2001/02 Financial review of the Ministry of Defence and the New Zealand Defence Force

Report of the Foreign Affairs, Defence and Trade Committee
MINISTRY OF DEFENCE AND NEW ZEALAND DEFENCE FORCE

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2001/02 performance and current operations of the Ministry of Defence and the New Zealand Defence Force and recommends that the House take note of its report.

Introduction

The Foreign Affairs, Defence and Trade Committee has conducted a financial review of the Ministry of Defence (the ministry) and the New Zealand Defence Force (NZDF) and recommends that the House take note of its report. The Appendix to this report set out our approach, our membership and the evidence and advice we received. From our review of the 2001/02 performance and current operations of the ministry and NZDF, we wish to draw the attention of the House to the following matters.

Vision and culture of the NZDF

The Chief of Defence Force (the CDF) told us his vision for the NZDF. The central focus of his vision is a joint approach with four concepts for development:

- A knowledge-edge force – a small force that is equal to or above others in terms of knowledge
- A tailored joint force – configured to be effective in its actions
- A multi-mission joint force – able to undertake a number of missions across a wide spectrum, but not the entire spectrum of military affairs
- A network force – able to communicate and maintain interoperability world-wide with our likely coalition partners.

The CDF has also made a public commitment to high standards of leadership that he and the chiefs of the single services will provide the NZDF as well as the loyalty, integrity, professionalism and commitment that is expected from all NZDF personnel. The CDF believes that restating and refocusing on these traditional military values will help to build a NZDF that is united, professionally trained, appropriately equipped and capable of serving the interests of New Zealand.

Moving forward from issues related to the procurement process

The CDF states that domestically, the first part of the year under review was overshadowed, in the public eye, by debate on the future shape of the NZDF and the
priorities for upgrading or replacing ageing equipment.\textsuperscript{1} The Controller and Auditor-General’s report of August 2001 highlighted significant issues around the management of equipment procurement and dysfunctional relationships between the NZDF, the ministry and the Army.

We are advised by the Audit Office that the ministry and the NZDF are making good progress in addressing the issues raised in that report and that specific improvements to equipment procurement processes have been made. In addition, the Audit Office believes the level of communication and co-operation between key parties has improved significantly. We expect the leadership and vision shown by the CDF and the chiefs of the single services will allow the NZDF and the ministry to continue to move forward.

NZDF deployments

Operation Enduring Freedom

The high operational tempo maintained by the NZDF over several years has continued with New Zealand’s ongoing commitment to Operation Enduring Freedom in Afghanistan. NZDF Special Forces (including the SAS) and logistical support personnel have been deployed on active service in Afghanistan and staff officers have served in coalition headquarters to support operations and provide national command. NZDF personnel have received high praise for their military capability and performance in the harsh operating environment, which has enhanced New Zealand’s international reputation.\textsuperscript{2}

The Government has continued its commitment to the operation with the deployment of the frigate Te Kaha (to be replaced by Te Mana in early 2003) and P3 Orion aircraft to assist operations in the Gulf. We asked the CDF if New Zealand could sustain a naval frigate deployment in the Gulf for more than 12 months. The CDF advises that a naval frigate deployment could be sustained for longer than 12 months but that a frigate cannot be provided continuously on operations without extending deployments beyond six months and having a significant impact on the ships’ planned maintenance programmes. However, Te Kaha will return to New Zealand after a deployment of around eight months and Te Mana after a deployment of approximately six months.

The CDF told us that he had personally consulted at the chiefs’ level with the United Kingdom, the United States of America and Canada on frigate deployment and that Australia was also aware of New Zealand’s capability before the announcement was made. The CDF also told us that the NZDF takes every opportunity it can to work with the United States. Although military exercises with the United States is affected by Presidential directive, the CDF assured us that where specific knowledge of operations is paramount, such as flying planes into Afghanistan or operating frigates, New Zealand is provided with all of the information required to operate successfully.

\textsuperscript{1} 2001/02 Annual Report, New Zealand Defence Force, Page 7.
\textsuperscript{2} Ibid. Page 8.
The status of NZDF personnel in Afghanistan

Members of the New Zealand Armed Forces serving with the International Security Assistance Force (ISAF), which are mandated by the United Nations Security Council, are covered by the provisions of the Military Technical Agreement (MTA) between the ISAF and the Afghan Interim Authority. As the MTA was concluded between the ISAF and the Afghan Interim Authority, New Zealand, as a participating nation, did not sign the MTA. The conditions under which New Zealand has agreed to participate in ISAF are contained in the Memorandum of Understanding between all the participating nations. The MTA is attached as an Annex to the Memorandum of Understanding.3

The MTA states that ‘…personnel, may not be surrendered to, or otherwise transferred to the custody of, an international tribunal or any other entity or State without the express consent of the contributing nation’.4 We are advised by the Ministry of Foreign Affairs and Trade (MFAT) that the non-transfer elements prevent Afghan authorities extraditing troops to another State. However, they do not prevent International Criminal Court (ICC) jurisdiction because this, as part of New Zealand law, applies to New Zealand personnel by virtue of their nationality. All New Zealand citizens are subject to the ICC’s jurisdiction, even if their actions take place outside New Zealand and on the territory of a non-State party such as Afghanistan. If New Zealand fails to investigate a crime within the jurisdiction of the ICC and the ICC then seeks the surrender of that person, New Zealand is obliged to give effect to the request. In the ISAF context, if that person were still in Afghanistan, New Zealand would be in breach of its ICC obligations if it failed to arrange for the person’s surrender itself or did not give consent for the Afghan authorities to do so.5

Possible military contribution to conflict in Iraq

Despite the ongoing build-up of military forces in the Middle East the CDF told us he has not advised the Government, provided papers or prepared contingency plans on the possibility of a military contribution to the situation in Iraq. The CDF told us, as at 5 December 2002, that he had recently advised the Government on military options for Operation Enduring Freedom and that the Government is satisfied with the information it has been given.

Completion of NZDF contribution to peacekeeping in East Timor

New Zealand’s three-year contribution to the international peacekeeping force in East Timor was completed in November 2002 with the withdrawal of the Infantry Battalion Group and helicopter detachment. The CDF described the NZDF’s contribution to the East Timor peace process as very rewarding, but also very taxing on NZDF people and equipment.

Although the operation provided excellent experience in low-level and low intensity operations the CDF believes that, as a consequence of the deployment, Army capability and some skills required to operate in a mid to high level conventional

5 Ministry of Foreign Affairs and Trade, Response to Supplementary Questions, 17 January, Page 10.
setting have been degraded. To address this the Land Component Commander has instigated a training regime focusing on the regeneration of higher-level areas of capability. The recently completed Exercise Silver Fern provided a battalion group deployment collective training in conventional all-arms setting. Other training activities to restore this capability, as well as the regeneration of tactical flying skills, will be undertaken during 2003.

**Recruitment and retention of NZDF personnel**

Recruitment and retention of personnel is a major issue for the NZDF. The CDF notes in his overview in the Annual report that:

> The continuing enhancement of personnel policies remains a high priority as we strive to overcome difficulties in recruiting and retaining the high calibre people required for a modern defence force. Shortages of experienced personnel, particularly in the highly skilled technical trades, have impacted on the ability of the three services to sustain the high operational tempo of recent years.6

The CDF states that vigorous recruitment and retention programmes, along with innovative training and posting strategies, have been put in place in order to address the current shortfalls and to ensure the services make the best use of available resources.7 Each of the single services has developed recruiting strategies to provide the necessary quantity and quality of recruitment. We are advised that the recruitment strategies and campaigns of the three services have been largely successful. NZDF is also constantly reviewing factors that have traditionally been connected to recruitment and retention, such as pay, conditions of service and management practices.

A review of armed forces pay against market relativity was also undertaken, resulting in pay increases for the armed forces with effect from 1 July 2002. The CDF believes that the pay increases have gone some way to closing the gap between the NZDF and the state sector market rates. A review of the pay structure has also been initiated. However, the Audit Office advises that the NZDF made little progress on this review as planned by 1 July 2002, because of the lack of resources available.8

We are told by the NZDF that the review of the pay structure is now due to be completed by December 2003 and that significant progress has now been made. A robust job evaluation system has now been put in place as the basis for determining external market pay relativity. A framework and process for the review, as well as adjustment of armed forces pay, has been developed in conjunction with the State Services Commission and wider Government sector.

We remain concerned about the recruitment and ongoing retention of NZDF personnel. Despite relatively successful recruitment campaigns from each of the services, the annual report shows that each has shortages in key skill areas. Of

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7 Ibid.
8 Audit Office Briefing, NZDF, Page 12.
particular concern are the two undermanned regular force infantry battalions. With the increasing importance of Special Forces in the current security environment, as well as the wider use of NZDF personnel in peacekeeping operations, it is imperative that recruitment and retention of personnel remains one of the top priorities for the NZDF. We encourage the three services to focus on and continue their successful recruitment campaigns in order to retain and rebuild the single services and overcome the shortfalls of personnel. To this end, we also urge the NZDF to complete its review of the pay structure as soon as possible.

Issues related to relocation of the SAS to Papakura

As part of phase one of the NZDF Real Estate Consolidation Strategy, Cabinet approval was given for funding of four sub-projects associated with the closure of Hobsonville. One of these sub-projects was the relocation of the SAS to Papakura. Subsequently, another sub-project, the relocation of flight training to Woodbourne, was cancelled and the associated funding reallocated to the SAS relocation. This decision constituted a change in scope of the project. The Audit Office stated that revised approval from Cabinet should have been sought, because of the scope in scope, in accordance with the Cabinet Office circular on financial delegations (CO (99)7). Although the Audit Office advises that there was no deliberate intention by the NZDF to incur expenditure without approval, it recommended the NZDF seek Cabinet approval as soon as possible to correct this situation.

Cabinet approval has been obtained by the NZDF for the retrospective requests for the correct funding approvals for this project. A copy of the Cabinet Office Circular outlining the correct funding approval procedures has also been circulated to the appropriate NZDF staff.

The CDF also requested the ministry review other aspects of the SAS relocation process. The ministry’s report states that there were considerable weaknesses and deficiencies in the way in which the relocation was determined, planned and managed. These include:

- an absence of analysis as to whether relocating the SAS to Papakura was consistent with Government policy objectives
- an insufficiently detailed business case, which did not meet the requirements of Cabinet Office guidance
- insufficient investigation of the restorative work needed at Papakura, and hence inadequate estimate of the cost of work required
- inadequate involvement of the Army in the initial assessment of work to be undertaken
- the absence of a project management team to manage the refurbishment of Papakura and the relocation of the SAS until some months following commencement of activity

9 Audit Office Briefing, NZDF, Page 8.
• a failure to comply with Cabinet instructions on the administration of financial delegations in not seeking a new Cabinet authority when the scope of the project to vacate Hobsonville changed.\(^{10}\)

Despite the weakness and deficiencies outlined above, the report states that the decision to make use of the facilities that already existed at Papakura was a pragmatic solution and that no expenditure beyond that which was necessary to enable re-occupation of Papakura was made.\(^{11}\)

Although we are pleased the CDF acted upon the recommendations and obtained the retrospective approval for the expenditure, we remain concerned about the overall weaknesses and deficiencies in planning and management of this project. It is difficult to understand how the project could have been approved given all of the deficiencies. The ministry’s report highlights a number of other deficiencies, in addition to the need to gain appropriate approval and improve internal knowledge of the requirements of the Cabinet Office circular on financial delegations, which have now been acted upon. We strongly urge the NZDF to take further action to prevent such deficiencies from occurring in the future.

**Further relocation of the SAS**

We note that the deficiencies in the relocation to Papakura may result in further relocation of the SAS. The decision to relocate the SAS to Papakura was made without a robust policy basis for evaluating the best location.\(^{12}\) The Defence Policy and Planning Unit (DPPU) is currently finalising a Special Forces capability study to enable a set of policy parameters to be written and to allow the decision to locate the SAS at Papakura to be either reconfirmed or reviewed. Should Papakura be retained, progressive development and upgrade consistent with Government policy will need to be undertaken.\(^{13}\)

It is clear that further work is required before a final decision is made on the best location for the SAS and for the replacement of facilities to be resolved. We note that the battle training facility at Papakura is approaching the end of its useful life and that the cost of a new battle training facility is estimated by the SAS at $10 to $15 million. We also note that replacement of the battle training facility does not yet appear in the approved Long Term Development Plan\(^{14}\) (which is discussed below).

The SAS are an important part of the NZDF in the current security environment. We urge the NZDF to complete the SAS capability study, determine whether Papakura is the best location for the SAS, and then take the appropriate steps for timely replacement of the necessary battle training facility and any other facilities that are required.

\(^{10}\) *Relocation of 1 NZSAS Group to Papakura Camp*, The Ministry of Defence, covering letter.

\(^{11}\) Ibid. Page 7.

\(^{12}\) Ibid. Page 37.

\(^{13}\) Ibid.

\(^{14}\) Ibid.
Release of information about Special Forces

The CDF told us that he will not make public any information about the operations of Special Forces other than what is absolutely necessary. The CDF believes that supplying information about Special Forces to simply satisfy personal curiosity creates a significant risk of endangering the personal safety as well as the viability of Special Force operations.

Review of accountabilities and structural arrangements between the ministry and the NZDF

The review of the accountabilities and structural arrangements between the ministry and the NZDF, undertaken by Mr Don Hunn, was presented to the Minister of Defence in May 2002. The review is expected to make recommendations about the strategic level structure of the NZDF and the ministry, to optimise the delivery of high quality policy advice and to improve the effectiveness of the two organisations.

A number of NZDF projects have been held in abeyance pending the results of the review. These are:

- Further developmental work on upgrading the Defence Planning System (DPS)
- Identification and rationalisation of duplicated ministry and NZDF Headquarters (HQ NZDF) support functions
- HQ NZDF, ministry and Headquarters Joint Force New Zealand structural changes.

The CDF has already directed a partial amalgamation of the Development Branches and Staffs of HQ NZDF and the single services, under Development Branch HQ NZDF, by early 2003. We urge the Minister to release the findings of the review as soon as possible, so that important NZDF work can continue and a thorough debate on defence accountability and structural arrangements can occur.

Defence Long Term Development Plan

In implementing the Government’s defence policy the ministry produced a Defence Long-Term Development Plan (LTDP) to enable decisions on defence capability acquisitions to be taken over the next ten years. The CDF describes the LTDP as a vital planning tool that will enable Government to identify and prioritise proposals for defence capital expenditure. The ministry and the NZDF are now developing planning and decision-making processes that will incorporate management of both operational and financial risks to ensure that investment in defence provides the best value for money.

The LTDP will be managed within approved financial parameters, which are:

- up to $1 billion, in nominal terms, in capital injections over the next ten years, which, with depreciation, will provide at least $2 billion for new acquisitions
- current operating baselines set to 2005/06 with adjustments for non-funded depreciation thereafter
- any inflationary pressure to be managed within these constraints until 2005/06
- leasing options may be considered where there is a neutral trade-off between capital and operating expenditure.

There are several financial risks associated with the LTDP that will have to be managed to ensure the plan remains affordable, in particular the risk from foreign exchange movements.

The LTDP does not give the ministry authority to proceed with any of the projects set out in the plan. Every project will be brought forward for approval and will be judged in the context of the Government’s defence policy, and the priority and affordability of that project within the context of the LTDP.

In light of the war on terrorism and increased commitments of the NZDF in an ever-changing security environment, we asked the Secretary of Defence (the Secretary) whether projects contained in the LTDP could be brought forward if required. The Secretary advises that, if the NZDF asked for a process to be brought forward as a priority, the ministry could make a request to the Government. However, the timing of projects in the LTDP is not only dependent on additional funding but also project lead-in-time and the needs of the NZDF, which can vary and change according to the particular project as well as operational requirements and priorities.

**Success of Headquarters Joint Forces New Zealand**

The establishment of Headquarters Joint Forces New Zealand, merging the three single service environmental commands in order to improve the command and control of NZDF operations in support of national objectives, was effective from 1 July 2001. A review of the establishment of the joint headquarters found that it had improved the efficiency and effectiveness of the ability of the NZDF to plan and conduct joint operations, exercises and activities within the NZDF between the NZDF and external agencies, at the operational level. The CDF describes the joint headquarters as an outstanding success, particularly in operations such as East Timor and Afghanistan. The CDF believes other continuing changes, such as the NZDF staff college and joint forces health school, are small but significant steps to achieve a more ‘joint’ NZDF. We intend to make a site visit to the joint headquarters to assist our understanding of the joint forces ethos and see for ourselves its advantages to NZDF operations.

**Replacement acquisitions for the Navy**

Following the Government’s endorsement of the Maritime Forces Review, *Project Protector* was initiated to purchase new vessels for the Navy. The ministry, in
consultation with the NZDF and other appropriate agencies, is developing functional
descriptions of the capabilities required for the multi-role vessel and patrol vessels for
distribution to industry. This work includes the preparation of registration-of-interest
and requests-for-proposals documentation. The Secretary advises that the timing of
the acquisitions cannot be determined until proposals from possible contractors are
received and examined. A set of decisions on the timing of the individual acquisitions
of the project is expected in 2003.
APPENDIX

Approach to this financial review

We met on 5 December 2002 and 13 February 2003 to consider the financial review of the Ministry of Defence and New Zealand Defence Force. Evidence was heard from the New Zealand Defence Force and from the Ministry of Defence. Advice was received from the Audit Office. Our review took 2 hours and 16 minutes.

Committee members

Hon. Peter Dunne (Chairperson, United Future)
Graham Kelly (Deputy Chairperson, Labour)
Tim Barnett (Labour)
Martin Gallagher (Labour)
Keith Locke (Green)
Dr Wayne Mapp (National)
Ron Mark (New Zealand First)
Hon. Matt Robson (Progressive Coalition)
Dr the Hon. Lockwood Smith (National)

Evidence and advice

In addition to the annual reports of the New Zealand Defence Force and Ministry of Defence for the year ended 30 June 2002 we considered the following evidence and advice during this financial review: