2010/11 Estimates for Vote Defence and Vote Defence Force

Report of the Foreign Affairs, Defence and Trade Committee

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Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2011 for Vote Defence, administered by the Ministry of Defence, and Vote Defence Force, administered by the New Zealand Defence Force, as set out in Parliamentary Paper B.5, be accepted.

Introduction

We have divided our report into two parts to reflect our examination of Vote Defence and Vote Defence Force. In Part A we focus on Vote Defence and in Part B on Vote Defence Force.

Part A: Vote Defence

Appropriations sought for Vote Defence total $238.859 million in 2010/11, a decrease of $85.868 million from an actual estimated expenditure of $324.727 million in 2009/10. The movement in the appropriations between 2009/10 and 2010/11 is attributed to the timing of payments for defence acquisition projects.

Defence review

The Minister told us that the review of defence is progressing. A Defence Assessment, conducted by the Secretary of Defence, has been completed and a paper is being prepared for consideration by Cabinet. An independent value for money exercise is also being conducted to find opportunities for further savings and a report is due by the end of July 2010. These papers will be used to develop a White Paper on defence, which is due in September 2010.

Procurement and upgrading of defence equipment

The Minister told us that progress has been made regarding payments for defence capital expenditure projects such as the NH-90 helicopters, and upgrading the P3 Orion and C–130 Hercules aircraft. Upgrading the C–130 Hercules is taking longer than expected and the Minister conceded that it has been challenging to conduct the Defence Force’s global operations with a reduced fleet.

We were told that criticisms of the new NH–90 helicopters have been overstated, and that issues such as accessibility and capacity will be resolved by the time the helicopters are delivered. The Minister said that the challenge for the Defence Force is to use these helicopters to their full operational capability.

Part B: Vote Defence Force

The appropriations sought for Vote Defence total $2,852.375 million in 2010/11, compared with an estimated actual expenditure of $2,705.497 million in 2009/10. Approximately 80 percent of the Vote is for the Army, Navy, and Air Force to prepare and
provide the Government with military forces to protect and advance New Zealand’s security interests, and to support other Government departments such as the New Zealand Customs Service.

**Afghanistan**

The Minister told us that the International Security Assistance Force is reassured that the change in the command of the US and NATO Coalition Forces in Afghanistan will have no effect on the international strategy to ensure that Afghanistan does not become a haven for Al Qaeda. The Minister is confident that by the end of 2010 the situation in Afghanistan will have improved, and that Afghanistan will have a sustainable Government by the end of 2011. We heard that reconciliation discussions with some sections of the Taliban are continuing.

New Zealand has recently appointed a civilian to lead the provincial reconstruction team in Bamiyan and an ambassador in Kabul. These appointments will provide New Zealand with a better understanding of the state of affairs in Afghanistan, particularly the political situation.

We were told that Cabinet has committed the presence of the Special Air Service in Afghanistan to March 2011, and the Provincial Reconstruction Team in Bamiyan to September 2011.

**Bamiyan**

The Minister told us that New Zealand’s focus for Bamiyan is the development of a civil society and sustainable economic opportunities, but more aid will need to be delivered to make a difference. Aid programmes involve developing infrastructure such as roads, improving health and education services, and fostering sustainable economic activities by means such as improving agricultural productivity. The Minister said that a defence presence would be required to ensure that projects could go ahead. The New Zealand Defence Force and the New Zealand Police are also helping Afghanistan’s army and police force contribute to the defence of their country, providing training and mentoring for the Afghan forces.

**Detainees of war**

We are aware that New Zealand and Afghanistan have an agreement regarding the treatment of detainees of war handed over by New Zealand defence force personnel to the Afghan authorities, and we asked the Minister if he would provide us with a copy. The Minister said that he could not do so as the Afghan Government has not agreed to its release.

We note that Special Air Service personnel have been in the vicinity when Afghan authorities have detained people, and asked the Minister whether New Zealand had monitored their treatment. We were told that the Afghan authorities have jurisdiction over the detainees, who are Afghan citizens, and that the Red Cross monitors their welfare.

**Funding of depreciation**

We note that the New Zealand Defence Force is forecasting a surplus of $100,000 for 2010/11, compared with an estimated actual deficit of $75.2 million for 2009/10. We also
note that the Defence Force faces cost pressures in various areas including operational costs and the depreciation expenses of new equipment. Vote Defence Force includes a new appropriation of $35 million for 2010/11 and out-years to offset funding pressures resulting from the rising depreciation costs of upgraded and new major equipment. We asked the Minister whether the Government had considered revisiting its decision not to close the Whenuapai Air Force Base and selling the land to offset financial pressures. The Minister responded that no savings would be made by consolidating the air force to its Ohakea base, because of the relocation costs involved. He said that it would make more sense to upgrade the air force base at Whenuapai, particularly as the naval helicopters there are close to the naval base at Devonport.

We disagree that no savings would be made by the consolidation of the Air Force to Ohakea. The Minister agreed in principle to release to us any Cabinet and policy papers regarding these costs that have not already been made public, subject to checking for commercially sensitive information.

**Savings and innovation**

We note that the New Zealand Defence Force is undertaking three internal reviews: a Defence Transformation Programme (DTP), an Enterprise Cost Reduction project, and an Innovation and Efficiency review. We asked the Minister whether the coordination of these reviews has been considered sufficiently. The Minister told us that the overarching value for money review will be influenced by the findings of the DTP. The DTP is an ongoing review of the delivery of support services in the areas of human resources, logistics, and headquarters, with the aim of reducing costs, improving productivity, and releasing military personnel for deployment. Each service is defining its core defence role, and determining which tasks could be centralised and automated, and which tasks could be undertaken by civilians. The Chief of Defence told us that he is seeking ways to reduce “back office” expenditure, where approximately 46 percent of the defence budget is invested. We were told that savings of $84 million have already been made.

The Innovation and Efficiency work stream ensures that suggestions for savings are coordinated and applicable across the Defence Force. We were told that suggestions are tested before being introduced, and that commendations are awarded for effective suggestions. To date the work stream has realised savings of $6 million, and a further $4 million is expected. We commend the efforts of the Defence Force to find savings in costs.

**Research and development**

We asked the Minister whether integrating research and development by the Crown research institutes, the universities, and the Defence Force had been considered. The Minister has discussed opportunities for commercialisation with the New Zealand Defence Force, and said he would like to see such coordination. We heard that the research and development unit within the Defence Force contributes to capability at a fraction of the price of commercial suppliers, but that they need to look beyond the requirements of the client and create commercialisation opportunities. The Minister told us that it requires particular skills to transfer public research to the marketplace.
Role of defence force in South Pacific region

The Minister outlined his view of the role of the Defence Force in the 21st century, particularly in the South Pacific region. The Defence Force has a dual role of providing military and security activities and responding to humanitarian and disaster relief needs; both roles are regarded as critical aspects of its capability. The Defence Force is considered the best first responder in a disaster. However, the Minister does not consider that the Defence Force should be involved in long-term reconstruction projects.

HMS Canterbury

The mediation process with BAE Systems Ltd regarding the operational performance of HMNZS Canterbury has concluded. We were told that a capital payment of $85 million has been paid to the Treasury, and that a business case is being prepared for the Treasury to fund remedial work on the vessel.
Appendix

Approach to this examination

We met on 17 and 24 June and 1 July 2010 to consider Vote Defence and Vote Defence Force. Evidence was heard from the Minister of Defence, Hon Dr Wayne Mapp, and the Ministry of Defence and the New Zealand Defence Force, and advice received from the Office of the Auditor-General.

Committee members

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

Evidence and advice received

We considered the following evidence and advice during this examination:

Vote Defence

Estimates briefing paper, prepared by committee staff, dated 15 June 2010.


Minister of Defence, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Defence and Vote Defence Force, received 15 June 2010.

Response to additional questions, received 22 June 2010.

Vote Defence Force

Estimates briefing paper, prepared by committee staff, dated 15 June 2010.


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