



# 2008/09 financial review of the Ministry of Defence, and of the New Zealand Defence Force

Report of the Foreign Affairs, Defence  
and Trade Committee

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# Ministry of Defence and the New Zealand Defence Force

## Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2008/09 performance and current operations of the Ministry of Defence, and of the New Zealand Defence Force and recommends that the House take note of its report.

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## Introduction

Our report is divided into two parts to reflect the separate operations of the departments. In Part A we focus on the 2008/09 financial performance of the Ministry of Defence and in Part B we report on the New Zealand Defence Force for the same period.

## Part A: Ministry of Defence

The Ministry of Defence provides advice to the Government on matters such as military threats to the security of New Zealand, the capability of the New Zealand Defence Force to meet New Zealand's requirements, and military deployments.

## Defence Review 2009

In April 2009 the Government initiated the Defence Review 2009. This is the first full review of defence since 1996/97. The ministry is the lead agency for the review, the aim of which is to establish defence policy objectives and to present affordable options for achieving them. The ministry is collaborating with the New Zealand Defence Force to align defence policy, capability, and funding. A defence white paper is expected to be presented to the Government by 30 March 2010.

## Departmental savings

We asked the ministry what savings it had made in the 2008/09 financial year. The ministry told us that, while it was unable to make substantial cost savings it made efforts to restrain staffing and overhead costs. The ministry expected the defence review to determine its future organisational structure and the possibility of future savings.

## Financial management capability

We note that the Office of the Auditor-General has found deficiencies in the ministry's financial information systems and controls, and considers that the ministry had insufficient resources in this area. Asked for its view of its financial management capability, the ministry said that staff shortages had affected the integrity of its financial information systems and controls but the finance team in the ministry is now fully staffed. The ministry expects to receive a better rating in this area at its next annual audit.

## **Part B: New Zealand Defence Force**

The New Zealand Defence Force contributes to securing New Zealand's strategic interests and achieving its foreign policy goals. It incorporates specialist operators in land, sea, and air defence activities.

### **Efficiencies and savings**

The Defence Force has implemented several programmes to improve its efficiency and save costs: a Defence Transformation Programme (DTP), an Enterprise Cost Reduction Programme, and a procurement programme, which focuses on attaining efficient results from its current contracts; these programmes are at various stages of development. The Defence Force said that its current military capability would not be affected by any of these programmes.

The Defence Force signalled the possibility of savings in information technology and real estate, both areas being considered in the defence review. It also suggested that savings could be made by consolidating the collection of intelligence in the force and the wider Government intelligence sector.

### **Defence transformation programme**

The DTP commenced in 2007, with a target of saving \$372 million over five years. We note that in 2008 the savings target was revised to \$108 million over the same period, and in 2009 to \$190 million. As at 30 June 2009, the Defence Force had delivered \$45 million in permanent and one-off savings, which we were told had been reinvested in remuneration, but it expects to deliver savings of \$50 to \$100 million between June 2010 and June 2011. The Auditor-General indicated savings of \$55 million, rather than \$45 million.<sup>1</sup>

The Defence Force had previously undertaken an exercise with the Treasury to examine the force's enterprise and cost structures. Potential sustainable savings were estimated at \$120 million per annum. When the DTP was initiated, the Defence Force sought ways to make comparable savings more quickly, but recognised that some savings in areas such as real estate could be not be realised in the short term. The scope of the programme was reduced to focus on human resource management, logistics, headquarters structures, and reporting, and the savings targets revised accordingly.

### **Afghanistan**

In response to a question, the Defence Force said it provided advice to the Government on the situation in Afghanistan. It received reports on threats to its personnel and operations there and kept the Government apprised of them.

We were told that a recent briefing reported signs of improvement in both political and operational aspects of the situation in Afghanistan this year. The Chief of Defence Force

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<sup>1</sup> Office of the Auditor-General, Briefing on the Ministry of Defence and the New Zealand Defence Force, dated 19 November 2009, p. 35.

told us that he welcomes General Stanley McCrystal's report on Afghanistan, and agrees with his assessment.<sup>2</sup>

### **Future deployments**

We asked the Defence Force if they supported General McCrystal's conclusion that more troops should be sent to Afghanistan to help end the war. The report recommends sending an additional 40,000 troops, to provide security directly and to train the Afghan national forces. We asked whether the Defence Force would recommend that the Government send more troops. New Zealand is already making a substantial commitment to Afghanistan, deploying the Provincial Reconstruction Team (PRT) and the Special Air Service (SAS). The Defence Force said it would be difficult for New Zealand to commit more troops to Afghanistan. However it would make a recommendation on future troop numbers, based on a specific request from the Minister of Defence and the Government. The Defence Force has had 20 percent of its personnel committed to domestic or international operations throughout 2009, compared with approximately 14 percent in 2008.

The Defence Force told us that it has a security team within the PRT to protect its personnel, and that additional protection, such as military police and protective military vehicles, is provided by the United States. We heard that the situation in Bamyán is improving and this was attributed to the team using counterinsurgency tactics. The Defence Force indicated that some personnel from the PRT would be deployed with the SAS, the remainder returning to New Zealand when the team completes its mission in Bamyán.

### **Detainees of war**

We asked about the procedures that were followed when Defence Force personnel handed over detainees of war to the Afghan authorities. Such detainees would be subject to Afghanistan's jurisdiction. The Defence Force requires its personnel to conform to New Zealand law in the treatment of detainees of war, and to obtain the permission of the Chief of Defence to deliver a detainee to the legitimate authorities. The Defence Force has sought an assurance from Afghanistan that it will comply with international law and human rights obligations under armed conflict.

We asked if the identity of a detainee was recorded by New Zealand Defence Force personnel before he or she was handed over to the authorities, and whether detainees were followed up in any way. We heard that efforts are made to identify such people correctly, and that this information is passed on to independent Afghan human rights organisations and the International Committee of the Red Cross. The Defence Force is also implementing a process to keep track of detainees and their welfare. We were told that the Red Cross does not provide follow-up reports to countries that hand over detainees, but only to the Afghan authorities.

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<sup>2</sup> General Stanley McCrystal, *A Commander's Initial Assessment*, [http://media.washingtonpost.com/wp-srv/politics/documents/Assessment\\_Redacted\\_092109.pdf?sid=ST2009092003140](http://media.washingtonpost.com/wp-srv/politics/documents/Assessment_Redacted_092109.pdf?sid=ST2009092003140), accessed 8 December 2009.

### **Light armoured vehicles**

We asked the Defence Force to explain why light-armoured vehicles have been sent to Kabul to support the SAS, but not to Bamyan where the Provincial Reconstruction Team is located. The Defence Force explained the vehicles are intended to provide the SAS with protection, particularly from improvised explosive devices and insurgency threats. These vehicles, however, were not appropriate for use in Bamyan.

The Chief of Defence confirmed that there is interest in purchasing some of the army's 105 light-armoured vehicles. We were told that the Chief of Army is assessing the requirements for these vehicles in the defence review, but no decision has been made to sell any of the vehicles.

### **Disaster relief assistance**

We commend the Defence Force for providing help to the Tongan Government after the Princess Ashika ferry tragedy, and to Tonga and Samoa in the aftermath of the recent tsunami. The disaster relief work has been completed but the Defence Force is continuing with its Mutual Assistance Programme to Samoa.

We are aware that the Australian Defence Force disaster relief team arrived in Samoa well-equipped, and we asked the Defence Force why there was a delay in sending assistance and equipment from New Zealand. The Defence Force told us that it had first deployed personnel to determine what resources were most urgently needed, as it is important to ensure that relief work is done once and done properly. However, it requires some notice to deploy New Zealand-based personnel.

We asked the Defence Force what changes have been or could be made to improve New Zealand's future response to disasters. The Defence Force said that it is working with its Australian counterparts to develop contingency plans and to ensure that there is a coordinated response to such disasters in the South Pacific. The Defence Force believes various improvements could be made to New Zealand's response to overseas disasters. It suggested increasing the number of medical personnel in the forces, and taking a whole-of-Government approach to the delivery of aid—particularly to the coordination of effort by the Defence Force, and the provision of resources for distribution by aid agencies.

### **Surveillance flights in the South Pacific**

We asked the Defence Force whether there has been any change in policy regarding the use of the Orions for surveillance in the South Pacific. The Defence Force said that its responsibility for patrolling the South Pacific and Southern oceans had not changed, but the Air Force's current upgrading of its fleet is limiting its ability to undertake surveillance or reconnaissance flights.

### **Research and development**

The Defence Technology Agency with the Defence Force is seeking to commercialise opportunities arising from its research and development programme; we understand, for example, that it has commercialised a camouflage face paint containing an insect repellent. The agency has also worked with the SAS to develop a secure digital and analogue communication pack, retailing at NZ\$10,000 whereas the US equivalent retails for \$50,000.

We were told that the future role of the Defence Technology Agency would be determined by the defence review.

### **Defence force capability**

We note that Defence Force personnel numbers have increased, with a decline in turnover; however, it still has significant vacancies. The Defence Force considers it has sufficient funding to conduct current operations but agreed that it might be possible to alter the size of the force rather than continue attempts to fill the outstanding vacancies. The appropriate size of the Defence Force, along with current and future operations and funding, would all be determined by the defence review.

### **Sale of Skyhawks**

We were told that some progress has been made in the sale of the Skyhawk aircraft and that the Defence Force is optimistic that a sale will now proceed. The prospective purchaser is endeavouring to arrange funding for the purchase.

## Appendix

### Approach to financial review

We met on 19 November and 10 December 2009 to consider the financial reviews of the Ministry of Defence and the New Zealand Defence Force. Evidence was heard from the Ministry of Defence and the New Zealand Defence Force, and advice was received from the Office of the Auditor-General.

### Committee members

John Hayes (Chairperson)  
Hon Chris Carter  
Jacqui Dean (Deputy Chairperson)  
Hone Harawira (non-voting member)  
Hon Pete Hodgson  
Dr Paul Hutchison  
Keith Locke  
Todd McClay  
Hon Maryan Street

### Evidence and advice received

#### Ministry of Defence

Ministry of Defence, *Annual Report 2009*.

Ministry of Defence, Response to written questions, dated 9 December 2009.

Ministry of Defence, *Statement of Intent 2008–2011*.

Office of the Auditor-General, Briefing on the Ministry of Defence, dated 19 November 2009.

Organisation briefing paper, prepared by committee staff, dated 17 November 2009.

#### New Zealand Defence Force

New Zealand Defence Force, *Annual Report 2009*.

New Zealand Defence Force, Response to written questions, dated 9 December 2009.

New Zealand Defence Force, *Statement of Intent 2008–2011*.

Office of the Auditor-General, Briefing on the New Zealand Defence Force, dated 19 November 2009.

Organisation briefing paper, prepared by committee staff, dated 17 November 2009.