

# The Treasury

## Budget 2013 Information Release

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**New Zealand Defence Force (NZDF)**  
**For Vote Defence Force**

**FOUR YEAR PLAN**  
**FY 2013/2014 – FY 2016/2017**

Forwarded by:

**Hon Jonathan Coleman**

**Minister of Defence**

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## References

| Document Name                     | Date/ Version |
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| Defence White Paper 2010 (DWP10)  | November 2010 |
| NZDF Future35 Strategy (Future35) | November 2012 |
| Defence Capability Plan (DCP)     | November 2011 |
| [6]                               |               |

## In Consultation

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## About this Four Year Plan

The Defence White Paper 2010 (DWP10) set the future strategic direction of the New Zealand Defence Force (NZDF), providing the Government's broad blueprint to meet New Zealand's security needs over the next 25 years. A key theme running through the DWP10 was financial sustainability – getting the most out of the defence budget, and putting as many resources as possible into the 'frontline'.

In the next year the Defence Force will be withdrawing from major operations the NZDF has participated in for the past decade – Afghanistan, Timor Leste and the Solomon Islands. At the same time, the NZDF will continue to provide a responsive combat capability to protect New Zealand and the interests in the South West Pacific. The NZDF is focused on being a more joined up organisation. This is being driven by operational lessons from the past decade, our adoption of a business model which reflects centralisation of common activities and the removal of duplication and a greater emphasis on the joined up effects the Defence Force as an organisation can deliver within our region.

The Defence Force strategy (Future35) sets out how the Defence Force will meet the defence and security needs of New Zealand out to 2035. The strategy is based around three timelines:

- delivering a Joint Amphibious Task Force (JATF) by 2015;
- enhancing our combat capability by 2020; and
- having an integrated Defence Force by 2035.

By 2015 the NZDF will be capable of deploying a JATF, have introduced most of the changes required to improve organisational efficiency; the majority of reform initiatives will have been implemented, and will be well placed to undertake the capability developments planned for 2015 - 2020.

This Four Year Plan (4YP) - a central component of the Budget 2013 process – is therefore significant as it covers the four year horizon from FY 2013/14 to FY 2016/17, taking the Defence Force through its first phase of reform and into the second. It is a key strategic planning document that provides an integrated medium-term view of NZDF direction on strategy, financial performance and workforce. This 4YP demonstrates how, over the course of the four year horizon, the challenges facing the NZDF will be addressed. It also provides Ministers with a view of the trade-offs that may be required to achieve key government priorities.

The most significant changes from the previous year are the inclusion of information relating to; the implementation of NZDF's Future35 strategy, [6]

and the NZDF workforce strategy.

The Defence Force faces four significant challenges over the horizon of this 4YP as follows:

[6]

- 
- delivering the strategic change as outlined in the DWP10 in both capability and reform perspectives;
  - the stabilisation and optimisation of personnel, in particular military personnel. Key to this will be determining the right mix of personnel requirements to meet the output expectations of Government based on our new operating model and within the existing fiscal constraints; and
  - the full generation of the Savings Redistribution Programme.

This 4YP details the delivery intent of the NZDF to:

- sustain operations and deliver Defence Force outputs in particular the non-discretionary responses to security events, multi-agency tasks and community support as detailed in section 2.2;
- manage the operating plan within current fixed appropriations until the end of FY 2014/15. Critical to achieving this result is the commitment to fully deliver the Savings Redistribution Programme;
- [6]
  
- integrate the personnel planning with the operational and strategic plans, the Savings Redistribution Programme and available resources. The full achievement of the programme will require at least rebalancing and investment in military personnel. A comprehensive Defence Force personnel plan, including Personnel Required in Uniform (PRU), will be developed during 2013 which will incorporate the investment in personnel;
- [6]
  
- progress the implementation of the NZDF Strategic Plan Future35;
- manage the DCP until FY 2018/19 based on current modelling assumptions and the use of depreciation from revaluations and provide an update to Ministers by May 2013;
- [6]
- mitigate the risks and operational implications associated with the Savings Redistribution Programme.

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# 1.0 STRATEGIC DIRECTION

## 1.1 An All-of-Government Approach to National Security

The NZDF is an important part in the all-of-government approach to national security and New Zealand's wider security interests. The National Security System details interagency responsibilities in meeting a number of national contingencies. The achievement of Defence Outcomes under the all-of-government approach is, generally, reliant on the contributions from a large number of government departments and agencies that have an interest in wider defence and security issues.

The Ministry of Defence, Department of Prime Minister and Cabinet, Ministry of Foreign Affairs and Trade, NZ Police, NZ Customs Service, Ministry of Primary Industries, the NZ Immigration Service, and other departments and agencies involved in the greater "security of New Zealand and its people", and actual decision-making by the Cabinet, all have a significant part to play in determining the overall results for government outcomes. These departments are collectively responsible for managing most of New Zealand's official relationships with the rest of the world and protecting its security at and beyond the border.

The relationship that the NZDF has with these other departments and agencies, under the all-of-government approach, continues to take on increased importance.

In pursuing New Zealand's national and wider security interests, the NZDF expresses defence policy objectives in terms of Defence Outcomes. While the NZDF is constitutionally the sole provider of military forces, it is not the sole contributor to Defence Outcomes. The NZDF is part of the External Sector which is collectively responsible for managing most of New Zealand's official relationships with the rest of the world and protecting its security beyond the border. Together, the NZDF, the Ministry of Defence, the Ministry of Foreign Affairs and Trade, and the New Zealand Customs Service, form the External Sector. The NZDF's relationship within the External Sector and other departments and agencies is shown in the diagram below.

The NZDF is a member of the Officials Committee for Domestic and External Security Coordination (ODESC). The ODESC Committee forms the central layer in the system of Domestic and External Security Coordination. It is primarily concerned with strategic aspects of national security issues and crises requiring all-of-government management.

## NZDF's Relationships with Other Agencies

|   |  |   |  |   |
|---|--|---|--|---|
|   | <p><b>Ministry of Foreign Affairs and Trade</b></p> <ul style="list-style-type: none"> <li>Lead agency for territorial claims, security of NZ's interests abroad, responses to regional disasters, international initiatives, and international terrorism</li> </ul>   | <p><b>New Zealand Defence Force</b></p> <ul style="list-style-type: none"> <li>Lead agency for preserving sovereignty and territorial integrity (armed conflict, maritime threats (NZ EEZ)) and strengthening international order to promote security (peacekeeping)</li> </ul> | <p><b>Ministry of Defence</b></p> <ul style="list-style-type: none"> <li>Defence policy advice</li> <li>Procurement of military equipment</li> <li>Audit and assessment</li> </ul> |   |
| <p><b>Department of Prime Minister and Cabinet</b></p> <ul style="list-style-type: none"> <li>Lead agency for management of systemic risk</li> <li>National Assessments Bureau</li> <li>Security and Risk Group</li> <li>Intelligence Co-ordination Group</li> </ul>  | <p><b>The NZDF provides a supporting role in the following national security issues:</b></p> <ul style="list-style-type: none"> <li><b>Security of New Zealand's interests abroad</b></li> <li><b>Regional disasters</b></li> <li><b>International initiatives</b></li> <li><b>International terrorism</b></li> <li><b>Territorial claims</b></li> <li><b>Illegal immigrants/people trafficking</b></li> <li><b>Border violations</b></li> <li><b>Illegal fishing</b></li> <li><b>Bio-security (plant/animal disease)</b></li> <li><b>Insurgency/para-military activities/terrorism/civil unrest/seige/hostage</b></li> <li><b>Earthquake disaster, volcanic eruption, tsunami, flooding, hazardous materials, mass casualties, mass evacuations, wildfire</b></li> <li><b>Major marine oil spill</b></li> </ul> |   |  | <p><b>New Zealand Customs Service</b></p> <ul style="list-style-type: none"> <li>Lead agency for responses to border violations and smuggling (arms and drugs)</li> <li>Proliferation Security Initiative</li> </ul>  |
| <p><b>New Zealand Security Intelligence Service</b></p> <ul style="list-style-type: none"> <li>Lead agency (with NZ Police) for counter terrorism, and domestic extremism issues</li> </ul>   |  |   |  | <p><b>Government Communications Security Bureau (GCSB)</b></p> <ul style="list-style-type: none"> <li>Sharing of information and intelligence</li> </ul>  |
| <p><b>Ministry of Civil Defence and Emergency Management</b></p> <ul style="list-style-type: none"> <li>Lead agency for responses to and initial recovery from earthquake disaster, volcanic eruption, tsunami, flooding, mass casualties, mass evacuations</li> </ul>  |  |   |  | <p><b>Ministry of Primary Industries</b></p> <ul style="list-style-type: none"> <li>Lead agency for responses to illegal fishing</li> </ul>   |
| <p><b>National Maritime Co-ordination Centre (NMCC)</b></p> <ul style="list-style-type: none"> <li>Responsible for compiling the maritime picture to maintain maritime domain awareness through the coordination of available maritime patrol assets</li> <li>The NZDF provides air and naval assets for patrol and surveillance tasks</li> </ul> |  |   |  | <p><b>Department of Conservation</b></p> <ul style="list-style-type: none"> <li>Lead agency for promoting conservation of the natural and historic heritage of New Zealand</li> </ul>   |
|   |  |   |  | <p><b>Antarctica New Zealand</b></p> <ul style="list-style-type: none"> <li>Responsible for managing government activities in Antarctica, Southern Ocean and Ross Dependency.</li> <li>NZDF provides support to NZ Antarctic Programme including support flights, freight movement, terminal operations, and logistic support.</li> </ul> |
|   | <p><b>New Zealand Police</b></p> <ul style="list-style-type: none"> <li>Lead agency for responses to insurgency, para-military activities, terrorism and domestic extremism (with NZSIS), civil unrest, trans-national crime, seige/hostage, VIP protection, mass gatherings (e.g., large events)</li> <li>NZDF provides counter-terrorist, EOD/IEDD/CB and SAR support</li> </ul>   | <p><b>Maritime New Zealand</b></p> <ul style="list-style-type: none"> <li>Lead agency for responses to major marine oil spills</li> <li>The NZDF provides assets to the Rescue Coordination Centre New Zealand for search and rescue tasks</li> </ul>                           |  |   |



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## 1.2 Defence Policy and the Purpose of the New Zealand Defence Force

New Zealand's current defence policy is set out in the Defence White Paper 2010 (DWP10). The national security interests identified in the DWP10, and shown in the NZDF Outcomes Framework diagram below, are enduring. They reflect New Zealand's geography, values and aspirations in the international community.

Taking the Defence policy context and strategic outlook from the DWP10, the Government expects the NZDF to contribute to the advancement of national security interests and achievement of Defence outcomes, by being able to conduct the following principal tasks over the next 25 years:

- to defend New Zealand's sovereignty;
- to discharge our obligations as an ally of Australia;
- to contribute to and, where necessary, lead peace and security operations in the South Pacific;
- to make a credible contribution in support of peace and security in the Asia-Pacific region;
- to protect New Zealand's wider interests by contributing to international peace and security, and the international rule of law;
- to contribute to all-of-government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance;
- to participate in all-of-government efforts to monitor the international strategic environment; and
- to be prepared to respond to sudden shifts and other disjunctions in the strategic direction.

**Acting in a lead or supporting role, the NZDF contributes to the following national security interests:**

- a safe and secure New Zealand, including its borders and approaches;
- a rules-based international order, which respects national sovereignty;
- a network of strong international linkages; and
- a sound global economy underpinned by open trade routes.

The key legislation concerning the New Zealand Armed Forces is the Defence Act 1990 (Act). The Act confirms the purposes of the Armed Forces, constitutes the New Zealand Defence Force (NZDF), affirms that the Armed Forces are under Ministerial authority, defines the roles and relationships of senior officials, and makes provisions, generally, in respect of the establishment, control and activities of the NZDF, and related matters. Under the Act, New Zealand's Armed Forces are raised and maintained for:

- the defence of New Zealand and the protection of its interests, whether in New Zealand or elsewhere;
- the contribution of forces under collective security treaties, agreements or arrangements; and
- the contribution of forces to the United Nations (UN) or other organisations or states for operations in accordance with the principles of the Charter of the UN.

The Act also allows the Armed Forces to be made available for the performance of public services and assistance to the civil power in time of emergency, either in New Zealand or elsewhere. The NZDF also undertakes or supports a range of tasks, including maritime resource protection, humanitarian and disaster relief, and search and rescue, as part of an all-of-government effort directed by civil authorities.

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The NZDF Outcomes Framework is depicted below. The themes that flow from the Government's goals through to achievement of Defence Outcomes, by way of principal tasks and delivery of NZDF outputs, are encapsulated within the NZDF mission statement as follows:

***NZDF Mission: To secure New Zealand against external threat, to protect our sovereign interests, including in the Exclusive Economic Zone (EEZ), and to be able to take action to meet likely contingencies in our strategic area of interest.***

***NZDF Vision: Joint Operational Excellence***

Our new vision is one of the signposts for how we will be delivering Government policy in the future. It points us to being more integrated in the way we work, train and operate at home and abroad. Excellence is not an end state – it is ongoing and reflected in the way we do things. Joint Operational Excellence will be achieved through the cascading timelines of 2015: the Joint Amphibious Task Force, 2020: enhanced combat capability, and by 2035: the integrated Defence Force.

## NZDF OUTCOME FRAMEWORK

### MISSION

To secure New Zealand against external threat, to protect our sovereign interests including in the Exclusive Economic Zone (EEZ), and be able to take action to meet likely contingencies in our strategic area of interest

### NATIONAL SECURITY INTERESTS

|  |  |  |   |
|--|--|--|---|
| A safe and secure New Zealand, including its border and approaches | A rules-based international order, which respects national sovereignty | A network of strong international linkages | A sound global economy underpinned by open trade routes |
|--|--|--|---|

### DEFENCE OUTCOMES

|   |  |  |   |
|---|--|--|---|
| A secure New Zealand, including its people, land, territorial waters, EEZ, natural resources, and critical infrastructure | Reduced risks to New Zealand from regional and global insecurity | New Zealand values and interests advanced through participation in regional and international security systems | New Zealand is able to meet future national security challenges |
|---|--|--|---|

### IMPACTS/EFFECTS

|  |  |  |   |   |   |  |
|--|--|--|---|---|---|--|
| Reduced risk of a direct threat to New Zealand and its territories | Reduced illegal activities within New Zealand and South Pacific EEZs | Reduced risk of a direct threat to a member of the Pacific Islands Forum | Mitigate the risk of a direct threat to Australia | Lessen the adverse effects of conflict and humanitarian crisis in the Asia-Pacific region as part of New Zealand's contribution to FPDA | Lessen the threats to international peace and security if requested or mandated by the UN | Reduced risk of not detecting any serious deterioration in the international strategic environment |
| Increased opportunities for New Zealanders                         | Increased awareness of New Zealand's military heritage               | Lessen the adverse effects from natural and man-made disasters           |   |   |   |  |

### PRINCIPAL TASKS

|                                    |   |   |  |  |   |  |  |
|------------------------------------|---|---|--|--|---|--|--|
| New Zealand's sovereignty defended | Contribute to all of government efforts at home and abroad in resource protection, disaster relief, and humanitarian assistance | Contribute to, and where necessary, lead peace and security operations in the South Pacific | Obligations as an ally of Australia discharged | Make a credible contribution in support of peace and security in the Asia Pacific region | Protect New Zealand's wider interests by contributing to international peace and security, and the international rule of law. | Participate in all-of-government efforts to monitor the international security environment | Prepared to respond to sudden shifts and other disjunctions in the strategic environment |
|------------------------------------|---|---|--|--|---|--|--|

### EMPLOYMENT CONTEXTS (Likely security challenges that could threaten National Security Interests and Defence Outcomes)

### OUTPUTS (Operationally Deployed Forces, Government & Community Support, Operational Preparedness, Policy Advice)

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## Connection with the Better Public Services Programme

Government's overarching goal is to grow the New Zealand economy in order to deliver greater prosperity, security and opportunities to all New Zealanders. The External Sector contributes to this goal in several ways through:

- activities to reduce or manage the risks to New Zealand from global and regional insecurity and trans-national threats (a critical precondition underpinning economic growth and social well-being);
- aid to promote the security and sustainable economic growth of developing countries, especially in our region;
- contributions to the development of international rules for dealing with global issues and promoting the conduct of international trade and commerce;
- work to increase the competitiveness of New Zealand business; and
- initiatives to assist the flow of people, capital, trade, technology and ideas for New Zealand to build a more competitive resource base for the economy.

The NZDF is therefore a critical enabler of national prosperity. Reliable access to global markets underpins New Zealand's economic performance. As much as 90 percent of New Zealand's exports of merchandise goods (by volume) travel by sea. New Zealand's outlook would thus be adversely affected by any physical disruption to the security of international trade, whether through civil disorder, piracy or interstate conflict. The Defence Force through the External Sector directly contributes to a stable international order, the necessary pre-requisite to achieving the Government's priorities.

Moreover, within the Better Public Services programme, the Government has established four priorities for this term as follows:

- responsibly manage the Government's finances;
- build a more competitive and productive economy;
- deliver better public services within tight financial constraints; and
- rebuild Christchurch.

The NZDF is contributing to the first and third of these priorities through the implementation of its ambitious reform programme which aims to free up \$350 million to \$400 million annually to reinvest in frontline capabilities by FY 2014/15.

The Better Public Services programme priority three also contains 10 specific result areas for the public sector. The NZDF is indirectly involved in two of these as follows:

- Boosting skills and employment by:
  - increasing the proportion of 18 year olds with NCEA level 2 or equivalent qualification; and
  - increasing the proportion of 25-34 year olds with advanced trade qualifications, diplomas and degrees (at level 4 or above).

The NZDF is one of New Zealand's largest employers and actively develops high levels of trade specialities, graduate and leadership capabilities, as well as levels of discipline and teamwork. By virtue of an active career development and completion regime, based on growing its own personnel capabilities, the NZDF requires relatively large numbers of new recruits each year. For example, in FY 2012/13, the NZDF is planning to recruit approximately 1,400 Regular Force entrants representing approximately 17% of the Regular Force. By virtue of the NZDF's employment model it makes a significant contribution to boosting skills and employment across a wide range of competencies. The NZDF's Reserve Forces also provide employment opportunities through military and skills training.

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In addition, through support to Youth Development Programmes (Limited Service Volunteer scheme, Service Academies in high schools and Military-style Activity Camps), the NZDF makes a contribution to the Government's objectives relating to the boosting of skills and employment and reduction in long term welfare dependency by contributing to young people coming off benefits and into training and employment. The NZDF is also actively contributing to all-of-government Functional Leadership Initiatives relating to Procurement, ICT and Property Management. The New Zealand Cadet Forces also provide opportunities for young New Zealanders to develop their skills through leadership training.

### **1.3 The Defence Force Operating Model and the Operating Environment**

The Defence Force operating model has changed significantly over recent years with the centralisation of many of the enabling / supporting functions previously delivered separately by each Service. These include the functions of capability, Human Resources (HR), recruiting and some training, logistics and infrastructure. The new operating model is still maturing and it will take some time to develop organisational cultures and behaviours necessary to deliver consistent professional support to the Defence Force Strategy.

The objective of the changes has been to deliver the enabling functions more efficiently, through the greater use of technology and the development of functional expertise. The changes have altered the manner by which Services deliver their responsibilities to raise, train and maintain the NZDF force elements, away from a command and control structure for enablers to that of being an intelligent customer of support services.

These changes have had a significant impact on how the Defence Force approaches its strategic challenges. Whilst previously the three Services delivered Maritime, Land and Air strategies, the Defence Force has now articulated its strategy and developed Future35. Service strategies are designed to support the Defence Force Strategy and clear expectations have been set for the Services and supporting functions. Further changes have been made to the manner by which functions have been staffed, with military personnel being focused on front line capabilities supported to a greater extent by civilian enablers, bolstered by military expertise.

These developments have been supported by internal organisational governance changes, proposed legislative changes to the appointment and responsibility environment of Service Chiefs and an increased focus on the roles of the Vice Chief of the Defence Force and Chief Operating Officer.

Further integration of the NZDF is planned through the development of the JATF, the National Service Delivery Programme, Total Defence Workforce (TDW), creating the Joint Support Force and the enhancement of Joint Training.

#### **Operating Environment**

The Defence Force faces an environment that is unique in two respects. First, defence planning and management must be undertaken in circumstances where there is a high degree of uncertainty compared with other government agencies where the operating environment is usually more predictable. Second, compared with other small defence forces in other advanced countries, New Zealand displays a high level of complexity<sup>1</sup>. This complexity is due to the substantial maritime

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<sup>1</sup> The 2007 Review of the Defence Sustainability Initiative. Dr Simon Smelt (Para 11)

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environment in New Zealand's area of interest and the fact that deployed forces will always be expeditionary.

The next 25 years are likely to be more challenging than the previous. An uncertain environment will see the development of new military technologies and tactics, the establishment of cyber warfare, ongoing use of non-state actors, generating greater potential for direct and deniable attacks on New Zealand's interests.

We are likely to see a growing strain on the resilience of Pacific Island states and increased pressure on our ocean resources. We will need to be aware of what is happening in the South West Pacific and be able to respond effectively and appropriately, and with little warning.

Some of our neighbours may need our help to develop their capacity to respond to natural disasters and security issues. This will require long-term commitment and cultural understanding. If our desire for a secure, peaceful and stable South West Pacific is under threat, we will need to be able to act alone if necessary, but most likely in partnership with Australia. We may also need to act further afield with other coalition forces.

The added challenge is that we may be called on to provide more support to protect New Zealand's economic and territorial interests. While our primary focus is the South West Pacific, we must also be able to work in partnership with others in the South East Asian region and beyond. Therefore, credible capability and interoperability remain vitally important.

Within this setting, we must develop new military capabilities to meet future security challenges. The spiralling costs of modern military capability will challenge the Defence Force's ability to remain relevant and ensure it can operate with military partners.

**Shifts in Economic Power.** The emergence of new centres of economic strength is shifting the balance of military power as the growing economies are able to allocate more resources to military spending:

- Economies in North America, Europe, and Japan have grown slowly (or in some cases shrunk), while economies in Asia, Latin America, and the Middle East have become more significant.
- China is now the world's second largest economy.
- Russia's economy has seen substantial growth over the past decade.
- Rising national wealth can help mitigate potential increases in social tensions and resource pressures as population growth becomes ever more concentrated in the urbanised developing world.

**Technology changes.** In the future, access to military technologies could shape the prospect of conflict in our region:

- The cost of modern military capabilities is spiralling. Only wealthy countries or those which put a high premium on military spending will be able to field the latest technologies.
- This has implications for the ability of like-minded countries to remain interoperable.
- The proliferation of chemical, biological, radiological, and nuclear technologies will narrow parts of the military advantage gap between major and aspiring powers.
- Technological developments will make cyber-attacks more likely, with potentially crippling consequences for critical national infrastructure and communication networks.

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**Asymmetric threats and terrorism.** Terrorism will remain a pervasive feature of the international landscape for the foreseeable future:

- International action against terrorist activity has had some success on a range of fronts – military, financial, transport, trade, commercial – but terrorism will be a continuing challenge to the authority of states.
- Weaker states will continue to provide havens for terrorists, either with or without the consent of local authorities.
- The risk of weapons of mass destruction falling into terrorist hands cannot be ruled out in the coming decades.
- Hostile non-state actors will also seek to exploit whatever comparative advantage they can from cyber-warfare capabilities.

**Resource scarcity.** The uneven distribution of key resources including food and water is likely to generate strategic tensions:

- Protection of the resources in New Zealand’s maritime region is already a priority and will become more so.
- Over the next 25 years, especially as New Zealand may have one of the few remaining sustainable fisheries, we will continue with our efforts to implement monitoring, control, and surveillance regimes.
- Climate change has the potential to exacerbate existing tensions and pressures and increase the risk of conflict both within states and between them.
- The Antarctic Treaty System is in good order, but there is heightened interest in Antarctica’s resources.

**South Pacific fragility.** The outlook for the South Pacific over the next 25 years is one of fragility:

- The people of the South Pacific have few strategic resources to fall back on, and their control over those resources is being tested.
- The effectiveness of regional institutions will remain under pressure.
- Outside countries and non-governmental organisations are likely to continue their involvement in the South Pacific. But this may test New Zealand’s continuing ability (alongside Australia), to remain at the forefront of international efforts to support Pacific Island states.

**International order.** International organisations including the United Nations, the World Trade Organisation and international financial institutions have served New Zealand’s interests well, but struggle to forge consensus amongst their diverse memberships:

- Trans-boundary challenges – proliferation, terrorism, the emergence of new technologies, illegal resource extraction, the unregulated movement of people – will continue to prove difficult for the international community to manage.

- 
- The strategic balance in North Asia is shifting. China both benefits from and contributes to regional stability and prosperity, but the pace of China's military modernisation and force projection programme may test the relationships of the major regional powers.
  - Notwithstanding shifts in the strategic balance, the United States is expected to remain the pre-eminent military power in the world over the next 25 years and a close security partner of New Zealand.

## 1.4 The Future State

To effectively support New Zealand's national security interests, the NZDF needs to continue delivering relevant and valued capabilities and services that contribute to humanitarian assistance, through to challenges to legitimate governments and open conflict. These capabilities provide Government with appropriate options enabling effective responses to emerging situations.

In the next year the NZDF will be withdrawing from major operations that have occupied us for the past decade – Afghanistan, Timor-Leste and Solomon Islands. Meanwhile, we'll be continuing to provide a responsive combat capability to protect New Zealand and operating in the South West Pacific. By 2015, we will have also undertaken the majority of the change required to improve our organisational efficiency; that is the majority of our reform initiatives will have been implemented.

The NZDF strategy has been progressively developed following the DWP10, considering the key preconditions that:

- operations are sustained and capability levels are maintained;
- there is a focus on the South West Pacific and the strategic challenges posed by the operating environment;
- the NZDF will live within current appropriations to the end of FY 2014/15; and
- the NZDF will manage the DCP until FY 2018/19 based on current modelling assumptions and the use of depreciation from revaluations.

The NZDF Strategic Plan (Future35) has been developed within a framework of a 5,10 and 25 year plan to implement the strategic change needed within the Defence Force to overcome current and future challenges.

Future35 sets out how the New Zealand Defence Force will meet the defence and security needs of New Zealand out to 2035. It builds on the strategic themes of Capability Renewal and Organisational Reform laid out in 2010, with further development of the strategic objectives and a more detailed roadmap of where the NZDF will be focusing its effort.

Future35 embodies a number of portfolios, each of which includes a range of cost estimated programmes and projects integrated with the DCP and focused on achieving defined end states. The selected portfolios have been through a rigorous process of selection using the decision criteria of strategic fit, value, implementation risk and resource availability. The process has been and will continue to be dynamic.



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## Defence Force Priorities

The NZDF and Ministry of Defence have incorporated the DWP10 priorities into Future35. Consistent with the focus on savings and reform, planning future capability, operational deployments and international strategic relationships, the following strategic priorities will ensure the NZDF can mitigate the strategic challenges and meet the vision of joint operational excellence. The priorities are:

- **Joint Amphibious Task Force (JATF)** – to create a JATF by 2015 by bringing together and integrating all our current single Service strengths. The NZDF JATF will be able to conduct a wide range of tasks and meet the key requirements expected of us in the South West Pacific, and ensure that government can respond to the most likely next contingency in a coherent manner;
- **People** – to recruit and retain the right personnel, and improve the sustainability of force elements through a flexible ‘Total Defence Workforce’ approach;
- **Sustaining Operations** – to sustain operations, recover and regenerate from the three larger land deployments and be prepared for the next likely contingency and provide military force options to meet New Zealand Government requests;
- **Reform and Reinvestment in Defence** – to reduce and eliminate some costs across the NZDF to generate \$350 - \$400 million in savings by 2015, supporting this effort by the introduction of Defence Excellence (Dx) and investing in personnel, and contributing to the management of inflation and the operating costs of new capabilities; and
- **Joint Enablers** – to support the development and delivery of core military capabilities and where there are clear benefits, adopt an integrated approach from initial training through to force element integration.

## Joint Amphibious Task Force (JATF)

Within the South West Pacific, the Defence Force can currently handle most threats on land or sea. The JATF gives us the ability to operate in either or both of these domains and deploy and sustain our forces into the region using our amphibious skills.

By 2015, the JATF capability will have been developed. Operational and support units from across the three Services will be able to operate as an integrated force, and individual force elements will be proficient in working with other nations’ amphibious elements and operating as a fully functional Defence Force JATF. Exercises Southern Katipo 2013 (4 - 22 November 2013) and Southern Katipo 2015 (November 2015) are NZDF’s premier activities testing the JATF along with participants from Australia, Tonga, United Kingdom, Brunei, Singapore, France, Malaysia, Canada and the United States.

## People

The Defence Force is a people organisation. Against a backdrop of increasing organisational change and an improving global economy eager for skilled and qualified people, as well as ongoing fiscal pressure domestically, the Defence Force has prioritised attracting and retaining the right people. Section 3 of this 4YP focuses on Workforce issues.

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## **Sustaining Operations**

The Defence Force has more than 10 different operational missions requiring force elements operating either independently or as joint organisations.

A key challenge in our region is the fragility of the Pacific Islands and the expectations that other government agencies have of the Defence Force in contributing to the protection of our Exclusive Economic Zone (EEZ).

We expect to:

- increase our engagement and security cooperation in the South West Pacific;
- ensure we have capable force elements able to respond outside of the South West Pacific; and
- have a comprehensive approach to securing our EEZ against future threats.

Critical activities for the sustainment of operations are:

- effectively manage the return of major current operations and regenerate the equipment and capabilities;
- improve Command and Control of operational force elements;
- regenerate Navy and Air force elements; and
- develop coherent approaches to our presence and response for the South West Pacific, South East Asia and New Zealand.

## **Reform and Reinvestment**

We need to strengthen our organisational management and work in a more integrated way. By 2015 the enablers of the Defence Force will be better able to support our core military capability, and match the agility and effectiveness of our deployed force elements. The major reform objectives outlined in the DWP will have been completed.

[6]

Savings Redistribution Programme critical activities are:

- Defence Excellence (Dx). A long-term programme that will provide leaders with the tools and methodologies to enable them to drive different ways of thinking and working as an organisation;
- cost reduction activities within training, personnel and current assets;
- consolidation of logistics;

[6]

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## Joint Enablers

The Joint Enablers strategy is about making the delivery of certain functions more effective in creating sustainable force elements. It will reduce duplication and increase depth within certain trades. Critical activities are:

- establish joint initial training for all military personnel; and
- integrate those force elements where there is a clear benefit.

## Strategic Objectives

The strategic objectives of Future35 are defined in the diagram below. With Future35, the key takeaway point is that the NZDF has a comprehensive strategy with clear objectives that integrate a short, medium and longer-term view of the future.

## Capability

The strategic roadmap is depicted after the definition of the strategic objectives. Key capability features include:

- completing the Introduction Into Service of the major Air Force platforms (P-3K2 Orion, C-130 Hercules, NH90 and A109 helicopters);
- the approval and acquisition of the Networked Enabled Army (NEA);
- [1]
- land transport capabilities, maritime helicopter replacement;
- improving the Maritime Projection and Sustainment Capability (including replacing HMNZS *Endeavour*);
- modernising the pilot training capability; and
- commencement of the frigate systems upgrade and the remediation of HMNZS *Canterbury*.

STRATEGIC OBJECTIVES DEFINED

JOINT OPERATIONAL EXCELLENCE

**Our Mission**

To secure New Zealand against external threat, to protect our sovereign interests including in the Exclusive Economic Zone (EEZ), and be able to take action to meet likely contingencies in our strategic area of interest

To meet the expectations of the people of New Zealand

**S1 Relevant and sustainable joint force elements able to conduct operations and prepared for contingencies**

**Intent:** The Defence Force is capable of sustaining current operations, delivering services the Government wants and is prepared for the next likely contingency. The Defence Force will focus in the near term on developing a joint amphibious capability to achieve influence in New Zealand's area of interest.

**Key Focus Areas of Change:**

- Achieving influence in New Zealand's area of interest
- Deliver a Joint Amphibious Task Force (JATF) capable of operating in a Joint Interagency and Multinational (JIM) environment
- Leading operations in the Southwest Pacific
- Improving Intelligence, Surveillance and Reconnaissance (ISR)
- Sustaining current operational deployments
- Improving the delivery of current services, particularly those required by our interagency partners.

**S2 Evolving military capability to meet future threats**

**Intent:** Guided by continual assessment of the contemporary environment and future analysis, the Defence Force undertakes focused evolution to remain relevant to meet current and future needs.

**Key Focus Areas of Change:**

- Matching capability development to future environment
- Ensuring we maintain or improve interoperability with a wide range of partners including foreign defence forces.

**S3 Excellent organisational performance supporting Defence Force operations**

**Intent:** The Defence Force is efficient and effective. The Defence Force will be integrated and 'organisationally excellent.'

**Key Focus Areas of Change:**

- Reform in governance and business structure
- Skilled personnel in management positions
- Maintain a continuous improvement environment
- Allow others to deliver non-core functions where beneficial
- Resource allocation is optimised through the Defence Force becoming an intelligent customer and high performing contractors and partners delivering successful innovations
- Transforming the way we train, sustain and deliver capabilities by operating in an integrated manner
- Measurable improvements in productivity and performance have been achieved

We will undertake these actions

**W4 Train for operating in a Joint, Interagency and Multinational environment**

**Intent:** The Defence Force will undertake comprehensive training and conduct planning within a JIM framework to be effective in contemporary and future environments.

- Develop a coherent approach to the Southwest Pacific, New Zealand and Southeast Asia
- Improve Command and Control (C2)
- Enhance our safety in training
- Enhance training to operate as a JATF and within a JIM environment
- Create the JATF by 2015
- Regenerate from land deployments in the short term
- Regenerate Navy/Air capability

**W5 Integrate the Defence Force**

**Intent:** Integrating key functions of the Defence Force will lead to improved operational effectiveness and increase sustainability of certain trades.

**Key Focus Areas of Change:**

- Create the Joint Support Force (JSF)
- Create integrated initial training
- Improve the sustainability of force elements through better use of personnel

**W6 Apply foresight to capability development**

**Intent:** Integration of personnel, equipment and training to deliver more flexible and relevant future capabilities. Decisions on future capability will be enhanced by focusing on future operating concepts.

**Key Focus Areas of Change:**

- Develop 10 and 25 year insight across PRICIE (personnel, research and development, infrastructure, concept of operations, information technology, equipment and logistics)
- Develop future operational concepts and input into Defence White Paper
- Innovate future delivery of capability

**W7 Invest in the Defence Force capability**

**Intent:** Provide CDF with the ability to fund the operating costs of new capability being introduced, maintain current capability, and ensure that funds are available to close performance gaps.

**Key Focus Areas of Change:**

- Develop investment plan to maximise the effect of our Operating (OPEX) and Capital expenditure (CAPEX)
- Fix short-term OPEX shortfalls
- Eliminate low value or wasteful activities

**W8 Enable the Defence Force to win on operations**

**Intent:** Ensure timely and appropriate capability generation and support to the Defence Force as a whole through an aligned, strong efficient and effective organisation that makes relevant, timely and clever decisions.

**Key Focus Areas of Change:**

- Improve processes
- Develop information systems
- Align our business model to support the strategy-led HQ Defence Force
- Create organisationally excellent enablers

Through our people

**M9 Recruit and retain the right people**

**Intent:** The Defence Force has people with the right skills to meet both force element and business role requirements to meet future challenges.

Be an organisation that people and their families want to be part of – Defence Force personnel able to transition easily between civilian, military, reserve, full and part time, and outside the Defence Force – an aligned Defence Force culture – Develop an integrated approach to learning and development.

Supported by our equipment

**M10 Equip our forces**

**Intent:** Ensure the Defence Force will have the equipment to deliver, in the near term, a JATF and have strengthened its capabilities by 2035.

Enhance the availability of key platforms – Improve the introduction into service and through-life support of equipment.

and infrastructure

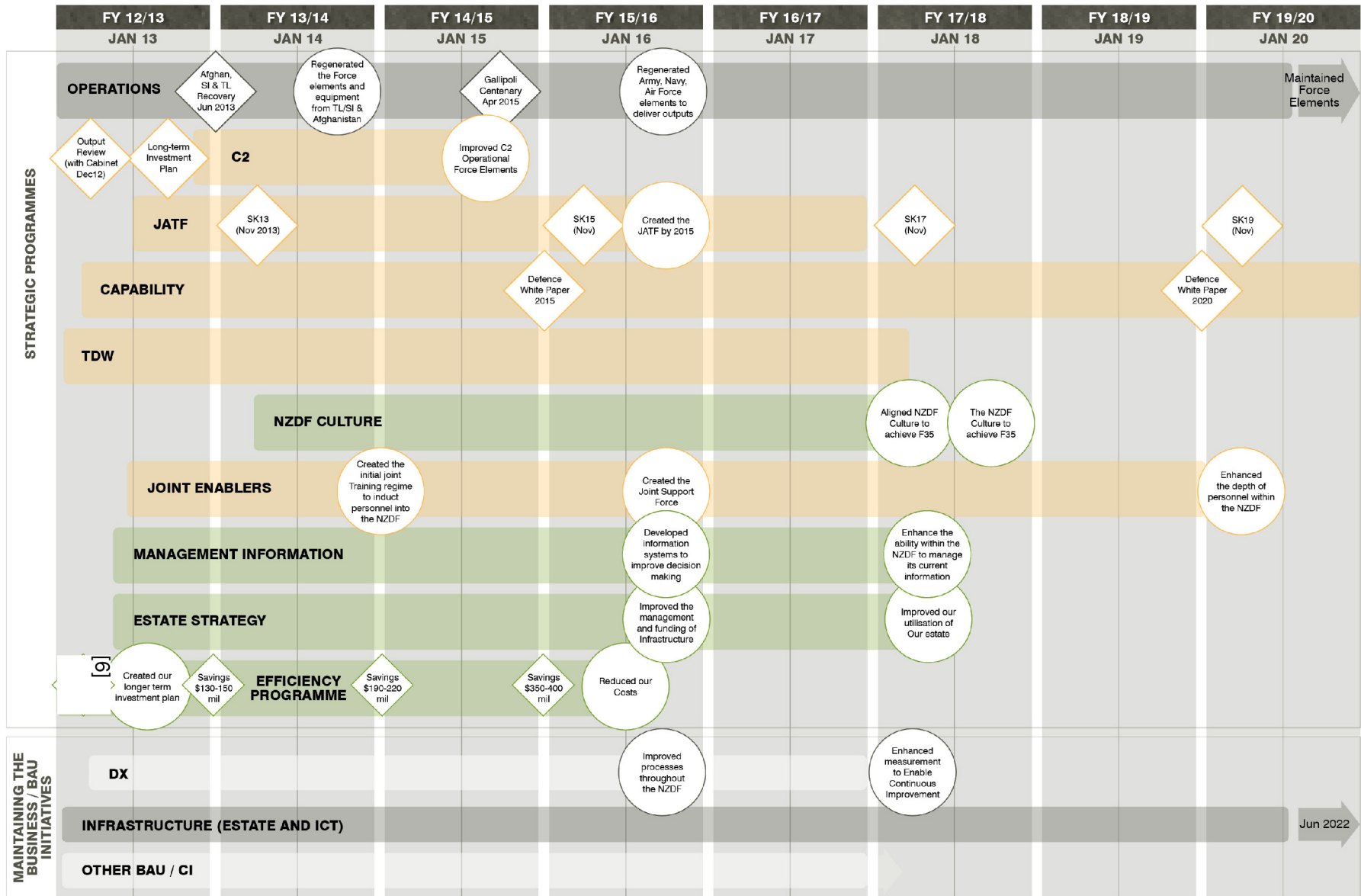
**M11 Optimise our infrastructure**

**Intent:** The Defence Force real estate portfolio is optimally aligned to meet future Defence Force needs. IT infrastructure is capable of supporting the Defence Force and developed to ensure appropriate ICT capability is in place to support future military capability and future corporate systems.

Improve our ability to invest in the right infrastructure – Reduce costs – Improve utilisation of our estate – Improve resilience of our ICT – Enhance our connectivity.

Underpinned by our values

|         |            |             |           |
|---------|------------|-------------|-----------|
| COURAGE | COMMITMENT | COMRADESHIP | INTEGRITY |
|---------|------------|-------------|-----------|



**NZDF STRATEGIC ROADMAP**

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## 1.5 Strategic Challenges

### Fiscal Constraints

Fiscal constraints provide a wide challenge to the Defence Force. Affordability is a key component in ensuring the Defence Force has the right mix of capability and policy to meet government expectations.

The DWP10 noted that “the future capability pathway set out in this White Paper will require additional operating and capital spending for front line capabilities and infrastructure”<sup>2</sup>. Additionally, when referring to the redistribution of savings the DWP10 stated that “such a redistribution from within the existing budget will make the capability proposals contained in this White Paper more affordable, but they will not remove the need for the Government still to contribute new money over time”<sup>3</sup>.

Considerable progress has been made so far this term to implement the Government’s policy objectives as set out in the DWP10. The three areas of focus for the Defence Force are:

- addressing affordability issues;
- maintaining momentum in key relationships; and
- organisational improvements in the NZDF and Ministry of Defence.

[6]

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<sup>2</sup> Defence White Paper 2010 Para. 8.7

<sup>3</sup> Defence White Paper 2010 Para 8.17

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## NZDF Expenditure

The NZDF Baseline profile is depicted in the table below. These figures are forecast departmental output expense appropriations based on the October Baseline Update 2012 (OBU 2012). [6]

Further information is presented in Sections 2 and 4.

| <b>Baseline profile – OBU 2012</b>       | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| [6]                                      |                               |                               |                               |                               |                               |
| Operating expenditure – non-departmental | -                             | -                             | -                             | -                             | -                             |

[6]

## 1.6 Decision Points

[6]

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[6]

### Capability and Financial Drivers

The main capability and financial drivers within the 4YP are:

- Capital Investment,
- Introduction Into Service,
- Savings Redistribution Programme,
- Personnel,
- Strategic Portfolio, and
- Inflation.

[6]

### Capital Investment

The DCP incorporated into this 4YP differs slightly from that submitted with the Capital Intentions Report.  
[9]

During the 4YP period a number of capital proposals will be submitted for decision as indicated in the table below.

| <b>NZDF Capital Projects by Fiscal Year</b>  | [9] |
|--|-----|
| ANZAC Frigate Systems Upgrade  |     |
| Maritime Helicopter Capability: consideration of an offer from Kaman to replace the current Seasprite helicopter fleet   |     |
| Light Armoured Vehicle (LAV): variants for command and control, medical, and repair support; survivability and mission systems upgrade                                     |     |
| NH90 Systems Refresh: provision for an as yet unspecified refresh of NH90 systems to remain compliant with air traffic management requirements and interoperability needs. |     |



|   |     |
|---|-----|
| <p>Maritime Projection and Sustainment Capability: improving NZDF's capability to project and sustain deployed forces from the sea, and includes replacement of Navy's tanker, HMNZS Endeavour</p>  | [9] |
| <p>Network Enabled Army (NEA) Programme. Follow on projects may require Cabinet approval</p>  |     |
| <p>Medium/Heavy Operational Vehicles (MHOV): Replacement and reduction of the Army's truck and associated equipment fleet as part of the Land Transport Programme</p> <p>Other projects of this programme will develop the land transport capability of the NZDF so that it can better conduct and sustain operations effectively, improve the efficiency of the land transport capability through better centralised fleet management and ownership models, and lower the annual direct operating cost of delivering this capability. Follow on projects are not sufficiently defined to be able to confirm when business cases will be presented to Cabinet</p> |     |
| <p>Underwater Intelligence Surveillance and Reconnaissance (ISR) capability: replacement of obsolete anti-submarine warfare systems in the P-3K2 Orion</p>  |     |
| <p>Pilot Training Capability: modernisation of the NZDF's pilot training system</p>   |     |
| <p>Littoral Operations Support Capability: create a capability to support operations in and around coastal areas (littoral operations). The key driver for this project is the replacement of HMNZS Resolution and HMNZS Manawanui</p>  |     |
| <p>NH90 Flight Training Device: creation of a simulation capability to train NH90 pilots</p>  |     |
| <p>[1]</p>  |     |
| <p>Army soldier modernisation programme, including night vision equipment, self protection, and personal equipment</p>  |     |

PBC: Programme Business Case  
IBC: Indicative Business Case  
DBC: Detailed Business Case

ImpBC: Implementation Business Case  
SSBC: Single Stage Business Case

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## **Introduction Into Service**

The introduction into service of new or upgraded equipment will have a significant operating and depreciation cost impact. These have been provided for in the 4YP and form part of the financial detail included in section 6.2.1.2.

## **Savings Redistribution Programme**

As set out in the DWP10 the Government expects the NZDF by FY 2014/15 to have redistributed \$350 - \$400 million in operating expenditure from support functions to front-line activities. This redistribution is key to enabling the retention and enhancement of existing NZDF capabilities. There are no capital funds expected to be generated from the savings that make up the \$350- \$400 million by FY 2014/15.

In FY 2011/12 the NZDF achieved \$143 million of savings and a cumulative \$212 million is currently forecast for FY 2012/13. The achievement of the \$350 million target represents approximately 15% of Vote Defence Force. More importantly, the vast majority of the savings are being generated from personnel and operating costs. Excluding depreciation, capital charge and Output Expense 16 (deployed operations) costs the savings target represents approximately 26% of personnel and operating costs.

Realising the benefits, particularly the personnel impact, will be made against the backdrop of Personnel Required in Uniform (PRU) to ensure that the NZDF minimises any impact on output delivery.

Noting that the plan for the redistribution of savings are regularly reviewed and prioritised the current priority areas for the re-investment of the planned operating savings are as follows:

- Maintaining frontline military capabilities and outputs;
- Retaining our personnel through competitive remuneration;
- Acquisition and utilisation of new military capabilities in accordance with the Defence Capability Plan;
- Investment to drive further efficiency gains;
- Operating costs associated with inflation; and
- Operating costs associated with depreciation as the result of the re-valuation of existing assets.

[6]

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[6]

## 1.7 Trade-Offs

Whilst opportunities for trade-offs exist at the decision points, and it is recognised that affordability will be a major driver for any trade-off decisions, it is vital that Government capability expectations are not compromised. Any decision process must therefore be anchored in the Military Response Options (MRO) and the associated capability that Government would expect to have access to over the longer term, i.e. a trade-off between policy, capability and affordability options. [6]

Trade offs would be required should the plan not unfold as intended. There are two possible scenarios, [6] that would require the adoption of modifications to the plan, the Savings Redistribution Programme not being achieved and the requirement to respond to a higher level security challenge to New Zealand's interests in the South Pacific.

### Savings Plan Not Achieved

The NZDF is committed to achieving the full Savings Redistribution Programme and is currently reviewing it in order to mitigate the risk profile. While it is unlikely that the full risk would be realised, it is possible that some risks may be realised

NZDF is developing a contingency plan which will address alternative actions and reduce the incidence of operating cost including the cost pressures detailed in Section 6. This plan will include a review of:

- projects on the DCP that are not yet contracted;
- key trade recovery, strategic and reform programmes;
- operating and activity tempo;
- the strategic portfolio; and
- the management of inflationary cost pressures.

The contingency plan will address any associated risk to the delivery of Defence Outputs and to Organisational Capability.

### Security Challenge to New Zealand's Interests in the South Pacific

The capability to respond to challenges in this region will be maintained as responses will be either non-discretionary or the NZDF will have limited discretion. Within the South West Pacific the NZDF can effectively respond to most foreseeable threats on land or sea.

Higher level security events that require the NZDF to provide larger forces, or to lead the restoration of law and order, particularly during the regeneration period following the return of the three major operations, would require reprioritisation of military tempo.

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Detailed plans are in place for an Employment Context 2E (EC 2E)<sup>4</sup> response for the provision of a larger force as part of a multi-national force for law and order restoration. This response is planned to be exercised during Southern Katipo 2013.

Response plans are being updated for higher level EC 2E contingencies where the NZDF would lead in the restoration of law and order. Should such a higher level response be required the NZDF could meet the initial deployment with some risk. However it would need to prioritise such a response across the NZDF in order to sustain the operations over the required time-frame.

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<sup>4</sup> Employment Context s are described in Section 2.2. EC 2E - Security challenges to New Zealand's interests in the South Pacific, specifically challenges to legitimate governments, including civil war and secessionist conflict.

## 2.0 MEDIUM-TERM INTENTIONS

Section 2 is a summary of the intended changes and financial impacts identified in Section 6.1

### 2.1 Summary of Medium-term Intentions – Intended Changes

| <b>Intention</b><br><i>(Name and brief description)</i> |   | <b>Type of Action</b><br><i>(New/stop/change)</i> | <b>Success measures</b><br><i>(Text)</i> |
|---|---|---|--|
| A   | Savings Redistribution Programme              | Change  | Biannual progress reports to Cabinet     |
| B   | Defence Capability Plan (DCP)                 | Change  | DCP update to Cabinet in May 2013        |
| C   | Reduced Commitment to Operational Deployments | Stop  | Case-by-case approval by Cabinet         |

[6]

#### 2.1.1 Summary of financial implications from medium-term intentions – intended changes

[6]

#### 2.1.2 Summary of new funding sought from the centre

| <b>Value of new funding sought</b>         | <b>2012/13</b><br><b>(\$0.000m)</b> | <b>2013/14</b><br><b>(\$0.000m)</b> | <b>2014/15</b><br><b>(\$0.000m)</b> | <b>2015/16</b><br><b>(\$0.000m)</b> | <b>2016/17</b><br><b>(\$0.000m)</b> |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Operational expenditure – departmental     | -                                   | -                                   | -                                   | -                                   | -                                   |
| Operational expenditure – non-departmental | -                                   | -                                   | -                                   | -                                   | -                                   |
| Capital expenditure – departmental         | -                                   | -                                   | -                                   | -                                   | -                                   |
| Capital expenditure – non-departmental     | -                                   | -                                   | -                                   | -                                   | -                                   |

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## 2.2 Core Business and Continuous Improvement

### Employment Contexts

Defence policy guidance provides information on the circumstances in which the Government may choose to use military forces. Although situations and requests need to be carefully weighed, it is likely New Zealand would consider the use of military force in the following circumstances:

- in response to a direct threat to New Zealand and its territories;
- in response to a direct threat to Australia;
- as part of collective action in support of a member of the Pacific Islands Forum facing a direct threat;
- as part of New Zealand's contribution to the Five Power Defence Arrangements (FPDA); and
- if requested or mandated by the United Nations, especially in support of peace and security in the Asia-Pacific region.

The likely security challenges that threaten New Zealand are described as Employment Contexts (ECs) by the NZDF. The ECs are then used to build the specifications for the NZDF operational outputs, thus ensuring outputs are consistent with government policy. ECs are environment-related (geographically grouped) and relate directly to the tasks that the force elements of the Navy, Army and Air Force need to train for and be prepared to deploy against should that be the Government's requirement. The current ECs for the NZDF are described on the following page.

The NZDF will always maintain the capability to respond to those security events that are either non-discretionary or involve limited discretion in accordance with the Output Plan. Additionally NZDF provides a range of services in support of the Government and Community including support to multi-agencies.

The NZDF can respond to all expected requirements in relation to explosive ordnance disposal, emergency tasks including Search and Rescue, Civil Defence standby, the requirements in support of the Department of Prime Minister and Cabinet, Police and the Ministry of Foreign Affairs, the Mutual Assistance Programme, Cadet Forces and Museums. Support and responses are available with some manageable risk to the requirements of the National Maritime Coordination Centre (and associated agencies Department of Conservation, Customs and Fisheries) and Support to Youth Development.

Current planning sees the return of three major missions through the remainder of FY 2012/13 and into FY 2013/14, requiring the regeneration of equipment and capabilities in the early period of this 4YP. Additionally the Introduction into Service of new and updated Air capabilities and the regeneration of Maritime capabilities will require updates to the specification of outputs.

[6]

For FY 2013/14 there are no planned changes to NZDF Outputs. However the change from deployed operations to providing contingent capability, particularly for land forces, will require some changes to output specifications. These changes are in the process of being determined.

The NZDF is in the process of transferring Veterans' Affairs New Zealand (VANZ) appropriations from Vote Veterans' Affairs - Defence Force to Vote Defence Force for FY 2013/14 onwards. The NZDF is also separately resolving the Defence Technology Agency (DTA) funding and accountability issues.

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## EMPLOYMENT CONTEXTS

### **EC 1 - Security Challenges and Defence Tasks in New Zealand and its environs:** (Responses to EC1 security events are non-discretionary)

- EC 1A: Illegal exploitation of marine resources within the NZ EEZ, and other low-level threats to New Zealand territorial sovereignty. (Associated ECs are 2A and 3A).
- EC 1B: Natural and manmade disasters.
- EC 1C: Support to the delivery and maintenance of essential services in exceptional circumstances, including the hosting of major events.
- EC 1D: Terrorist and Asymmetric Threats. (Associated ECs are 2D and 3D).
- EC 1E: Support for Antarctic presence.

### **EC 2 - Security Challenges to New Zealand's Interests in the South Pacific:** (Responses to EC2 security involve limited discretion aside from those territories for which New Zealand has constitutional or treaty obligations where responses are non-discretionary)

- EC 2A: Illegal exploitation of marine resources within South Pacific EEZs, and other low-level threats to South Pacific nations' territorial sovereignty
- EC 2B: Natural and manmade disasters. (Associated ECs are 3B and 4B).
- EC 2C: State failure or fragility leading to internal conflict and/or humanitarian crisis. (Associated ECs are 4C and 5C).
- EC 2D: Terrorist Threats.
- EC 2E: Challenges to legitimate governments, including civil war and secessionist conflict. (Associated EC is 5F).

### **EC 3 - Challenges to New Zealand and Australian Common Security Interests:** (Responses to EC3 security involve limited discretion)

- EC 3A: Illegal exploitation of marine resources within Australia's EEZ, and other low-level threats to Australia's territorial sovereignty.
- EC 3B: Natural or manmade disasters.
- EC 3C: External aggression against Australia.
- EC 3D: Terrorist or Asymmetric Threats.

### **EC 4 - Security Challenges to New Zealand's Interests in the Asia-Pacific Region:** (Responses to EC4 security events are discretionary)

- EC 4A: Aggression to alter maritime boundaries or seize resources, or threats to freedom of navigation. (Associated EC is 5A).
- EC 4B: Natural or manmade disasters.
- EC 4C: State failure or fragility leading to internal conflict and/or humanitarian crisis.
- EC 4D: Terrorist Threats.
- EC 4E: Weapons of Mass Destruction (WMD) proliferation.
- EC 4F: Inter-State conflict. (Associated ECs are 3C and 5G).
- EC 4G: Acts of piracy and people smuggling.

### **EC 5 - Security Challenges to New Zealand's Interests in Global Peace and Security:** (Responses to EC5 security events are discretionary)

- EC 5A: Aggression to alter maritime boundaries or seize resources, or threats to freedom of navigation.
- EC 5B: Unresolved conflict or conflict resolution process where protagonists have sought third party resolution assistance.
- EC 5C: State failure or fragility leading to internal conflict and/or humanitarian crisis.
- EC 5D: Terrorist Threats ("The War Against Terrorism"). (Associated ECs are 4D, 4E, and 5E).
- EC 5E: WMD proliferation.
- EC 5F: Contravention of international norms that triggers a multi-national response.
- EC 5G: Major breakdown in international security leading to wide-scale war.

## Vote Defence Force Outputs

The NZDF Output specifications are detailed in the Supporting Information to the Estimates of Appropriation. A summary of NZDF Output Expenses is shown in the following table:

| Output Expense | Outputs  | Output Expense | Outputs   |
|----------------|--|----------------|---|
| 1              | 1.1 Policy advice<br>1.2 Ministerial Services<br>1.3 Strategic Military Intelligence   | 9              | Land Combat Service Support Forces<br>9.1 Transport<br>9.2 Medical<br>9.3 Supply<br>9.4 Maintenance Support<br>9.5 Movements  |
| 2              | Naval Combat Forces  | 10             | Special Operations Forces<br>10.1 Special Forces<br>10.2 Counter-Terrorist Forces<br>10.3 Chemical, Biological, Radiological, Explosive, Improvised Explosive Device Disposal (CBRE IEDD) |
| 3              | Naval Support Forces<br>3.1 Replenishment Forces<br>3.2 Amphibious Forces  | 11             | Naval Helicopter Forces   |
| 4              | Littoral Warfare Support Forces<br>4.1 Littoral Warfare Support Vessels<br>4.2 MCM Diving Forces<br>4.3 Military Hydrography Forces<br>4.4 Mine Countermeasures Forces | 12             | Airborne Surveillance and Response Forces   |
| 5              | Naval Patrol Forces<br>5.1 Offshore Patrol Forces<br>5.2 Inshore Patrol Forces   | 13             | Fixed Wing Transport Forces<br>13.1 B-757 Transport Force<br>13.2 C-130 Transport Force   |
| 7              | Land Combat Forces<br>7.1 Command, Control and Intelligence<br>7.2 Manoeuvre Elements Infantry (Light, Motorised or composite) and Reconnaissance                      | 14             | Rotary Wing Transport Forces  |
| 8              | Land Combat Support Forces<br>8.1 Artillery<br>8.2 Engineers<br>8.3 Communications<br>8.4 Military Police  | 15             | Multi Class Output Appropriation. Support to:<br>15.1 Mutual Assistance Programme<br>15.2 New Zealand Cadet Forces<br>15.3 Service Military Museums<br>15.4 Youth Development             |
|                |  | 16             | Operationally Deployed Forces   |



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## **Continuous Improvement**

The NZDF has embarked on a long term programme of continuous improvement through Defence Excellence (Dx). Dx is based on the internationally recognised Baldrige criteria for performance excellence and Lean Six Sigma. Dx aims to identify and eliminate activities and processes which don't add value or are not aligned with the delivery of the NZDF mission. The primary objective of Dx is to make significant contributions to the growth of continuous improvement culture within the NZDF.

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## 3.0 ORGANISATIONAL CAPABILITY AND WORKFORCE

### 3.1 Current Organisational and Corporate Capability

With over 10,000 personnel, the NZDF represents one of the largest workforces in New Zealand. Not only are we large by New Zealand standards, the NZDF is a unique combination of regular military force personnel, part time reservists, and civilians – operating across a variety of locations within New Zealand and many overseas deployments. Each of these groups is covered by its own unique set of regulations and policies. Additionally, the nature of the military is that it “grows its own”, meaning that recruitment planning is conducted within a longer term strategic framework than most organisations and that career management, education, and training is embedded within the organisational model for all military personnel and more so for the civilians.

Within this framework, the NZDF has over the last two years, been undertaking major reforms to its operating model driven by the requirement to find annual recurring savings of \$350 – \$400 million that will be reinvested into the operational (or front) end of the organisation. These reforms are resulting in a deliberate shift from operating as three distinct Services (Navy, Army, Air Force) that come together as a joint force on operations, supported by a relatively small headquarters, to an integrated NZDF supported by joint (tri-Service) enabling functions and a significant increase in civilian staff that still must rely on the environmental expertise of the three Services.

While executing the reform programme, the NZDF must also continue to deliver the military outputs required by government, both for ongoing operations and to be prepared for unknown contingencies (including short-action responses such as the RENA, Christchurch Earthquake, Papua New Guinea elections). This combination has resulted in a higher than usual operational and organisational activity tempo that has stretched NZDF’s capacity.

One of the greatest challenges the NZDF will face over the next four years will be its ability to meet the operational and organisational tempo with the workforce we have. The recent high attrition has depleted some skills sets in the workforce which now need to be recovered. At the same time, the NZDF needs to strive for efficiencies in the way they use their workforce in order to reduce the demand for people to achieve savings in personnel costs. Key to this will be determining the right mix of personnel requirements to meet the output expectations of Government based on our new operating model and within the existing fiscal constraints.

The components of the NZDF plan to address these challenges and meet our current and future workforce needs are outlined in this section and include:

- Alignment of capability to the integrated force requirements of a joint force;
- Reshaping the workforce to meet the Savings Redistribution Programme initiatives;
- Finding additional efficiencies through the Joint Enablers Programme;
- Improving Recruitment and Retention aligned with the strategic direction of the organisation;
- Quantifying the longer term demand for personnel as the NZDF Workforce Demand Statement;
- Implementing the HR Management Information System (HRMIS) to equip commanders and managers with the tools to deliver effective HR management of personnel;
- Developing the NZDF culture and imbedding greater inter-operability;

- 
- Quantify the sustainable number of Regular Force personnel required to meet operational output in line with policy;
  - Develop a Total Defence Workforce approach to enable easy transition between civilian, military, reserve, full and part time, and outside of Defence; and
  - Implement plans to recover lost skills and numbers.

### **Realignment**

The NZDF has a number of legacy policy and personnel capability generation models that reflect the previous NZDF operating model. Work is underway to align these to the new model. An example of this is the recruitment functions from the three Services that were re-organised into a central recruitment function for the NZDF.

In August 2012, the NZDF took the step to reconcile the seven distinct performance management systems of each of the Services and for civilians into a single Defence Professional Development Framework (DPDF) for the NZDF. The DPDF encompasses both development and performance assessment, underpinned by a single competency framework. This internal policy shift will better enable our move towards implementing the Total Defence Workforce as directed in the White Paper.

Also in 2012 the NZDF stood up the Leadership Development Institute to embed an integrated (tri-service and civ-mil) Leadership Development Framework (LDF) across the NZDF. The LDF forms part of the wider approach to professional development within NZDF which is equally applicable for Uniformed, Civilian, Regular and Reserve members of the NZDF. The LDF includes change management toolkits which provide guidance in leading change and HR compliance.

### **Savings Redistribution Programme**

[6]

In 2012 the NZDF was able to inject \$45 million into a new remuneration package bringing all NZDF people's pay up to the midpoint of the appropriate published 2012 market data. This change to the remuneration package has helped and will help address some of the issues in recruiting civil staff.

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### 3.1.1 Change leadership

The major changes being planned by the NZDF are detailed in Section 6. The strategic roadmap includes programmes and projects, which are each assigned leadership accountabilities and incorporated in the NZDF Annual Plan.

Performance and progress against annual plans, including Business As Usual are reported on monthly. These reports are then reviewed in their entirety by the Defence Force Management Board to identify cross-NZDF performance, issues, and risks.

Strategic roadmaps are reviewed on an as needs basis to determine;

- whether the strategic outcomes, objectives, and measures remain true; and
- whether the initiatives are driving the performance change required.

Output delivery is reviewed through the Operational Reporting and Evaluation System on a quarterly basis.

These performance reviews enable leadership to assess the impact of change across the organisation and provide waypoints for reconsideration and reprioritisation of plans and initiatives. The current monitoring, reporting of the Savings Redistribution Programme provides a good example of this process.

The importance of change leadership is also built into the NZDF's professional development framework. Through delivery of the Leadership Development Framework (described above), NZDF personnel will be expected to demonstrate the ability to manage change from the very first stage of leadership development. Implementing and leading change will be progressively applied through to the most senior positions in the NZDF.

### 3.1.2 Culture

In early 2012, it was recognised that there was a critical need to identify the extent to which current NZDF culture is aligned with the desired future state and strategy for the organisation. Successful transformation is reliant on a sound understanding of the organisation's culture and its preparedness to deal with change.

As such, a complete NZDF survey of current and future culture requirements is being carried out as a critical component to the future personnel capability plan and for the change management plan.

The survey will assist the NZDF to:

- Understand the NZDF's current culture, including the cultural artefacts that are considered and perceived as fundamental;
- Articulate what the future culture of the NZDF ought to be, in order for the desired future state to take effect and for the organisation to function effectively in the anticipated joint environment;
- Identify the barriers, limiting and enabling factors with the view of the desired 2020 and 2035 NZDF culture; and
- Ensure desirable behaviours of personnel at all levels are identified, recognised, reinforced and rewarded by leadership, organisational practices and processes (e.g. performance management systems).

For a military organisation, cultural identity and related values can quite simply be matters of life and death. Needless to say, any cultural change must be approached carefully.

Like any large population, the NZDF's cultural tapestry is varied and layered. In simple terms, we have three distinct Service cultures that are aligned to their operating environments – keeping ships afloat,

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planes in the air, and troops on the ground. We can also claim a separate “culture” among the civilian headquarter personnel, however this is less defined. Each Service has its own artefacts, value sets, language, and rituals that generate unity within and loyalty to the Services, but can also create barriers between them. As we move towards a more integrated NZDF, we need to manage a cultural change that will break down the barriers between the Services, while not eroding the strength of the single service cultures that enable them to be operationally effective.

The future vision for the NZDF culture is articulated in the new vision statement: *Joint Operational Excellence*. Specifically, this means:

- On NZDF operations, and in preparation of these, there is a requirement of increased integration of forces, more innovative use of capabilities and greater interdependence with other government agencies and multinational partners.
- A shift in the way we operate and think – from an approach of operating apart and sometimes coming together – to one where operating jointly will be the norm while maintaining independent capability.
- There is a requirement for the NZDF to demonstrate, both in artefacts and actions, that the NZDF has one vision, mission and plan to achieve the Future35 strategy. Another key component to achieving this is ensuring the Organisational Culture enables the achievement of this strategy.<sup>5</sup>

Steps including the establishment of Headquarters Joint Forces New Zealand, the centralisation of functions such as HR, Capability, Logistics and shared services are examples of how the NZDF is developing an integrated operating model. As the NZDF moves further down this track, the results of the review will provide an understanding of our organisational culture to help manage change within the NZDF.

### **3.2 Workforce**

The NZDF plan is to have the people with the right skills, to meet both force element and business role requirements, to meet future challenges and support a Joint Amphibious Task Force by 2015. This end state will see the NZDF:

- be an organisation that people and their families want to be apart of;
- have a flexible workforce which is able to transition easily between civilian, military, reserve, full and part-time, and outside the NZDF;
- have an aligned NZDF culture;
- develop an integrated approach to learning and development;
- equip commanders and managers with the tools to deliver effective HR management of personnel; and
- develop a force structure that generates capabilities based on an integrated model – the ‘joined up approach’.

The NZDF’s challenge, now and the near term, is retaining our people and their families, and ensuring that we have the right people to deliver all required outputs. Further to these challenges, the NZDF is planning on the cost of personnel to remain relatively static out to 2020 which will mean that any

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<sup>5</sup> CDF Directive 28/2012

salary inflation will have to be offset through savings made. Consequently, the plan will see workforce numbers reduce.

The NZDF Workforce Plan is developed by the Chief Operating Officer and Assistant Chief of Personnel and supports the development of capability as authorised and led by the Chief of Defence Force and Vice Chief of Defence Force.

### State of Current Workforce

The NZDF workforce has experienced significant reductions since 2010. The reason for the decrease in numbers is largely caused through a reduction in demand for personnel as the NZDF transforms and finds efficiencies in the way it does its business. However, over the last year, the numbers have declined below the NZDF's workforce plan. The current personnel forecast shows further reductions over the period of the 4YP arising from the personnel impact of the Savings Redistribution Programme.

| Headcount     | As At Sep 10 | As At Sep 11 | As At Sep 12 |
|---------------|--------------|--------------|--------------|
| Regular Force | 9779         | 9307         | 8608         |
| Civilian      | 2657         | 2582         | 2693         |
| Total         | 12436        | 11889        | 11301        |
| Reserves      | 2296         | 2319         | 2346         |

### Demographics

The demographics of personnel in the NZDF have remained relatively stable over the last 4 years, particularly in regards to gender and ethnicity. The current demography of the NZDF is depicted in the table below.

|                           | Regular Force | Civil Staff | NZ Labour Force <sup>6</sup>      |
|---------------------------|---------------|-------------|-----------------------------------|
| Percentage of Females     | 16%           | 45%         | 46.8% (projected as at 2012)      |
| Median Age                | 28            | 49          | 42 (projected as at 2011)         |
| Average Age               | 31            | 48          |                                   |
| <b>Ethnic Composition</b> |               |             | <b>NZ Population (as at 2006)</b> |
| European                  | 45%           | 46%         | 67.6%                             |
| Maori                     | 17%           | 8%          | 14.6%                             |
| Pacific Peoples           | 4%            | 2%          | 6.9%                              |
| Asian                     | 1%            | 3%          | 9.2%                              |
| Other                     | 30%           | 36%         | 1.7%                              |
| Non Declared              | 3%            | 5%          |                                   |

<sup>6</sup> Numbers from Statistics NZ of the projected labour force by age and sex using 2006 base out to 2061 (August 2012 update)

## Deployed personnel

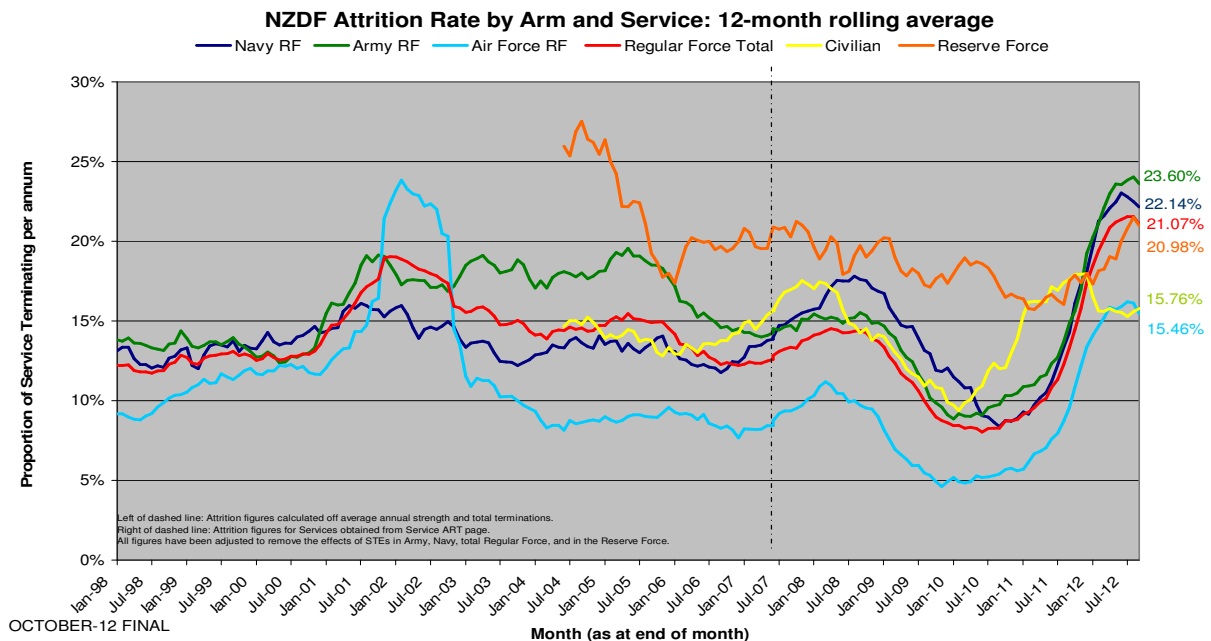
Critical to the capacity of the NZDF workforce is the number, type of deployments and sustainment period required. Over the last four years the NZDF has had a high level of deployed activity, outlined as follows:

|                    | FY 2008/09 | FY 2009/10 | FY 2010/11 | FY 2011/12 | As at Sep 12 |
|--------------------|------------|------------|------------|------------|--------------|
| Deployed Personnel | 406        | 430        | 369        | 324        | 498          |

Over the next four years, apart from the return of the three major land deployments, the NZDF expects to continue to deploy approximately 50 personnel on current planned missions plus any additional deployments that may be required by government and be prepared to deploy a sustainable Light Task Group and a non sustainable Combined Armed Task Group.

## Attrition

The 12-month rolling attrition rate<sup>7</sup> for Regular Force has increased considerably over the last two years in comparison to the peaks in attrition during the last decade. The Regular Force 12-month rolling attrition rates incorporate those personnel who were released as impacted personnel as a result of the civilianisation programme. The impacted personnel contribute 1.85% to the Regular Force rolling attrition rate.



<sup>7</sup> The 12-month rolling attrition rate for Regular Force includes those personnel who were Impacted Military Personnel under the Civilianisation Project.

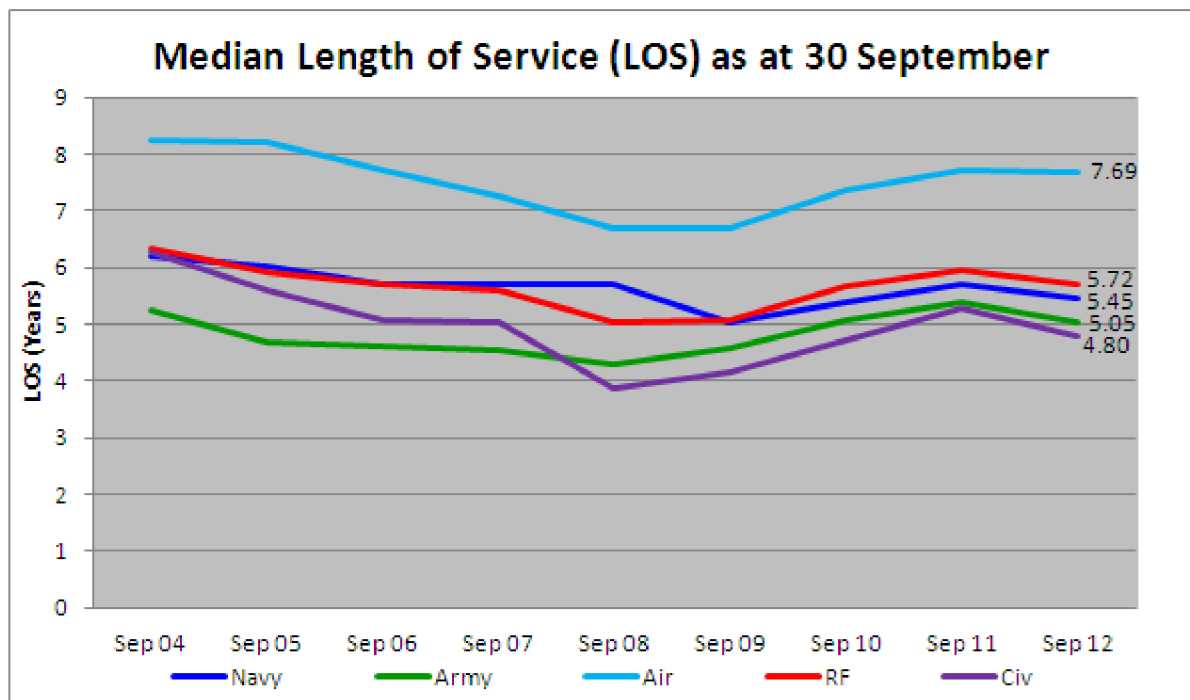
The higher attrition levels have manifested themselves within the NZDF by creating additional difficulty in;

- Navy: Difficulty in crewing ships for sea duty;
- Army: Sustaining operations;
- Air: Manning the double requirements of Introduction Into Service and output delivery resulting in reductions to the latter; and
- ongoing trade gaps and the availability of subject matter experts for capability and strategic programmes.

Additionally the level of morale, as measured by internal surveys (NZDF Ongoing Attitude Survey – OAtS), has fallen. The information internally collected by the NZDF suggests that these changes in personnel trends are a reflection of the fact that the NZDF is undergoing significant organisational change.

Measures in the OAtS can be split into two general categories, workplace conditions and state of mind for personnel. Additionally, we measure a person’s stated intention to leave the NZDF, which usually precedes their departure. The last report which looked at the key drivers for intent to leave showed that the top four drivers were: career management; gaining enjoyment from one’s work; perceptions of organisational success; and quality of life.

The recent higher than forecast attrition has impacted on the level of experience of NZDF personnel particularly in the Navy, Army and civil staff. The median and mean length of service measures are used to gauge our level of experience, which has declined over the last year.





The individual Regular Force trade and rank groups that have been affected are detailed below. Demand is that required to meet and sustain operational outputs.

| Navy                    | Demand | Current | Percent Shortage |
|-------------------------|--------|---------|------------------|
| Tech Trades             | 490    | 434     | 11.43%           |
| Petty Officer Rank      | 209    | 165     | 21.05%           |
| Leading Hand Rank       | 374    | 261     | 30.21%           |
| Army                    | Demand | Current | Percent Shortage |
| Signals Trades          | 292    | 213     | 27.05%           |
| Intelligence Trade      | 130    | 68      | 47.69%           |
| Movements Operator      | 95     | 60      | 36.84%           |
| Electrical Technician   | 55     | 21      | 61.82%           |
| Captain Rank            | 263    | 163     | 38.02%           |
| Sergeant Rank           | 385    | 327     | 15.06%           |
| Corporal Rank           | 501    | 422     | 15.77%           |
| Air                     | Demand | Current | Percent Shortage |
| Air Warfare Specialist  | 47     | 30      | 36.17%           |
| Intelligence Specialist | 64     | 18      | 71.88%           |
| Corporal Rank           | 355    | 309     | 12.96%           |

#### **Potential Forces Influencing Recruitment of Personnel:**

New Zealand's demographics are changing – the working population is getting older and more ethnically diverse – and NZDF recruiting and HR policies need to align with these changes. The NZDF needs to ensure that as an organisation people want to join and remain engaged, particularly as there becomes increasing pressure on New Zealand's labour force. The NZDF will continue to refine its people capability strategy to support the attraction and retention of personnel.

The potential impact of future trends on the way the NZDF will operate, and the personnel requirements necessary to support it, are complex and incorporate a level of uncertainty. The environment in which the NZDF must recruit and retain both uniformed and civilian personnel also poses new challenges as demographic and social trends continue to influence the characteristics, needs and expectations of the current and future force.

In the next 12-14 months, it is possible that the external economic environment will be the major factor assisting the recruitment of personnel. New Zealand's recovery from the global financial crisis is slow and gradual and was interrupted by the Canterbury earthquakes. Unemployment amongst young people (17-24 year olds) remains high. Therefore, alternative employment opportunities amongst NZDF's traditional recruitment cohort may be limited in the short-term. Two notable caveats are apparent to this assessment.

- Employment growth associated with the Canterbury rebuild is expected. While this will be largely in the Construction and Utilities industry, it will create job opportunities across all skill levels, thereby providing a major source of alternative employment opportunities; and

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- The internal climate of the NZDF continues to provide management challenges. Periodic and repeated media attention to morale in the NZDF could cause some potential recruits to question the NZDF as an appropriate career choice.

In the medium-term (two to five years), the external economic environment is expected to improve. Consequently, so too will the amount and range of alternative employment opportunities and career choices available to all types of potential recruits (i.e. young people/school leavers, lateral recruits and civilians). Over the next two to five years, employment growth is expected to be strongest amongst skilled and highly skilled occupational groups.

In the much longer term and with particular reference to the NZDF's traditional recruitment cohort, the proportion of 17-24 year olds relative to the overall New Zealand population is projected to decline. As well, the proportion of the population 64 years and older is projected to increase. The aging of the labour force is expected to drive greater competition amongst employers seeking new entrants to the labour market.

A final aspect with respect to recruitment of personnel in the longer-term is the growing ethnic diversity of the population and labour force. The Asian and Pacific ethnic groups are the fastest growing segments of the population. Growth in the Maori ethnic group is more modest, while European ethnicity is expected to decline as a proportion of the overall population. With respect to recruitment, the Maori and Pacific ethnicities have generally lower levels of educational attainment, while the Asian ethnic group are often new immigrants. These factors all pose challenges to recruiting greater numbers of these ethnicities.

#### **Potential Forces Influencing Retention of Personnel:**

In the short-term, the major force likely to affect the retention of NZDF personnel is the current management challenges surrounding the internal climate. While deterioration in key OAtS measures has abated, they continue to be at historically unfavourable levels. There remains the possibility that disengaged personnel will leave the NZDF if an appropriate opportunity presents itself. Slow improvement in the New Zealand economy is likely to place some constraints on the ability of personnel to take up alternative employment and career opportunities. However, the external employment environment is expected to improve creating potential difficulties for the retention of personnel.

In the medium- to long-term, increased competition is likely, particularly for skilled and highly skilled personnel. This could increase the 'pull' factor for NZDF personnel with increased risk to retention. Additionally, the trend toward higher levels of education and qualifications may also place an additional burden on the NZDF. For personnel who joined as school leavers but do not gain formal qualifications during their NZDF career, there is likely an increased risk of premature exit in order to do so externally.

Internally, the NZDF's ability to offer career progression opportunities to existing employees is somewhat limited by legislation which requires all civilian appointments to be externally advertised and appointed on merit. While there are benefits in selection of the best candidate from the open market, the legislation reduces the opportunities to retain experienced personnel who have valued skill sets. The proposed amendments to the Defence Act in terms of CDF being able to appoint Regular Force into civilian vacancies without the need to go through a meritorious process, is expected to provide the NZDF with greater flexibility in the management of its workforce. These changes should positively contribute to retention of personnel and aid the TDW concept. These changes are currently awaiting a second reading in Parliament.

### Critical Activities (The Gap)







While it is acknowledged that there is a gap from what the NZDF workforce is today to that required for the future, the end state demand on personnel for example, to support the creation of the JATF by 2015, is still under development. As part of the NZDF journey over the short-term, there will be the need to clearly define the workforce requirements. This demand picture needs to ensure the NZDF ends up with the right people at the right cost as it continues through a period of change.

However, it is known that the NZDF plan needs to recover personnel numbers, and to rebuild engagement, trust and mitigate the extensive change process we are undertaking. Also, the NZDF plan to develop its workforce to support the longer term Future35 strategy through;

- more flexible policies that reduces barriers to people moving in and out of the NZDF, or between full or part-time employment, or between Regular Force, reserves or civil staff; and
- developing a culture and imbedding greater inter-operability.







The development of the Joint Enablers programme and the full development of the JATF end state are significant components of the recovery. This does not in any way reduce the requirement for three fully capable Services providing the required Government outputs either jointly or independently across the five required employment contexts. What it will develop is a more efficient use of personnel capabilities across the NZDF.

#### 3.2.1 Workforce capacity and capability impacts – intended changes

| Capacity Change  | Capability Change   | Context  | Change in Capability   |
|--|---|--|--|
| <p><b>The Savings Redistribution Programme</b></p>  |  | <ul style="list-style-type: none"> <li>• High demand on personnel to support programme over and above business as usual.</li> <li>• End state high percentage of personnel reductions required.</li> <li>• Risk to outputs if critical mass compromised.</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Develop better ways to utilise the NZDF workforce through operable integration, workforce flexibility, and resource understanding and prioritisation.</li> <li>• Requires a cultural shift .</li> </ul> |
| <p><b>The Defence Capability Plan</b></p>           |  | <ul style="list-style-type: none"> <li>• Assumed similar skill sets required to support new capability.</li> <li>• Extra demand on personnel to introduce new equipment.</li> <li>• Risk to ensuring successful introduction of new equipment if personnel not available to support plan.</li> </ul> | <ul style="list-style-type: none"> <li>• Develop better ways to utilise the NZDF workforce through operable integration, workforce flexibility, and resource understanding and prioritisation.</li> </ul>  |
| <p><b>Reduction in Operational Deployments</b></p>  |  | <ul style="list-style-type: none"> <li>• More personnel back home to cover the workload pressure with introduction of new equipment and project work to reform the organisation.</li> </ul>  | <ul style="list-style-type: none"> <li>• Assumed no impact on workforce capability.</li> <li>• Increased attrition risk if perceived to be 'boring' when not on operations.</li> </ul>   |
| [6]  |   |  |  |

|   |   |  |     |
|---|---|--|-----|
|  |  |  | [6] |
| [6]   |   |  |     |

### Key

| Capacity Change   |   |   | Capability Shift  |   |   |
|---|---|---|---|---|---|
|  |  |  |  |  |  |
| Neutral   | Decrease  | Increase  | High  | Medium  | Low   |

### 3.2.2 The Plan to Address Capability

The key workforce capability programmes the NZDF plan to achieve over the next four years are:

- Joint Amphibious Task Force programme aligned to Future35 strategic direction;
- Joint Enablers programme aligned to an integrated approach; and
- Management Information – HR Management Information System (HRMIS) to equip commanders and managers with the tools to deliver effective HR management of personnel.

#### Joint Amphibious Task Force

To achieve the Government's directed and operational level of capability, in amphibious operations, the NZDF must grow its personnel. Career, professional, and personal development in the NZDF is treated as a continuum ranging from deeper educational and cultural development through to individual trade skills and finally to collective training. Growing an amphibious (personnel) capability requires a strategic plan to match the platform and collective training exercise milestones of the amphibious roadmap.

For development of NZDF people to meet this end-state, the strategy over the short term will:

- develop an amphibious competency framework by February 2013;
- develop generic amphibious training courses and conduct training by the end of 2015;
- develop professional amphibious knowledge and experience through collective training opportunities by the end of 2015; and
- provide exercise opportunities to develop an amphibious capability and embed a continuous exercise programme by 2015: enabling Services to conduct amphibious operations; integrate joint, interagency and multinational elements; and evaluate achievement of KPI/reform milestones.

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## Joint Enablers

The Joint Enablers project is to implement options where there are clear benefits to NZDF outcomes by adopting a greater joint enabled workforce approach and the development of all initial training being conducted in a joint environment. There are foreseen opportunities within the career management and command and control over Regular Force personnel with like skills. The intent is to reduce duplication, while at the same time increasing the depth within certain trades and ranks.

The end state will see NZDF delivering enhanced output delivery through increased capacity of the forces and functions which enable NZDF operations.

## Management Information – HR Management Information System (HRMIS)

A key strategic milestone for NZDF under the Management Information programme is the Human Resource Management Information System (HRMIS) project, which is a 'spend to save' project. The NZDF is implementing a solution based on SAP human capital management. The objectives of the project are:

- improve HR systems and processes;
- improve consistency, completeness and timeliness of data;
- increase the ability of users to use the information effectively; and
- increase relevance and improve the presentation of HR information.

The Detailed Business Case for HRMIS was approved by Cabinet in August 2011. The implementation plan was approved by Cabinet in June 2012.

### 3.2.3 Capability pressures

| Capability Gap/Pressure | Reason for capability gap/pressure  |
|-------------------------|---|
| Skill shortages         | Recent high attrition has depleted some trades and some rank groups which adds risks to achieving outputs. Plans are being developed to address such shortages. |

### 3.2.4 The Plan to Address Capacity

The key workforce capacity programmes the NZDF plan to achieve over the next four years are:

- improve attraction and retention in order to be aligned with an organisation people and their families want to be a part of;
- quantify the longer term demand for personnel as the NZDF Workforce demand statement;
- quantify the sustainable number of Regular Force personnel required – Personnel Required in Uniform (PRU) to meet operational output in line with policy;
- develop a Total Defence Workforce Approach to enable easy transition between civilian, military, reserve, full and part time, and outside of Defence; and
- reshape the workforce to meet Savings Redistribution Programme initiatives.

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## **Improving Attraction and Retention**

The NZDF plans to be a competitive employer that offers employment conditions attractive to both currently employed personnel and potential future employees/recruits. Variables contributing to levels of morale, job satisfaction and organisational commitment have been identified and now require management intervention, emphasising the positives and addressing the negatives. Attraction and retention initiatives will consider issues across different groups in the organisation, with a particular focus on key areas of risk. This is very much business as usual (BAU), however, in the current personnel environment the NZDF is experiencing, this is now the most critical BAU.

Defence recruiting will play a key role in the development of attraction initiatives. The Defence Recruiting Organisation was stood up in July 2012 as a single Defence team for both military and civilian recruitment. However, the Defence Recruitment Organisation is still embedding itself within the new NZDF operating model and work around these attraction initiatives is still in its infancy, but the end state is to ensure that the NZDF will be a competitive employer.

To address retention, the NZDF will develop initiatives in the key areas as outlined in the NZDF Ongoing Attitude Survey, these being:

- career management,
- perceptions of senior leadership,
- workload and manning,
- perceptions of organisational success,
- quality of life,
- feeling valued by the NZDF, and
- intrinsic satisfaction.

## **Quantifying the NZDF Workforce Demand**

From time to time, projects have quantified the personnel demand changes required to the establishment in the out years but these demand statements are not living documents and through time become out of date. In order to have a clear picture of future demand on the NZDF workforce and understanding of the organisational capacity, the size of change and a defined direction of the end state, the NZDF will develop the NZDF's demand statement which will be determined through the consideration of:

- Defence Policy and Strategic Assessment;
- NZDF Strategic Plan – Future35;
- Defence Capability Plan (DCP);
- Force Structure Project (FSP);
- implications of the Savings Redistribution Programme; and
- establishment Validation.

The NZDF Workforce demand statement will reflect the demand for people today and over the coming 10 years. Typically, the NZDF establishment in HR management information system will reflect the first two years of the demand statement. The statement's demand for people will be balanced against the NZDF's availability to supply people and fiscal constraints. The demand statement will provide a solid foundation to developing future Four Year and Annual Workforce Plans.

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## **Personnel Required in Uniform**

The NZDF is planning to be substantially prepared to respond to EC2C (state failure or fragility leading to internal conflict and/or humanitarian crisis in the South Pacific) and EC2E (challenges to legitimate governments, including civil war and secessionist conflict in the South Pacific) over the planning period.

Based on this, the current Regular Force headcount is below a bottom up assessment of our optimal number of Personnel Required in Uniform (PRU), which is a core component of the Force Structure Plan (FSP). Note that the FSP associated with the DWP10 had a PRU of approximately 10,000 personnel.

The FSP was initiated in June 2010 to determine the workforce required for the future. Although the project focused on the need for military personnel, the results of the project findings are intended to highlight areas of opportunity for civilianisation or potential commercialisation. The overall intent was as follows:

- Phase One: Identify the Regular Force strength or PRU by rank in sustainable Trades/Branches/Corps/Specialisations in support of the operational and organisational tempo;
- Phase Two: Validate the rationale for the employment groups' existence through the development of Employment Profiles. This work will help to clearly define the linkages of each trade and branch outputs with the delivery of NZDF outputs; and
- Phase Three: Identify the positions the military personnel need to occupy and in what priority order so as to deliver the NZDF mission requirements out to 2030 through Post Mapping. This information will be used to help prioritise where the NZDF employs its workforce.

Whilst the initial part of phase one of the FSP has been completed, a significant amount of modification is required to enable NZDF to meet both the tempo requirements, live within the budget and define the workforce demand required to support Future35, the NZDF will write the NZDF Personnel Capability Strategy aligned to the NZDF Strategic Plan (encompassing JATF, Joint Enablers, Total Defence Workforce), planned to commence 2013.

Essentially, the NZDF needs to redevelop the PRU as part of a revised FSP in order to determine the impact of these changes in relation to critical mass, which may require an investment in Regular Force personnel.

## **Total Defence Workforce**

The NZDF workforce provides a wealth of skills and experience; however traditional barriers between the different components of that workforce can limit the ability to make the most effective use of our personnel. The NZDF will improve organisational performance by implementing the 'Total Defence Workforce' (TDW) philosophy of removing procedural and cultural barriers to the movement of personnel across the quadrants of the NZDF workforce, or to leaving and rejoining the NZDF.

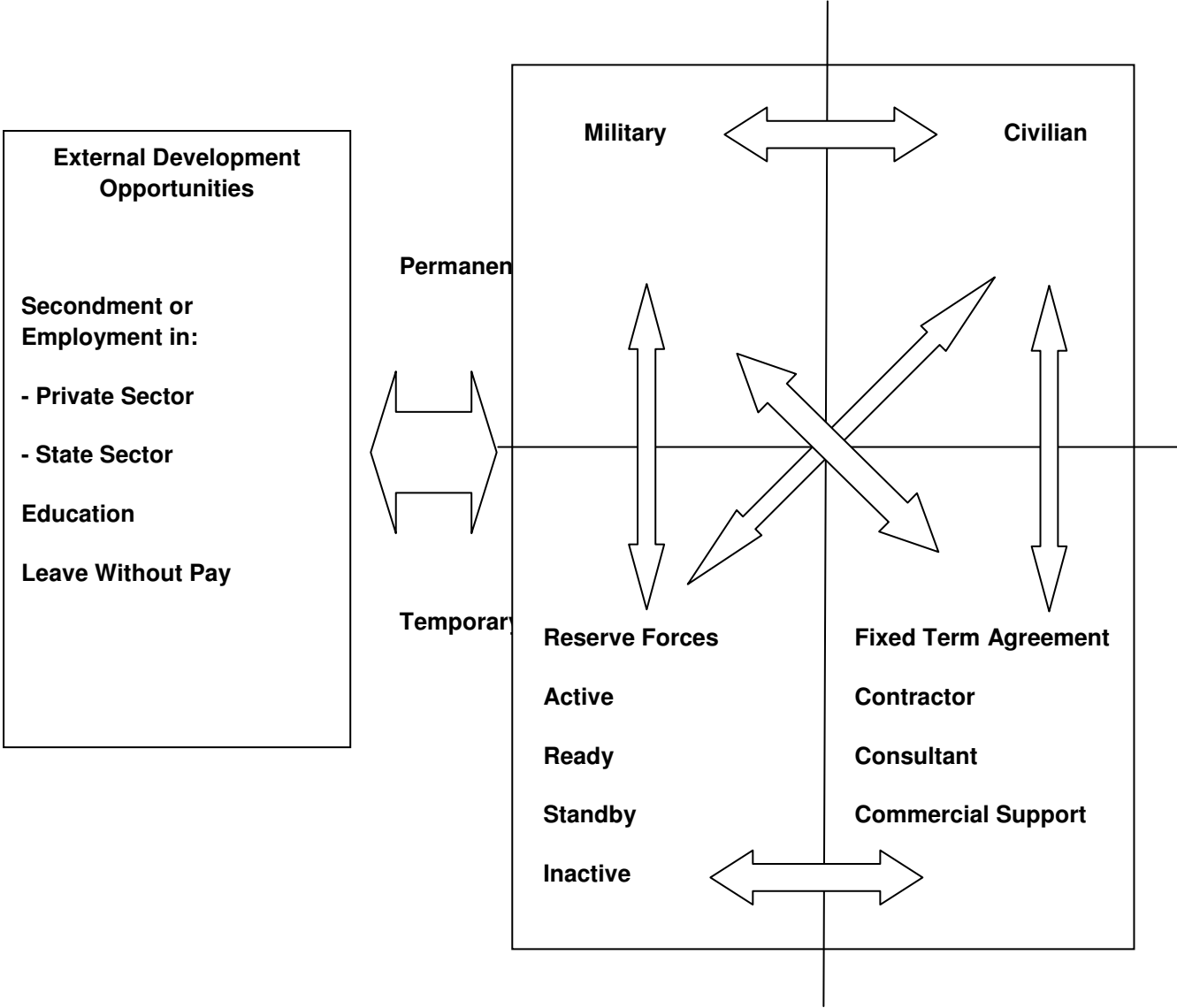
The free flow of personnel across these quadrants (refer diagram below) requires simplified procedures for employment transfers and for exit and re-enlistment, and better integration of Reserve and Regular forces. It also requires greater commonality of personnel policies and administration including recruitment, training, recognition and recording of skills and experience, career management and remuneration. These changes to our procedures and culture must be applied across the three Services; between Regular and Reserve forces; and between military and civilian staff.

TDW will deliver a more agile workforce which will result in:

- an enhanced workforce supply with the best match of position to skills, no matter from where those skills come;
- improved career opportunities including acquisition of skill sets from outside the defence organisation;
- greater opportunities to shift military personnel to frontline; and
- reduction of NZDF workforce cost by more effective use of Reserve forces and civilians.

TDW does not directly deliver identifiable savings, however a more effective and efficient workforce enables other programmes (including Joint Enablers and Savings Redistribution) to deliver savings. It will also support other workforce strategies, in particular attrition and retention, and workforce initiatives around Regular Force plans and the utilisation of reserve forces. Additionally, TDW will support NZDF's Future35 Strategy by delivering a workforce that thinks and operates in a more 'joined up' way to operate in a joint, interagency and multi-national environment.

**TOTAL DEFENCE WORKFORCE: PERSONNEL QUADRANTS**





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## **Reshaping the Workforce**

Realising the savings incorporated in the NZDF Savings Redistribution Programme<sup>8</sup> will require a reasonable reduction of personnel numbers, both Regular Force and civilians to 10,500 by FY 2014/15. The NZDF will achieve any personnel reductions through natural attrition. The ultimate aim is to be fully resourced with a highly professional force and any reinvestment in personnel being aligned to annual pay rises linked to market rates.

The workforce plan will be developed in two phases as follows:

- firstly, a phased plan by March 2013 for 10,500 personnel by the end of FY 2014/15; and
- [6]

### **3.2.5 Workforce Strategy Monitoring**

It is critical that the organisational metrics of the NZDF workforce strategy and change programme are closely monitored.

The NZDF uses a Balanced Scorecard to measure the performance of workforce strategy and initiatives. The NZDF Organisational Performance Management team will:

- develop and maintain NZDF performance management processes;
- facilitate the setting of performance criteria, measures and targets for the NZDF Annual Plan;
- monitor and report on monthly performance reports against the NZDF Annual Plan;
- maintain NZDF's performance measure repository; and
- develop corporate documentation, including the NZDF Quarterly Report and NZDF Annual Reports.

NZDF receives constant and current feedback from its people through single Service Chiefs, command Warrant Officers, On-going Attitude surveys (OAtS), single Service leadership boards, and complaint processes. Such feedback is used in determining strategy success and for future strategy development.

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<sup>8</sup> Savings Redistribution Programme impacts have been detailed to external agencies in recent months but excluded discussion of re-investment of savings into personnel or rebalancing of savings targets.

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### **3.3 Total Workforce Costs**

#### **3.3.1 Total workforce costs**

[6]

[6]

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## **4.0 SUMMARY OF TOTAL FINANCIAL IMPACT**

[6]

## Operating – Non-departmental

|   | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.000m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <i>Current operating expenditure baseline</i>   | -                     | -                     | -                     | -                     | -                     |
| <b>Financial Implication of Planned Changes and Cost Pressures</b>  |                       |                       |                       |                       |                       |
| Financial implication arising from changes to outputs, services or deliveries ( <b>copy from table in Section 2.1.2</b> ) | -                     | -                     | -                     | -                     | -                     |
| Direct employment cost pressures ( <b>copy from table in Section 6.2.1.1</b> )  | -                     | -                     | -                     | -                     | -                     |
| Operational cost pressures arising from capital ( <b>copy from table in Section 6.2.1.2</b> )                             | -                     | -                     | -                     | -                     | -                     |
| Other operational operating cost pressures ( <b>copy from table in Section 6.2.1.3</b> )                                  | -                     | -                     | -                     | -                     | -                     |
| Total of all changes and pressures on operating expenses  | -                     | -                     | -                     | -                     | -                     |
| <b>Funding for Changes and Cost Pressures Available from</b>  |                       |                       |                       |                       |                       |
| Operational efficiencies/reprioritisation ( <b>copy from tables in Section 6.2.2.1</b> )                                  | -                     | -                     | -                     | -                     | -                     |
| Changes to third-party revenue ( <b>copy from table in Section 6.2.2.2</b> )  | -                     | -                     | -                     | -                     | -                     |
| Transfers to/from other Votes ( <b>copy from table in Section 6.2.2.3</b> )   | -                     | -                     | -                     | -                     | -                     |
| Total funds available   | -                     | -                     | -                     | -                     | -                     |
| Savings required but not yet identified   | -                     | -                     | -                     | -                     | -                     |
| Savings required as % of baselines  | -                     | -                     | -                     | -                     | -                     |
| <b>New Funding Sought from the Centre</b>   |                       |                       |                       |                       |                       |
| Total new funding sought ( <b>copy from table in Section 2.3</b> )  | -                     | -                     | -                     | -                     | -                     |
| Savings required if new funding received  | -                     | -                     | -                     | -                     | -                     |

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## Capital

### Capital expenditure

[6]

*Military unit cost inflation and foreign exchange risks in this table were modelled using a continuous time stochastic process on mean reversion principles and are within 1% of the current DCP as advised in the Capital Intentions Report.*

|   | Increase/(Decrease)   |                       |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.000m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
| <b>Non-departmental Expenditure</b>   |                       |                       |                       |                       |                       |
| <b>Baseline funding available for the purchase or development of Crown capital assets</b> | -                     | -                     | -                     | -                     | -                     |
| New capital funding sought from the centre<br><b>(copy from table in Section 2.1.2)</b>   | -                     | -                     | -                     | -                     | -                     |
| Capital investment in organisations other than departments                                | -                     | -                     | -                     | -                     | -                     |
| <b>Total</b>  | -                     | -                     | -                     | -                     | -                     |

## 5.0 KEY OPERATIONAL RISKS

The table below provides a summary of the significant operational risks that could compromise the delivery of medium-term intentions for the NZDF.

| Risk Number | Description  | Likelihood  | Consequences  | Exposure   | Financial Impact and timing by year (where applicable) | Treatment/Mitigation  |
|-------------|--|---|---|--|--|---|
| 1           | <p>Capability Platform Renewal.</p> <p>The continued delay in the delivery of new or upgraded capability platforms, running out of hours with legacy aircraft, and significant delays in remedial work resulting in potential failure to deliver agreed outputs.</p> | <p><i>Untreated</i><br/>Possible</p> <p><i>Treated</i><br/>Unlikely</p>     | <p><i>Untreated</i><br/>Severe</p> <p><i>Treated</i><br/>Severe</p>   | <p><i>Untreated</i><br/><b>High</b></p> <p><i>Treated</i><br/><b>Moderate</b></p>  |  | <ul style="list-style-type: none"> <li>▪ Single Service Chiefs reprioritisation of activities to meet output requirements.</li> <li>▪ Introduction into Service Plans for new and upgraded platforms.</li> <li>▪ Longer than planned retention of existing platforms.</li> <li>▪ Review/change of output agreements.</li> </ul> |
| 2           | <p>Organisation change.</p> <p>Understanding and acceptance of the organisational reforms eroded by the cumulative impacts/effects of the number of changes over time.</p>   | <p><i>Untreated</i><br/>Possible</p> <p><i>Treated</i><br/>Possible</p>     | <p><i>Untreated</i><br/>Severe</p> <p><i>Treated</i><br/>Moderate</p> | <p><i>Untreated</i><br/><b>High</b></p> <p><i>Treated</i><br/><b>Moderate</b></p>  |  | <ul style="list-style-type: none"> <li>▪ NZDF Strategic Plan (Future35).</li> <li>▪ Agreed priorities.</li> <li>▪ CDF Directives and supporting programmes.</li> </ul>  |
| 3           | <p>Personnel.</p> <p>NZDF does not recruit or retain vital trades or other specialist personnel essential for the delivery of output requirements.</p>   | <p><i>Untreated</i><br/>Almost Certain</p> <p><i>Treated</i><br/>Likely</p> | <p><i>Untreated</i><br/>Severe</p> <p><i>Treated</i><br/>Severe</p>   | <p><i>Untreated</i><br/><b>Very High</b></p> <p><i>Treated</i><br/><b>High</b></p> |  | <ul style="list-style-type: none"> <li>▪ Revised remuneration packages.</li> <li>▪ Targeted recruitment including lateral hires, greater use of Reservists, re-enlistments, and short term loans of ADF personnel.</li> <li>▪ Revised military tempo.</li> </ul>  |

|     |  |   |   |   |  |   |
|-----|--|---|---|---|--|---|
| 4   | <p>Information technology.</p> <p>IT infrastructure may be unable to support current and future information requirements.</p>  | <p><i>Untreated</i><br/>Possible</p> <p><i>Treated</i><br/>Unlikely</p> | <p><i>Untreated</i><br/>Severe</p> <p><i>Treated</i><br/>Moderate</p>   | <p><i>Untreated</i><br/><b>High</b></p> <p><i>Treated</i><br/><b>Moderate</b></p> |  | <p>CIS Annual Plan:</p> <ul style="list-style-type: none"> <li>▪ Data Storage project \$4.616m.</li> <li>▪ Infrastructure Refresh/Rolling Programme \$6.595m.</li> <li>▪ Military messaging network infrastructure up-grade \$0.85m.</li> <li>▪ Infrastructure Enablement Programme \$6.99m.</li> </ul> |
| 5   | <p>Environmental.</p> <p>Harm to the NZDF and external environments causing illness/injury or legal action against the NZDF.</p>   | <p><i>Untreated</i><br/>Possible</p> <p><i>Treated</i><br/>Unlikely</p> | <p><i>Untreated</i><br/>Major</p> <p><i>Treated</i><br/>Moderate</p>    | <p><i>Untreated</i><br/><b>High</b></p> <p><i>Treated</i><br/><b>Moderate</b></p> |  | <ul style="list-style-type: none"> <li>▪ Defence Estate Strategic Plan.</li> <li>▪ Compliance plans and their implementation.</li> </ul>  |
| [6] |  |   |   |   |  |   |
| 7   | <p>Health and Safety. *</p> <p>Health and safety compliance failures potentially result in accidents/injuries; environmental contamination; reputation damage; and /or prosecution.</p> <p><i>* This risk will retain a 'high' rating because of the inherent nature of the roles of the NZDF.</i></p> | <p><i>Untreated</i><br/>Possible</p> <p><i>Treated</i><br/>Possible</p> | <p><i>Untreated</i><br/>Moderate</p> <p><i>Treated</i><br/>Moderate</p> | <p><i>Untreated</i><br/><b>High</b></p> <p><i>Treated</i><br/><b>High</b></p>     |  | <ul style="list-style-type: none"> <li>▪ OSH review project.</li> <li>▪ Appointment of VCDF as Health and Safety Champion.</li> <li>▪ Appointment of NZDF Health and Safety Manager.</li> </ul>   |

| Likelihood of risk event with existing controls in place |   |
|--|---|
| Almost certain   | The event is expected to occur in most circumstances. Probability: 80%–100% expectation that the event will occur.        |
| Likely   | The event will probably occur in most circumstances. Probability: 50%–80% expectation that the event will occur.          |
| Possible   | The event could occur at some time. Probability: 30%–50% expectation that the event will occur.                           |
| Unlikely   | The event could occur at some time. Probability: 5%–30% expectation that the event will occur.                            |
| Rare   | The event may occur only in exceptional circumstances. Probability: Less than a 5% expectation that the event will occur. |

| Magnitude of consequences |   |
|---------------------------|---|
| Major                     | Extensive senior management attention or resources diverted to recovery from a crisis event affecting service quality, a programme or major project, the viability of the agency overall. This level of risk would have extreme consequences for the organisation both financially and politically. |
| Severe                    | Significant senior management attention to manage issues or prevent a crisis that may threaten the viability of a branch, service quality, programme or project. This level of risk would have very high consequences for the organisation financially and/or politically.                          |
| Moderate                  | Consequences could require review or changes to operating procedures with management effort required to prevent escalation. Although the consequences would not threaten the viability of the programme or organisation, service quality or performance could be affected.                          |

| Level of risk exposure |          |                            |          |          |           |                |
|------------------------|----------|----------------------------|----------|----------|-----------|----------------|
| Consequences           | Major    | Moderate                   | High     | High     | Very high | Very high      |
|                        | Severe   | Moderate                   | Moderate | High     | High      | Very high      |
|                        | Moderate | Low                        | Moderate | Moderate | Moderate  | High           |
|                        | Minor    | Very low                   | Low      | Low      | Moderate  | Moderate       |
|                        | Routine  | Very low                   | Very low | Low      | Low       | Moderate       |
|                        |          | Rare                       | Unlikely | Possible | Likely    | Almost certain |
|                        |          | <b>Likelihood of event</b> |          |          |           |                |



# 6.0 DETAILED ACTIVITY AND FINANCIAL PLANNING

## 6.1 Medium-term Intentions – Intended Changes

This section describes the key changes to NZDF outputs, services and/or delivery during the next four years.

Although the NZDF anticipates deficits commencing FY 2015/16 there is no requirement for additional funding during the period of this 4YP. Instead the NZDF will examine options to utilise under spends or reduce reinvestment to support affordability.

There are five significant activities that are expected to have a noticeable impact on the NZDF’s people and financial resources as well as the way outputs and services are delivered. These activities are outlined below as follows:

- Savings Redistribution Programme,
- Defence Capability Plan,
- Reduced Commitment to Operational Deployments,

[6]

| <b>Savings Redistribution Programme</b>  |  |
|--|--|
| Strategic outcome(s) related to this intention: All four Defence Outcomes – Refer Section 1  |  |
| Type of action<br>(Insert : New/stop/change)   | Change   |
| Motivation for change (circle)   | Generating funds for reprioritisation                        |
|  | Seeking greater efficiency/performance from current spending |
|  | Responding to government priorities                          |
|  | Other.....   |
| Description:   |  |
| The Savings Redistribution Programme aims to deliver \$350-\$400M of savings by 2014/15 for reinvestment to sustain and build military capability as directed in DWP10. This initiative will generate funds for reprioritisation and greater efficiency/performance from current spending through more cost effective delivery of outputs. |  |
| Financial Impact:  |  |
| Savings expected to be achieved through the Savings Redistribution Programme are intended for reinvestment in the NZDF. As a result there is no overall impact on the operating expenditure of Vote Defence Force.   |  |

| <b>Financial impact of intended change</b>  | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| [6]   |                               |                               |                               |                               |                               |
| Operating impact – non-departmental   | -                             | -                             | -                             | -                             | -                             |
| Capital impact – departmental   | -                             | -                             | -                             | -                             | -                             |
| Capital impact – non-departmental   | -                             | -                             | -                             | -                             | -                             |
| New Funding: No new funding is required.  |                               |                               |                               |                               |                               |
| <b>Value of new funding sought from the centre</b>  | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
| Operating expenditure – departmental  | -                             | -                             | -                             | -                             | -                             |
| Operating expenditure – non-departmental  | -                             | -                             | -                             | -                             | -                             |
| Capital expenditure – departmental  | -                             | -                             | -                             | -                             | -                             |
| Capital expenditure – non-departmental  | -                             | -                             | -                             | -                             | -                             |
| <p>Implications for workforce capacity and capability:</p> <p>The implication of the Savings Redistribution Programme on the NZDF workforce is the risk to workforce capacity, although cost reduction activities are being undertaken to ensure enduring savings can be realised. However, the exact impact on the workforce will only be determined as each project matures. Based on current planning the overall impact by FY 2014/15 is expected to be a reduction of about 800 personnel from the FY 2012/13 planned headcount numbers.</p> <p>Note these workforce reductions do not include any forecast impact of the Continuous Improvement Savings targeting \$84 million in savings by FY 2014/15. Currently plans are not sufficiently developed to have an organisational understanding how this saving might be achieved. Although forecast savings are in the 10YRP against personnel expenditure, these saving could be achieved through reductions in the cost per person saving, or alternatively from operating expenditure. Neither of these alternatives would have an impact on the capacity of the NZDF workforce.</p> <p>As the savings are available for reinvestment, this year NZDF were able to inject \$45 million into a new remuneration package, bringing all NZDF people's pay up to midpoint of the appropriate published 2012 market data. This change to the remuneration package will help to address some of the issues of the recruitment of civil staff and the retention of the Regular Force and civilian workforce.</p> |                               |                               |                               |                               |                               |
| <p>Implications for other significant capability:</p> <p>The Savings Redistribution Programme and its benefits have been factored into the overall forecast of Vote Defence Force into the future. The NZDF forecasts savings of \$355 million in annually recurring savings by FY 2014/15. However, the NZDF realises that further savings will be needed in the period beyond 2015 and actions have commenced to reduce cost pressures in this period.</p>  |                               |                               |                               |                               |                               |

Describe how the success of the intended change will be known or measured, including the value of spending:

Success is measured by the savings delivered with the ultimate success criteria being the delivery of \$350 million in sustainable savings. Progress reports are provided to Cabinet six monthly. Decision points occur at the time of committing to benefit realisation within each project/programme and the associated impact on the integrated personnel plan. As noted earlier the integrated personnel plan has yet to be developed, but it will include investment in military personnel to ensure military capabilities are available.

### Defence Capability Plan

Strategic outcome(s) related to this intention: All four Defence Outcomes – Refer Section 1

|  |  |
|--|--|
| Type of action<br>(Insert : New/stop/change) | Change   |
| Motivation for change (circle)               | Generating funds for reprioritisation                        |
|  | Seeking greater efficiency/performance from current spending |
|  | Responding to government priorities                          |
|  | Other.....   |

Description:

The Defence Capability Plan (DCP) is a response to government priorities established in DWP10. The way in which capability is utilised as more 'fit for purpose' platforms are delivered and as Defence work toward establishing the Joint Amphibious Task Force will mean outputs are delivered in a different way.

Financial Impact:

In the mid-term the financial impact of the DCP will largely be confined to:

- depreciation increases as new capability is accepted into service;
- increased operating expenditure arising from the introduction of new capability;
- the impact on depreciation resulting from the revaluation of existing capability; and
- no capital injections relating to the Defence Capability Plan are expected in the mid-term.

| Financial impact of intended change | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.000m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| [6]                                 |                       |                       |                       |                       |                       |
| Operating impact – non-departmental | -                     | -                     | -                     | -                     | -                     |
| Capital impact – departmental       | -                     | -                     | -                     | -                     | -                     |
| Capital impact – non-departmental   | -                     | -                     | -                     | -                     | -                     |

New Funding: No new funding is required.

| Value of new funding sought from the centre  | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.000m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Operating expenditure – departmental   | -                     | -                     | -                     | -                     | -                     |
| Operating expenditure – non-departmental   | -                     | -                     | -                     | -                     | -                     |
| Capital expenditure – departmental   | -                     | -                     | -                     | -                     | -                     |
| Capital expenditure – non-departmental   | -                     | -                     | -                     | -                     | -                     |
| <p>Implications for workforce capacity and capability:</p> <p>The DCP is expected to have minimal implications on the workforce. Programmes on the DCP are anticipated to demand similar numbers and types of personnel to that currently supporting the capability being replaced or upgraded.</p> <p>However, during the period of implementation of these projects, the demand for personnel to support the DCP programme will add to the pressures on the NZDF workforce at a time when personnel numbers are lower than planned.</p> <p>Implications for other significant capability:</p> <p>All the components of capability, i.e.: personnel, research and development, infrastructure and organisations, concepts, doctrine and collective training, information management and equipment and logistics are affected by the DCP. Financial analysis indicates the mean expected cost of the DCP can be funded until FY 2018/19 from accumulation of forecast depreciation. [6]</p> <p>Describe how the success of the intended change will be known or measured, including the value of spending:<br/>Success in relation to each programme/project is determined at a range of decision gates as follows:</p> <ul style="list-style-type: none"> <li>• acceptance and approvals of investment cases that are in accordance with agreed operational/organisational requirements;</li> <li>• successful contracting within the approved parameters; and</li> <li>• successful completion and introduction into service.</li> </ul> <p>Success in relation to the overall DCP is measured by</p> <ul style="list-style-type: none"> <li>• Cabinet approval; and</li> <li>• Investment cases approved within the timing and fiscal provisions included in the plan.</li> </ul> <p>The DCP is due for report back to Cabinet in May 2013.</p> |                       |                       |                       |                       |                       |

### Reduced Commitment to Operational Deployments

Strategic outcome(s) related to this intention: All four Defence Outcomes – Refer Section 1

Type of action  
(Insert : New/stop/change)

Stop

|  |  |                               |                               |                               |                               |
|--|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Motivation for change (circle)   | Generating funds for reprioritisation                        |                               |                               |                               |                               |
|  | Seeking greater efficiency/performance from current spending |                               |                               |                               |                               |
|  | <b>Responding to government priorities</b>                   |                               |                               |                               |                               |
|  | Other.....   |                               |                               |                               |                               |
| <p>Description:</p> <p>New Zealand's reduced presence on operational deployment will change the activities the NZDF undertake to maintain output delivery.</p> <p>Although current and future operational deployments will remain the highest priority for Defence, less in theatre operations, and more training is the likely outcome.</p>   |  |                               |                               |                               |                               |
| <p>Financial Impact:</p> <p>Funding for Output Expense 16 is used to cover the marginal costs of Operational Deployments. A reduction in Operational commitments will free up between \$35 - \$39 million of operating expenditure annually from FY 2013/14.</p> <p>The Crown will have an opportunity to reinvest this funding from Output Expense 16, either within the broader Defence appropriation, or to areas of higher priority across the state sector.</p> |  |                               |                               |                               |                               |
|  |  |                               |                               |                               |                               |
| <b>Financial impact of intended change</b>   | <b>2012/13<br/>(\$0.000m)</b>                                | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
| Operating impact – departmental  | -  | (39.000)                      | (36.000)                      | (35.000)                      | (35.000)                      |
| Operating impact – non-departmental  | -  | -                             | -                             | -                             | -                             |
| Capital impact – departmental  | -  | -                             | -                             | -                             | -                             |
| Capital impact – non-departmental  | -  | -                             | -                             | -                             | -                             |
| New Funding: No new funding is required.   |  |                               |                               |                               |                               |
|  |  |                               |                               |                               |                               |
| <b>Value of new funding sought from the centre</b>   | <b>2012/13<br/>(\$0.000m)</b>                                | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
| Operating expenditure – departmental   | -  | -                             | -                             | -                             | -                             |
| Operating expenditure – non-departmental   | -  | -                             | -                             | -                             | -                             |
| Capital expenditure – departmental   | -  | -                             | -                             | -                             | -                             |
| Capital expenditure – non-departmental   | -  | -                             | -                             | -                             | -                             |
| <p>Implications for workforce capacity and capability:</p> <p>Over the short-term the reduction in operational deployments will help relieve the workload pressure caused by the capability renewal and Savings Redistribution Programme. However, there is concern that any long term reduction in operational deployments will generate dissatisfaction among Regular Force personnel and may impact on attrition.</p>   |  |                               |                               |                               |                               |

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Implications for other significant capability:

Equipment and collective training will be the major components of capability affected in addition to personnel and financial resources.

Describe how the success of the intended change will be known or measured, including the value of spending:

Success criteria:

- all decisions on operations are referred separately to Cabinet for approval;
- personnel and equipment are safely repatriated in accordance with plans;
- capability is regenerated in accordance with the plan in Future35; and
- use of funding is agreed.

[6]

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[6]

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[6]



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[6]

## **6.2 Fiscal Implications**

### **6.2.1 Cost pressures**

#### *6.2.1.1 Direct employment costs*

[6]

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[10]

6.2.1.2 Operational cost pressures arising from capital

[6]

| <b>The Defence Capability Plan – Existing Capability (Revaluation)</b>  |                               |                               |                               |                               |                               |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Description:  |                               |                               |                               |                               |                               |
| Revaluation of SME typically generates a higher depreciation profile as assets are re-valued upward either as a result of demand out stripping the supply of military equipment on the world market, or through the use of increasingly more sophisticated and expensive technologies.  |                               |                               |                               |                               |                               |
| Under current fiscal settings with no operating injections for the next five years Treasury has issued guidance that agencies are expected to absorb the depreciation impacts of revaluation within their baseline. This has, assuming that revaluations continue with upward movements, introduced a significant cost pressure of \$30 million by FY 2015/16, growing to \$75 million by FY 2020/21. |                               |                               |                               |                               |                               |
| <b>Value of cost pressure</b>   | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
| Departmental  | -                             | 15.000                        | 15.000                        | 30.000                        | 30.000                        |
| Non-departmental  | -                             | -                             | -                             | -                             | -                             |

6.2.1.3 Other cost pressures

| <b>Summary of other operating cost pressures</b> | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| [6]  |                               |                               |                               |                               |                               |
| Total non-departmental other                     | -                             | -                             | -                             | -                             | -                             |

|                          |  |  |  |  |  |
|--------------------------|--|--|--|--|--|
| operating cost pressures |  |  |  |  |  |
|--------------------------|--|--|--|--|--|

| <b>Operating Inflation</b>  |                               |                               |                               |                               |                               |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Description: The NZDF uses market rates for Foreign Exchange, Fuel and the Forecast CPI to determine the amount of operating inflation related funding may be required. |                               |                               |                               |                               |                               |
| <b>Value of cost pressure</b>   | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
| Departmental  | 14.416                        | 27.170                        | 41.437                        | 55.261                        | 68.024                        |
| Non-departmental  | -                             | -                             | -                             | -                             | -                             |

| <b>The Defence Capability Plan – New Capability (Operating Impact)</b>  |                               |                               |                               |                               |                               |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Description:  |                               |                               |                               |                               |                               |
| Further operating cost increases, such as maintenance and related personnel costs arise from the introduction of new capital equipment. |                               |                               |                               |                               |                               |
| <b>Value of cost pressure</b>   | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
| [6]   |                               |                               |                               |                               |                               |
| Non-departmental  | -                             | -                             | -                             | -                             | -                             |

#### 6.2.1.4 Residual, from all other items not significant enough to list above

| <b>Residual Cost Pressures</b> |                               |                               |                               |                               |                               |
|--------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Value of cost pressure</b>  | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
| [6]                            |                               |                               |                               |                               |                               |
| Non-departmental               | -                             | -                             | -                             | -                             | -                             |

*Residual cost pressures in FY 2013/14 and FY 2014/15 are related to the increased cost of maintaining the Defence Estate, new projects and increases to the level of forecast operating activity.*

## 6.2.2 Offsetting operational funding from reprioritisation/third-party revenue/vote transfers

### 6.2.2.1 Reprioritisation

Defence has the following three activities underway to generate funding for reprioritisation:

- the Savings Redistribution Programme (Refer Section 6.1);
- surplus funding in Output Expense 16 (Refer Section 6.1); and
- potential Carry Forward of Under Spends.

| Summary of funding available from reprioritisation,   | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.00m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
|---|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| [6]   |                       |                       |                      |                       |                       |
| Total non-departmental other operating cost pressures | -                     | -                     | -                    | -                     | -                     |

| Carry Forward of Under Spends  |                       |                       |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Description:<br>Under spends generated from the Savings Redistribution Programme in advance of reinvestment are forecast to generate surpluses until FY 2014/15. Under the DWP10 these under spends are available through the Crown's financial flexibility arrangement to be reprioritised into future years. A paper to Joint Ministers (or Cabinet if required) will be prepared in February seeking approval to conduct a carry forward of under spends into future years. |                       |                       |                       |                       |                       |
| Value of available reprioritised funding   | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.000m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
| [6]  |                       |                       |                       |                       |                       |
| Non-departmental   | -                     | -                     | -                     | -                     | -                     |

#### 6.2.2.2 Third-party revenue

| Summary of third-party revenue changes, eg: LINZ.  | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.000m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total departmental third-party revenue changes     | 4.390                 | 4.390                 | 4.390                 | 4.390                 | 4.390                 |
| Total non-departmental third-party revenue changes | 4.390                 | 4.390                 | 4.390                 | 4.390                 | 4.390                 |

| Operating Expenditure – Land Information New Zealand Contract   |                       |                       |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Describe third-party revenue changes in further detail:<br>In conjunction with the retirement of HMNZS Resolution the Royal New Zealand Navy and Land & Information New Zealand have agreed to cease the contract for the provision of hydrographic services. As a result third-party revenue generated from LINZ will cease from FY 2012/13. |                       |                       |                       |                       |                       |
| Value of change in third-party revenue increase/(decrease)  | 2012/13<br>(\$0.000m) | 2013/14<br>(\$0.000m) | 2014/15<br>(\$0.000m) | 2015/16<br>(\$0.000m) | 2016/17<br>(\$0.000m) |
| Departmental  | 4.390                 | 4.390                 | 4.390                 | 4.390                 | 4.390                 |
| Non-departmental  | 4.390                 | 4.390                 | 4.390                 | 4.390                 | 4.390                 |

#### 6.2.2.3 Transfers from/to other votes

| Transfers from / to other votes  |
|--|
| A transfer of \$0.225 million in FY 2012/13, and \$0.280 million for out years is expected out of Vote Defence |

Force's operating expenditure Appropriation to Vote Veterans' Affairs to fund the impact of the Defence 2012 Remuneration Review on Vote Veterans' Affairs.

| <b>Summary of transfers from / to other votes, eg: VANZ</b>       | <b>2012/13<br/>(\$0.000m)</b> | <b>2013/14<br/>(\$0.000m)</b> | <b>2014/15<br/>(\$0.000m)</b> | <b>2015/16<br/>(\$0.000m)</b> | <b>2016/17<br/>(\$0.000m)</b> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| From Vote Defence Force to Vote Veterans' Affairs – Defence Force | 0.225                         | 0.278                         | 0.278                         | 0.278                         | 0.278                         |

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## 7.0 SAVINGS IDEAS

[6]