This envelope of additional operating expenditure was approved in 2005 to implement the Defence Sustainability Initiative. The DFP envelope covers the ten year period 2005/06 to 2014/15. (The DFP also includes the \$209 million capital injection provided in 2005.)

Capital and operating linkages

101. As the discussion above indicates, the budgets for capital and operating expenditure are closely connected. Large capital assets, including specialised military equipment, incur depreciation and other operating expenditure associated with bringing that equipment into service and using it. This link requires that there be a closely integrated decision-making process for the allocation of resources within Defence.

Capital funding pressures

102. Under the current capital envelope, approximately \$884 million is forecast to be available between now and 2012 for projects that are planned, but not yet approved (including Ohakea infrastructure, the ANZAG Self-Defence upgrade, and the Land Transport Capability Programme).

103. This amount (\$884 million) is significantly less than the estimated cost of all the remaining items on the current LTDP. As final commitments have not been made to these items, their aggregate cost is uncertain. As at October 2008, their total cost was estimated to be somewhere between \$1488 million (best case) and \$2216 million (worst case). The variation is due to lack of capability definition; lack of market information (Defence has not sought information from industry); and volatility in foreign currency exchange rates.

104. Meeting the expected cost of the remaining items would require use of depreciation post-2012. The following table sets out the amount of capital expenditure (capex) that is forecast to be available until 2013/14.

NZDF Capital Expenditure 2008-2014

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|------------------|---------|---------|---------|---------|---------|
| Total accumulated depreciation available | 496 ⁶ | 329 | 369 | 398 | 394 | 427 |
| Total capital contributions available | 54 | 124 | 86 | | | |
| Expected revenue from asset sales | 18 | 46 | 75 | 80 | | |
| Existing capex payment commitments under the LTDP | 491 | 345 | 186 | 152 | 110 | |
| Forecast capex expenditure other than LTDP | 13 | 4 | | | | |
| Available for new LTDP expenditure | 64 | 150 | 344 | 326 | 284 | 427 |

105. The LTDP is confined to acquisitions that were intended to commence before 2012. There is also a potentially large programme of acquisitions, however, that need to be considered after 2012. The ten years following 2012 will see the obsolescence of a number of current platforms, including the C-

⁶ Includes current Debtor Crown balance.

130 Hercules, the P-3 Orions, and the ANZAC ships. Decisions to replace these platforms and retain and build commensurate capabilities will require significant levels of additional expenditure. The forecast cost of these acquisitions has not been included in the LTDP estimates cited above.

Operating funding pressures

106. In 2008/09, personnel and other operating costs are anticipated to be approximately \$762 million and \$592 million respectively.⁷ The affordability of these costs is affected by a number of factors:

- Military inflation (approximately 10%) is invariably higher than domestic CPI inflation.
- New capital acquisitions are generating and will generate significant increases in depreciation.
- Under the current DSI arrangements, the NZDF has been relieved of the obligation of funding depreciation increases arising from asset revaluations from within current baselines.
- The increases in depreciation that will follow from upwards revaluations and from additions to the asset base combine to greatly reduce, or wholly consume, the net value of annual DSI increments to the operating budget.

NZDF operating costs 2008/09

| Expenditure Type (\$M) | 2007/08 ⁸ | 2008/09 |
|-------------------------|----------------------|---------|
| Personnel costs | 691.791 | 762.146 |
| (Other) Operating costs | 556.870 | 591.846 |
| Depreciation | 279.755 | 349.671 |

Review of defence funding and Defence White Paper

107. Defence has planned for a mid-point review of the Defence Funding Package in 2009. This remains prudent. Significant funding pressures are evident and a review of the funding envelopes is strongly indicated. Such a review could be conducted together with a Defence Review and White Paper in order to restore a balance between policy objectives and the operating and capital envelopes.

108. The Defence Review should ideally address a long-term capital programme covering a period of approximately twenty years. Defence will need to seek decisions about which proposed acquisitions, if any, can continue and which should await the White Paper.

⁷ Figures from Vote. Defence Force Main Estimates

⁸ Figures from NZDF Annual Report 2007/08

109. Related to the discussion above is the review of the Capability Management Framework (see Equipment section), the implementation of the Capital Asset Management regulations (see Organisational Capacity section), and the review of the LTDP as a capital planning tool (see Equipment section).

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Organisational capacity

Key points

- Enhancing the NZDF's internal **strategic management and governance processes.**
- Developing improved **management information and decision support tools.**
- Enhancing the governance and management of the **acquisition processes.**
- Reviewing the **staffing levels of the Ministry's Acquisition Division.**
- Implementing the **Capital Asset Management (CAM) regime.**

Improving NZDF's strategic management, governance processes, and management information and decision support tools

110. The NZDF is by New Zealand standards a large business. The Defence Sustainability initiative (DSI), approved in 2005, included among its key objectives achieving a significant improvement in the NZDF's organisational and management capability. A programme of 18 specific projects was initiated, most of which targeted specific issues that had been identified by the earlier 2004 Defence Capability and Resourcing Review.

111. New strategic management support models and tools are being developed. Governance processes have been expanded with the establishment of an Executive Leadership Team (ELT) within the NZDF with added responsibilities for strategic planning and organisational support. These processes have been complemented by the establishment of an Organisational Support Branch within NZDF Headquarters and the formation of a Strategic Capability and Analysis Branch in the Policy Division within the Ministry of Defence. The NZDF's logistic functions have been consolidated in the Joint Logistics and Support Organisation.

112. Progress with the Defence Sustainability Initiative has been reported to the Government routinely since it was first implemented in 2005. The former Prime Minister sought an independent review of the programme and this was undertaken during 2007 and early 2008 by an external consultant, Dr Simon Smelt. He was tasked to examine, among other things, the performance information that the Government and other stakeholders wanted regarding the DSI and the extent to which the benefits expected to accrue from the DSI projects and initiatives had been realised.

113. Dr Smelt concluded that progress to date has been mixed. In terms of objectives and deliverables, considerable progress has been made, including on projects that have yet to be completed. In terms of broader impact, progress is discernable but slowly and with gaps. In terms of the objectives in the original Defence Sustainability Initiative document, however, expectations of progress at this point in the ten-year programme cannot yet be said to have

been fulfilled. The Smelt Review is available for your consideration. It could be an input to the Defence Review.

Enhancing the governance and management of major acquisition processes

Coles Review

114. The governance and management of major acquisition processes is being enhanced by implementing the recommendations of the Coles Review of the safety and functionality of HMNZS CANTERBURY.

115. The Secretary of Defence and the Chief of Defence Force commissioned the Independent Review to provide certainty and confidence about HMNZS CANTERBURY's design and performance.

116. Reporting in September 2008, Mr Coles found that the "MRV will be able to meet almost all the NZDF's original performance specification; that some limitations in its military functions can be corrected by relatively small additional expenditures; some operating limitations will have to be accepted; and that the ship is intrinsically safe."

117. Mr Coles found that "some of the processes by which Defence governed and managed the acquisition of HMNZS CANTERBURY were deficient" and "these can and should be strengthened."

118. He concluded that "an appropriately governed and resourced get well programme will provide the NZDF with a cost effective, versatile and valuable military capability throughout its service life."

119.

120. One of the recommendations in the Coles review was that the resourcing and funding of the Ministry's Acquisition Division should be reviewed. This review is now under way and is being developed in the light of the assessment of the Division's needs by the new Deputy Secretary (Acquisition). He is assessing the range of projects currently under way, together with the likely future projects the Division may need to manage, to determine the appropriate resourcing which the Division should have for the future.

Defence's reporting on the progress of acquisition projects

121. The Office of the Auditor-General (OAG) undertakes performance reviews. The OAG has been reviewing the progress of 10 acquisition projects. Its intent, as highlighted in the interim report of June 2008, is to improve the information and transparency available within Defence in order to provide effective assurance to Parliament on the acquisitions procedure. Defence is committed to working with OAG to develop a reporting procedure that fairly discloses Defence's performance. Defence will work to align the new reporting

framework with the Capital Asset Management (CAM) requirements and any changes to the Capability Management Framework (CMF).

Capital Asset Management

122. In 2006 the Government initiated a review of asset management across the government sector. This has resulted in the development of new requirements for asset management and a new asset management regime known under the acronym CAM, which will take effect from 1 July 2009.

123. Management of NZDF assets is being aligned to the new CAM requirements. The NZDF has a very large stock of capital assets, including specialist military equipment and the defence estate. It has been classified by the central agencies as an "asset intensive" agency.

124. The new CAM regime has the following central features:

- a common framework that will apply to all assets controlled or monitored by departments and Crown entities;
- a whole-of-life approach to asset management, rather than focusing solely on the initial capital outlay;
- a requirement that capital-intensive agencies (including Defence) demonstrate an "advanced" standard of asset management, and that non capital-intensive agencies demonstrate a "core" standard of asset management;
- an expectation that capital-intensive agencies will manage asset portfolios across a twenty year planning horizon;
- a formal two-stage Cabinet-approval process will apply to all new capital investment proposals above a specified threshold that require Cabinet approval (under current rules) or are assessed as high risk by the Responsible Minister based on the United Kingdom OGC Gateway risk profiling methodology; and
- A requirement that new, high risk capital expenditure proposals will be subject to an additional layer of project or programme assurance, based on the UK Gateway approach, irrespective of the funding source.

125. During the consultation stage, Defence signalled to Central Agencies its concerns that the proposed CAM process will not provide Ministers with sufficiently robust whole of life cost information necessary to make informed decisions. This issue is continuing to be worked through with Treasury and SSC.

126. The major implications for Defence of the introduction of CAM are as follows:

- current internal policy documents will need substantial revision;
- asset management portfolios with twenty year planning horizons will need to be developed for all major asset groups;
- Defence will need to develop and maintain a forward capital programme with a minimum twenty year horizon; and
- processes for Gateway Reviews will need to be developed and factored into project planning and management, and budgetary processes.

Defence Transformation Programme

127. Recommendations from the June 2007 Baseline Review formed the basis of the Defence Transformation Programme (DTP). The DTP is dedicated to preserving military capability by improving the efficiency and effectiveness of NZDF systems and processes. The DTP has resulted in a focus on the support processes and the opportunities to rationalise expenditure. Significant savings were identified in FY 07/08 and work continues to identify continuing efficiencies.

128. The DTP started with five programmes of work, but was reviewed in August 2008 to ensure continued alignment with NZDF priorities. The focus is on the key support processes and to achieve momentum the DTP was reconfigured to three distinct Programmes. It was confirmed that significant efficiencies could be achieved by improving process measurement, removing duplication and prioritising the support services, particularly within the following functions: Logistics, Personnel and Training, and Headquarters NZDF.

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Challenges facing the Navy, Army, and Air Force

129. This section summarises and highlights the challenges discussed in this briefing from the perspective of the three Services.

Royal New Zealand Navy

130. The major strategic challenges facing the Royal New Zealand Navy are:

filling every position in the Navy with the right person by 2014

131. Personnel shortages are limiting ships' availability for sea and, as a consequence, compromising the delivery of outputs. Ashore, the shortages are evident in the number of posts that are unfilled and the consequential effects on personnel and work. A range of strategies are being implemented to address the risks around attrition and recruitment rates and these are, finally but slowly, starting to show the desired effects.

accepting and introducing the Project Protector ships into service

132. Project Protector will eventually deliver credible and valuable maritime military capability to the Navy. While HMNZS CANTERBURY is now back at sea, it is not clear when the OPVs and IPVs will be delivered to the Navy.

5-9(2)(g)(i)

The delays are now starting to have a negative effect on retention.

maintaining credible maritime military capability across the fleet

133. If the level of capability required by current defence policy is to be maintained, then capital investment will be required in a number of areas. Key decisions are required in the short term around the ANZAC Self Defence Upgrade and in the medium term around the replacement of ENDEAVOUR, MANAWANUI and RESOLUTION and the future of the Navy helicopters.

New Zealand Army

134. The major strategic challenges facing the New Zealand Army are:

maintaining current operations

135. For a number of years Army has been operating at a high operational tempo with ongoing missions in Afghanistan, Timor Leste, the Solomon Islands, a number of smaller missions overseas and domestic operational activities in New Zealand. Priority for NZDF and Army has been maintaining these commitments. This has required the deployment of approximately 1100 personnel in any 12 month period from a current strength of approximately 4700 Regular Force personnel. To meet this challenge, Army has been forced to undertake a variety of measures such as re-rolling units for

operational tours, reducing its collective training, and increasing the use of Reserves and Civilians. Given the demands of introducing new equipment and other directed domestic activities, the reduction of activity in NZ will remain a significant challenge.

being ready for an additional overseas deployment:

136. The challenge of sustaining current operations with an Army of approximately 4700 personnel has dictated a reduction in the frequency and scale of the collective training activities which are essential in preparing for future operations. Re-rolling of units to support current operations not only means they must forgo training in their primary role but also precludes their participation in major collective training activities, in particular those which prepare the Army for unforeseen or short-warning combat operations.

growing personnel numbers

137. The ATP has demonstrated that in the contemporary operating environment, missions must be sustainable over the medium to long term. Army must grow beyond its currently approved targets to 5400 by 2015 if it is to guarantee mission sustainment. DSI funding was determined on growing to 5400. The ATP identified a funding shortfall to meet this personnel target and the supporting infrastructure.

Royal New Zealand Air Force

138. The major strategic challenges facing the Royal New Zealand Air Force are:

maintaining current operations

139. All RNZAF Force Elements continue to operate at a high tempo. The requirement to maintain operational outputs is affected by a reduction of both personnel and aircraft available for operations due to the concurrent requirements of the upgrade/replacement programmes.

introducing new capability

140. Currently there are programmes to replace or upgrade aircraft across six different fleets involving 30 aircraft. This represents a significant increase in capability but there will be a considerable resource requirement, especially people involved with testing, evaluating and introducing these capabilities into service. This will affect operational output delivery from time to time. Delays in the programmes, particularly those of the Boeing 757, C-130 Hercules and P-3 Orion, combined with the requirement to increase personnel resources to operate and support the new fleets, remains a significant challenge.

growing personnel numbers

141. The RNZAF is working particularly well towards growing its personnel numbers to meet the DSI target of 3041, with the current total 2976. The DSI

target, however, will need to be reassessed in light of the resource requirements raised above and the need now to keep both Ohakea and Whenuapai operating in the medium to long term. Current assessments indicate an increase of 100 personnel in addition to the DSI target will be required.

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Assessment and Audit

Ministry of Defence Audit and Assessment

142. The Ministry of Defence has an assessment and audit capability that is established under the Defence Act to provide independent advice to the Minister on issues relating to the performance of the defence agencies. The Defence Act requires the Secretary of Defence to arrange for the assessment and audit of any function duty or project of the NZDF and of the procurement activities of the Ministry, to a programme approved by or as required by the Minister of Defence. This requirement is delivered through the Ministry's Evaluation Division.

143. Evaluation reports are forwarded to you through the Secretary of Defence. The services of the Evaluation Division are available to you at any time, should you want an independent review of any issue or aspect of NZDF or Ministry performance.

144. When not specifically tasked by the Minister, the Evaluation Division conducts independent assessments of the non-operational performance of the NZDF, to a programme approved by the chief executives. These assessments cover a wide range of areas, including human resources, capability introduction and management, organisational effectiveness, logistics, property and estate management, and delivery of annual outputs.

145. The Evaluation Division also provides independent assurance on the controls on hazardous substances under the control of the Minister of Defence, as required by the Hazardous Substances and New Organisms Act.

146. Approximately 15 – 18 evaluation reports are produced each year. It has been customary for unclassified reports to be publicly released once they have been seen by the Minister, by being deposited in the National Library, and the Parliamentary Library.

External audit and review

147. The Controller and Auditor-General undertakes occasional performance reviews of Defence and is presently reviewing reporting on the progress of acquisition projects.

148. Audit New Zealand conducts annual audits (on behalf of the Controller and Auditor-General) of the financial and service performance statements of both the Ministry and the Defence Force to verify both organisations' Annual Reports. Both received unqualified audit opinions for the year ended 30 June 2008.

Current / Recent reviews

OAG Review of UN Housing Issue.

149. At the request of the outgoing Minister the OAG is undertaking a review of the investigative Court of Inquiry (COI) into the issue, and the personnel processes and procedures employed by the NZDF at the time of the issue. This review of the COI is currently underway.

State Services Commission Review of NZDF Organisational Personnel Policy Processes

150. Related to the OAG review above, the CDF has invited the State Services Commission to review the NZDF's personnel policy setting system and personnel processes used by NZDF. This review is underway.

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Annex 1

Submissions coming forward for Ministerial consideration (up to June 2009)

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S.9(2)(j)(i)

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Annex 2

Major upcoming international engagements up to February 2009

S 4(2)(j)(i)

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Annex 3

Biography of Chief of Defence Force Lieutenant General Jeremiah (Jerry) Mateparae, ONZM

Lieutenant General Mateparae was born in November 1954. He enlisted into the Regular Force of the New Zealand Army in June 1972. After three years service as a soldier, he graduated in December 1976 from the Officer Cadet School at Portsea Australia, to the Royal New Zealand Infantry Regiment (RNZIR).

Lieutenant General Mateparae has had Regimental and Staff appointments in the New Zealand Defence Force. These include command at platoon, company and battalion level in the New Zealand Infantry Battalions and he has also served with the New Zealand Special Air Service. He commanded the First Battalion RNZIR. His other appointments include Chief Instructor at the New Zealand Army's Tactical School, Staff Officer Operations at New Zealand's Army Training Group and Army General Staff and Director of Force Development, Headquarters, New Zealand Defence Force.



In December 1999, Lieutenant General Mateparae was promoted to Brigadier and assumed the appointment as the New Zealand Army's Land Commander. In July 2001 he was re-appointed as the Land Component Commander in the Headquarters of Joint Forces New Zealand. Lieutenant General Mateparae was promoted to Major-General in February 2002 and was the Chief of Army from February 2002 to April 2006.

On 1 May 2006, Lieutenant General Mateparae was again promoted and took up his current appointment as the Chief of Defence Force; New Zealand's senior uniformed military appointment. Lieutenant General Mateparae has had two operational postings to peace support missions. He commanded the combined-force Truce Monitoring Group on Bougainville during OPERATION BELISI in 1998. He also had one 12 month tour of duty with the United Nations Truce Supervisory Organisation (UNTSO) as the Chief Observer in Southern Lebanon from May 1994 to May 1995. From December 1999 to July 2001, Lieutenant General Mateparae was the Joint Commander for New Zealand forces in Timor-Leste.

Lieutenant General Mateparae has attended courses and training with the British, Australian, Singaporean, Malaysian and American armies. He is a graduate of the British Staff College, Camberley, the Australian Joint Services Staff College, the USCINCPAC Symposium on East Asian Security and the Royal College of Defence Studies in the United Kingdom. He has a Master of Arts with First Class Honours from the University of Waikato, and is a Fellow of the New Zealand Institute of Management.

Lieutenant General Mateparae was made an Additional Officer of the New Zealand Order of Merit in the January 1999 New Year's Honours List for his service in Bougainville.

Lieutenant General Mateparae is married to Janine, and they have five children. His interests include reading, (watching) sport, homeopathy, keeping fit and helping Janine in the kitchen.

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Annex 4

Biography of Mr McKinnon – Secretary of Defence

John McKinnon, a career public servant, was appointed Secretary and Chief Executive, Ministry of Defence in December 2006. Prior to this Mr McKinnon had an extensive career in the New Zealand foreign ministry and diplomatic service.



Mr McKinnon joined the then Ministry of Foreign Affairs in May 1974 and was first posted to China as a second secretary in 1978, following two years Chinese language training in Hong Kong. Following his return to New Zealand from China in 1980 Mr McKinnon was assigned to the Asian Division of the Ministry of Foreign Affairs and Trade. He later worked on secondment with Fletcher Challenge for a year. John McKinnon's subsequent postings in the diplomatic service were to Washington (1985-1986), Canberra (1986-1990) and New York (1992-1995), the last as Deputy Permanent Representative during New Zealand's term on the United Nations Security Council. From 1995 to 1999 John McKinnon was Director of the External Assessments Bureau in the Department of the Prime Minister and Cabinet. Mr McKinnon was New Zealand's Ambassador to China, stationed in Beijing, from February 2001 to November 2004. Immediately prior to his appointment as Secretary of Defence he was a Deputy Secretary in the Ministry of Foreign Affairs and Trade with oversight of divisions covering the Americas, Asia and security policy.

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Annex 5

Senior officials in the NZDF and MoD

NZDF:

- Chief of Defence Force - Lieutenant General Jerry Mateparae, ONZM
- Vice Chief of Defence Force - Rear Admiral Jack Steer, ONZM
- Chief of Navy - Rear Admiral David Ledson, ONZM
- Chief of Army - Major General Lou Gardiner, ONZM
- Chief of Air Force - Air Vice Marshal Graham Lintott, ONZM
- Commander Joint Forces New Zealand – Major General Rhys Jones
- General Manager Organisational Support – Dr Graeme Benny
- Chief Financial Officer – Maurice Horner

MoD:

- Secretary of Defence John McKinnon
- Acting Deputy Secretary of Defence (Policy and Planning) Andrew Wierzbicki
- Deputy Secretary of Defence (Acquisition) Des Ashton
- Deputy Secretary of Defence (Evaluation) Merus Cochrane
- Deputy Secretary of Defence (Corporate) Zane Kidd
- Chief Financial Officer/Deputy Secretary of Defence (Finance) Bryan Westbury

Annex 6

Acts administered by the New Zealand Defence Force and Ministry of Defence

Acts of Parliament administered exclusively by the New Zealand Defence Force

- Armed Forces Canteens Act 1948
- Armed Forces Disciplinary Act 1971
- Court Martial Act 2007
- Court Martial Appeals Act 1953
- Military Decorations and Distinctive Badges Act 1918
- Military Manoeuvres Act 1915
- Visiting Forces Act 2004

Administered by Veterans' Affairs New Zealand

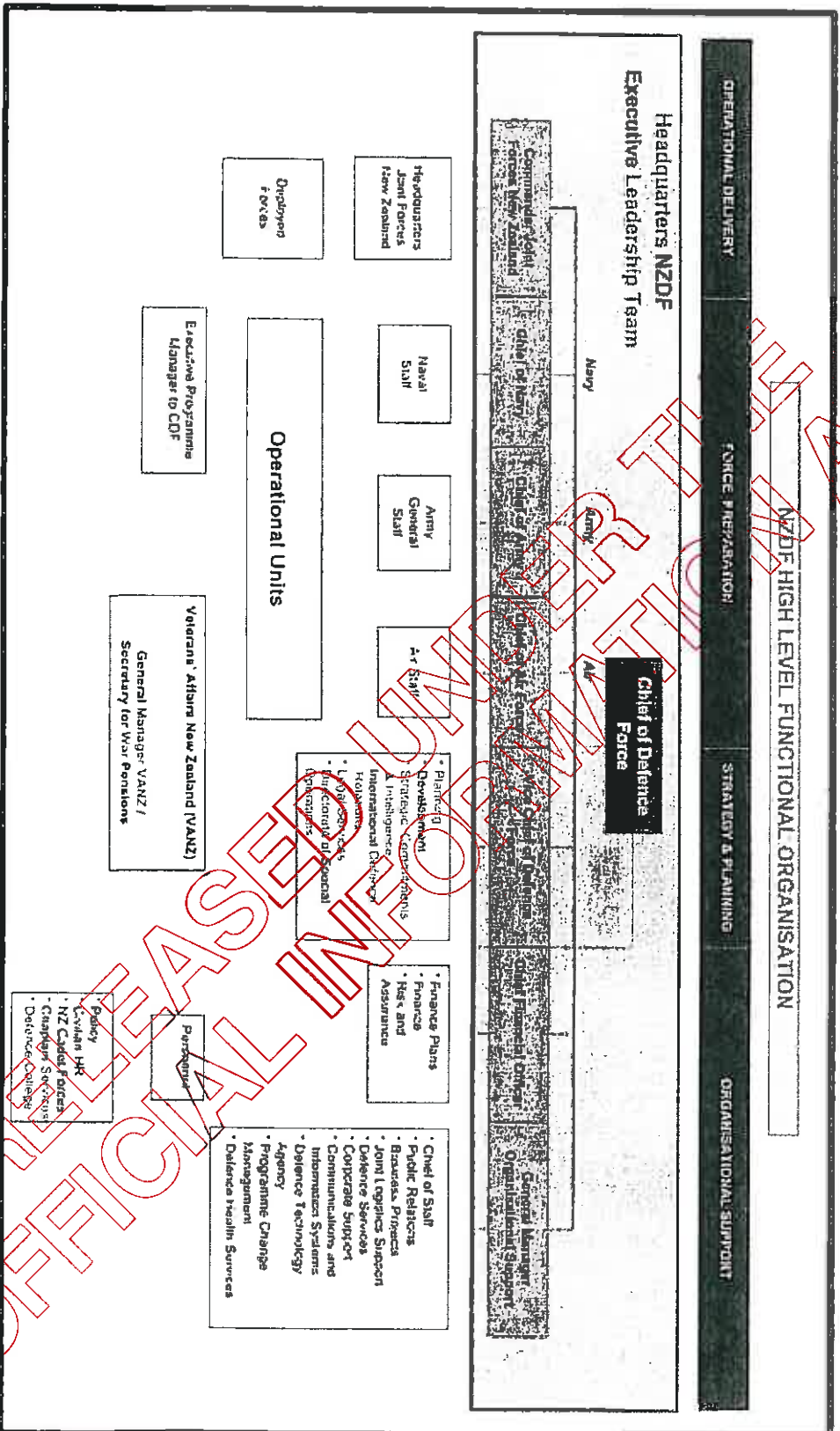
- The War Pensions Act 1954
- The Veterans' Affairs Act 1999
- The Patriotic and Canteen Funds Act 1947

Jointly administered by the New Zealand Defence Force and the Ministry of Defence

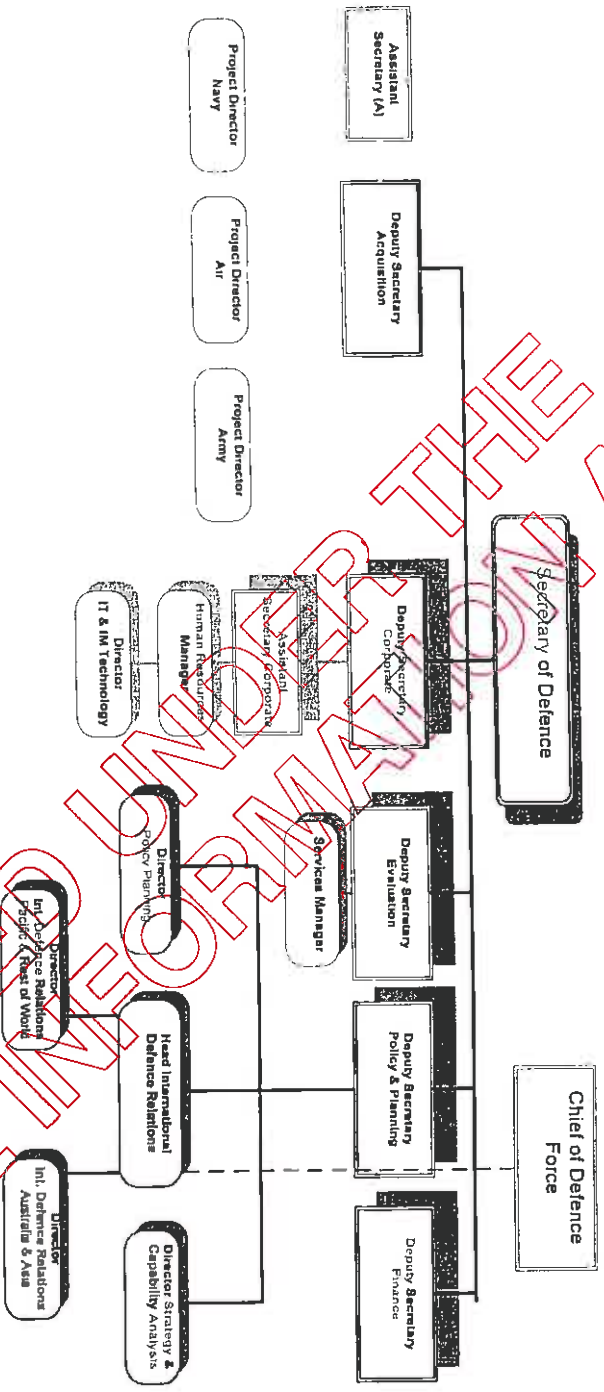
- Defence Act 1990

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OFFICIAL INFORMATION ACT

Annex 7 Organisation charts



Ministry of Defence



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Annex 8 Glossary

| | |
|-----------|---|
| AFSS | Armed Forces Superannuation Scheme |
| ANZAC | Australia New Zealand Army Corps |
| ATAC | Airborne Tactical Advantage Company |
| BAE | The main contractor for Project Protector – formerly Tenix |
| CAM | Capital Asset Management |
| CBRE IEDD | Chemical, Biological, Radiological, Explosive, Improvised Explosive Device Disposal |
| CJTF | Combined Joint Task Force (Timor-Leste) |
| CMF | Capability Management Framework |
| CDF | Chief of Defence Force |
| DFP | Defence Funding Package |
| COI | Court of Inquiry |
| DSI | Defence Sustainability Initiative |
| DTP | Defence Transformation Programme |
| EEZ | Exclusive Economic Zone |
| ELT | Executive Leadership Team |
| IPV | Inshore Patrol Vessel |
| ISAF | International Security Assistance Force (Afghanistan) |
| LAV | Light Armoured Vehicle |
| LOV | Light Operational Vehicle |
| LTDP | Defence Long Term Development Plan |
| MFAT | Ministry of Foreign Affairs and Trade |
| MFO | Multinational Force and Observers |
| MoD | Ministry of Defence |
| MRS | Military Remuneration System |
| MRV | Multi-Role Vessel |
| NATO | North Atlantic Treaty Organisation |
| NZDF | New Zealand Defence Force |
| OAG | Office of the Auditor-General |
| ODESC | Officials Domestic and External Security Committee |
| OEF | Operation Enduring Freedom (Afghanistan) |
| OPV | Offshore Patrol Vessel |
| RAMSI | Regional Assistance Mission to Solomon Islands |
| RNZAF | Royal New Zealand Air Force |
| SSC | State Services Commission |
| TAS | Tactical Air Services Inc |
| UNAMA | United Nations Assistance Mission to Afghanistan |
| UNCMAC | United Nations Command Military Armistice Commission |
| UNAMI | United Nations Assistance Mission to Iraq |
| UNMIS | United Nations Mission in Sudan |
| UNMIT | United Nations Integrated Mission in Timor-Leste |
| UNTSO | United Nations Truce Supervisory Organisation |