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Four-Year Plan

Introduction

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Introduction

The Four-Year Plan is a key strategic planning tool that is intended to provide Ministers with:

- an integrated medium-term view of direction;
- a demonstration of how the department intends to implement its medium-term direction, including resource reallocations, if any, and the management of risks;
- information on how the department will maintain outputs, and adjust output delivery in response to government priorities.

By a coincidence of events, the Ministry of Defence is not yet able to provide a fully developed picture of its future intentions. There are three main reasons:

- An external Performance Improvement Framework (PIF) review of the Ministry was concluded in August 2012.
- The former Secretary of Defence retired on 18 October 2012. He did not initiate planning and actions following the PIF that would pre-empt the intentions of the new Secretary, who did not take up her position until 3 December 2012.

[6]

In the immediate future, the Ministry will be undertaking a detailed strategic planning exercise that will set its future direction and change programme. This Four-Year Plan cannot present that transformation in detail, but it can and does describe the Ministry's current state and, in general terms, its intended future state and the strategic planning processes that will be used.

The objective is that strategic planning will have been commenced by 31 March 2013, together with a programme approach to the implementation of the PIF. A new strategic business plan and a revised operating model will have been completed by June 2013.

1 Strategic Direction

Purpose

1.0.1 The principal purpose of the Ministry of Defence is to enhance national security through its statutory role as the principal civilian adviser to the Government on defence issues.

1.0.2 To do this, the Ministry, in close consultation with the NZDF:

- Identifies policy objectives and provides advice on New Zealand's defence and security interests;
- Leads analysis of how defence objectives can be met within available funds;
- Acquires major items of military equipment;
- Provides advice on the use of military forces; and
- Evaluates NZDF and Ministry performance against the Government's requirements and best practice.

Outcome Framework

1.0.3 The overarching government outcome is to achieve and maintain a state of 'security' – that is, a safe domestic and international environment in which New Zealand's interests are protected.

1.0.4 In the defence context, 'security' it means being free from actions by other states or organised groups that entail intentional or threatened use of destructive or deadly force, and/or hostile incursions into our sovereign territory. It also means having the capability to deter and, where necessary, neutralise such threats. In doing so, New Zealand may act alone or with others. Thus, our partnerships and defence capabilities improve our own security and that of other countries.

1.0.5 The Ministry's high-level outcomes are therefore:

- *Outcome one:* New Zealand is secure.
- *Outcome two:* The security of other nations is enhanced by New Zealand's efforts.

1.0.6 Supporting these are four intermediate-level outcomes:

- *Intermediate outcome one:* New Zealand identifies all credible threats to its security environment.
- *Intermediate outcome two:* New Zealand's military capabilities are aligned to our requirements.
- *Intermediate outcome three:* New Zealand's defence relationships are aligned with our security interests and foreign policy goals.
- *Intermediate outcome four:* New Zealand's military deployments support our regional and wider international objectives.

Better Public Services

1.0.7 The Government's Better Public Services (BPS) targets address the following subject areas:

Reducing Long-term Welfare Dependence

- 1 Reduce the number of people who have been on a working age benefit for more than 12 months

Supporting Vulnerable Children

- 2 Increase participation in early childhood education
- 3 Increase infant immunisation rates and reduce the incidence of rheumatic fever
- 4 Reduce the number of assaults on children

Boosting Skills and Employment

- 5 Increase the proportion of 18-year-olds with NCEA level 2 or equivalent qualification
- 6 Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at level 4 or above)

Reducing Crime

- 7 Reduce the rates of total crime, violent crime and youth crime
- 8 Reduce reoffending

Improving Interaction with Government

- 9 New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business
- 10 New Zealanders can complete their transactions with the Government easily in a digital environment

1.0.8 None of these subject areas and targets are directly associated with the defence and security sector. National security, however, represents a foundation on which all individual welfare and national prosperity depends. Inasmuch as the Ministry supports the Government's objective of maintaining a state of national security, its work underpins the achievement of all ten BPS targets.

Future state

- 1.0.9 In four years' time, having implemented the Defence White Paper's organisational reforms, the Ministry will be an active and valued lead agency within a defence, national security and foreign policy system that has adjusted appropriately to the changing nature of national security threats.
- 1.0.10 The Ministry will engage effectively and systematically with other NZ Inc and national security agencies. Policy effort will be strongly focused on long-range strategic thinking about national security outcomes and the capability, materiel, infrastructure and people needed to achieve them.
- 1.0.11 International defence relations will deliver value to NZ's strategic interests, including our diplomatic interests, especially key partnerships with Australia and the United States and with major partners in Asia.
- 1.0.12 Projects required under the Government's Capability Plan will be progressing smoothly, supported by improved whole-of-life procurement expertise, and by more rigorous portfolio and programme management tools.
- 1.0.13 The Ministry will continue to inform the Minister of Defence on the NZDF's and its own performance through a systematic programme of targeted, risk-based analysis and assessments.
- 1.0.14 The Ministry will have led debate on long-range national security issues, reflecting this in a robust defence assessment, and will be implementing the outcomes. Government decisions taken pursuant to that assessment will reflect a new and more sustainable balance between policy, capability and funding.
- 1.0.15 The Ministry will have achieved efficiencies in resource use and greatly strengthened the corporate enabling functions to which it has access. The agency will have become an employer of choice, with a high reputation for professionalism and an excellent reputation in staff management and staff development. It will be successfully managing its workforce by implementing a detailed forward-looking strategic human resources and organisational development plan, using a suite of measures that include knowledge management, skills recruitment and careful succession planning.

1.1 Operating or Business Model

- 1.1.1 The Ministry's business model, which is described in more detail in Annex 2, describes how the Ministry creates and captures value, both economic and social.
- 1.1.2 It is useful to consider the model in the context of the value that it seeks to realise. 'Security' has been defined in paragraph 1.0.4 above. It is an essential foundation for all economic prosperity and all public and personal welfare. Threats to security are risks to welfare and economic prosperity. Actions that reduce those risks achieve an increase in expected welfare and economic prosperity. This is the value that is created and captured by Defence. As a simple analogy, if New Zealand were to be viewed as a living organism, Defence would be a key immune system.
- 1.1.3 Defence mitigates social and economic risk by:
- Identifying current and possible future sources of military threat (whether to New Zealand or other countries) through surveillance of New Zealand's territory and EEZ, and by collecting and analysing information relating to its strategic environment;
 - Assessing the likelihood of threats being realised, and the possible severity of the consequences if they are realised;
 - Identifying the military tasks that would need to be completed successfully in order to deter, mitigate or defeat those threats;
 - Providing advice to the Government on the military capabilities necessary to successfully complete those tasks;
 - Providing advice to the Government on collaborative risk management through alliances and security partnerships;
 - Undertaking activities that support the development and maintenance of alliances and security partnerships through the conduct of international defence relations;
 - Raising and sustaining the military capabilities approved and funded by the Government; and
 - Providing advice on, and undertaking, military operations that use those capabilities.
- 1.1.4 The Ministry contributes to this risk reduction, and therefore value creation, by:
- Undertaking analysis and providing advice on:
 - the strategic environment and the likelihood of and severity of threats;
 - the military capabilities needed to deter, mitigate or defeat those threats;
 - options for achieving those capabilities and the costs of those options;
 - the whole-of-life management of the portfolio of military capabilities;

- alliances, security partnerships and the conduct of international defence relations; and
- options for using military capabilities in security operations.
- Undertaking the acquisition of major items of military equipment; and
- Helping strengthen the Defence sector by identifying and assessing strategic risk, conducting systematic evaluation and supporting the strengthening of ongoing practice and performance improvement of the Ministry of Defence and the NZDF.

1.2 Operating Environment and Strategic Challenges

Operating Environment

1.2.1 The Ministry's operating environment is influenced by a number of factors that might impact on its ability to achieve its objectives. These include:

- The global financial crisis, which is having an enduring impact on NZ's economy and fiscal position. This is making more difficult the task of addressing the imbalance between defence policy objectives in the Defence White Paper, the consequential military capability requirements, and the available funding.
- The wider strategic environment is challenging, with power shifts and tensions in the Asia Pacific, weak governance in the South Pacific, and political turmoil in the Middle East all having an impact on NZ's security outlook and planning.
- At the same time, the security expectations of our partners, especially the United States and Australia, are rising, and the nature of conflict and security threats changing in important ways
- The nature of conflict and security threats is changing in important ways, but public awareness of this is limited.
- The Government's intention is to achieve greater sectoral integration and improved inter-agency collaboration and coordination. The Ministry needs to adopt a stronger policy leadership profile in the sector, but its resources in real terms are reducing.

Strategic Challenges

- The *Defence White Paper* and Defence Amendment Bill place new requirements on the Ministry and NZDF relating to 'whole of portfolio, whole of life' capability management. This will drive the development of new strategic management processes and support tools, and some cultural shifts.

- The Ministry's workforce is ageing, and arguably is too small. There is a lack of depth in the coverage of certain key skills, and operational risk exposure from single points of failure especially in the context of resignations and retirements.
- The Ministry's strategic human resource planning, knowledge and information management, staff development and succession planning processes need to improve.
- The Ministry needs to improve its business processes, including quality assurance and risk management.
- The Ministry must reduce costs over time in accordance with Government directions yet still deliver on heightened expectations of providing a more influential voice on national security issues.

Baseline profile – OBU 2012	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating expenditure – departmental	12.333	11.616	11.566	11.655	11.166
Operating expenditure – non-departmental	0.000	0.000	0.000	0.000	0.000

1.3 Decision Points and Trade-offs

- 1.3.1 As indicated in the Introduction to this Plan, the new Secretary of Defence took up her appointment on 3 December 2012. The Ministry has recently been subject to a PIF review, and the new Secretary will need to undertake a process of strategic and management review and possible resource reallocations to address issues identified in the PIF. There has been no opportunity yet for this to occur, and accordingly the Ministry's future strategic intentions and plans are not yet mature.
- 1.3.2 Until a strategic direction is confirmed, a number of consequential planning processes cannot be finalised. There are, however, a number of basic decisions to be taken concerning the future 'balance of effort' of the Ministry's work and consequential resource allocation decisions. These include:
- A review and possible rebalancing of the level of resources applied to different aspects of the Ministry's work on policy advice, including strategic security policy, military capability analysis and definition, and international defence relations. One reason for such a rebalancing is the Ministry's new role in relation to whole of life management of military capability by the Capability Management Board. Another, given the Government's intention to complete defence assessments at intervals of no less than five years, will be the Ministry's role in leading the work of the next assessment (which must begin no later than mid 2014).

- A re-examination and possible redirection of the Ministry's work in undertaking statutory audits and assessments of the NZDF and the Ministry's own acquisition work. As noted in the PIF report:

"Evaluations will need to be systematic, strategic and prioritised to risk identification, assessment and management. They will align to the priorities and concerns of the capability management work described above."

- A re-examination of the level of resource devoted to managing the acquisition of major items of military equipment. As noted in the PIF report:

"At present, given the small number of staff covering a large number of projects, Acquisitions has tended to operate with a strong focus on the individual deal negotiation and less on developing skills in the more strategic whole-of-life asset management area. We believe there is a need for an enhanced strategic procurement capability, as well as better portfolio, programme and project management systems and processes."

- A re-examination of the way in which the Ministry secures corporate and financial support services for its operational outputs. The PIF report observed that the Ministry:

"...needs stronger corporate services capability that can develop and implement an effective strategic Human Resources (HR) recruitment and retention strategy as well as the information management system that is aligned with joint accountability for whole-of-life management of military capability."

2 Medium-term Intentions

2.1.1 Because the post-PIF strategic planning has not yet been undertaken, it would be premature to propose specific activity changes or to anticipate possible changes to resource allocation.

2.2 Summary of Medium-term Intentions – Intended Changes

Intention <i>(Name and brief description)</i>	Type of Action <i>(New/stop/change)</i>	Success measures <i>(Text)</i>
A	N/A	N/A

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

Financial implications arising from changes to outputs, services or deliveries	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating impact – departmental	0.000	0.000	0.000	0.000	0.000
Operating impact – non-departmental	0.000	0.000	0.000	0.000	0.000
Capital impact – departmental	0.000	0.000	0.000	0.000	0.000
Capital impact – non-departmental	0.000	0.000	0.000	0.000	0.000

2.2.1.1. Summary of new funding sought from the centre

Value of new funding sought	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operational expenditure – departmental	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Operational expenditure – non-departmental	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Capital expenditure – departmental	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Capital expenditure – non-departmental	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

2.3 Core Business, Continuous Improvement and Other

2.3.1 The Ministry contributes to the high-level outcomes (paragraph 1.1.2) and intermediate level outcomes (paragraph 1.1.3) by producing three main outputs:

- **Policy Advice:** The Ministry provides the Government with policy advice concerning defence and security issues, including changes in the strategic environment, defence and security policies, and the **military** capabilities needed to achieve defence policy goals bilateral and multilateral defence relations.
 - **Management of equipment procurement.** The Ministry undertakes the acquisition of major platforms and items of military equipment for use by the NZDF in undertaking defence and security tasks.
 - **Audit and assessment of performance.** The Ministry undertakes audits and assessments of the NZDF and the acquisition function of the Ministry to examine and help improve their efficiency and effectiveness.
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3 Organisational Capability and Workforce

3.1.1 The Ministry is divided into five divisions. Three of these are 'operational' divisions, each of which focuses on producing one of the Ministry's three statutory functions: provision of policy advice, acquisition of military equipment, and completion of audits and assessments (see paragraph 2.3). The remaining two divisions provide 'support' functions including HR, IT and financial management services.

3.1.2 Given the nature of its work, a comparatively high proportion of the Ministry's staff hold tertiary educational qualifications.

3.1.3 Pending completion of the strategic review needed to determine its future direction, it would be premature for the Ministry to propose specific capability and workforce changes. The PIF report did, however, point to some specific capability requirements that need to be developed. These included:

- a major investment in succession planning and recruitment, talent development and retention and a more sophisticated approach to performance management;
- deepening the skills and thought leadership capability of the policy function;
- an enhanced strategic procurement capability, as well as better portfolio, programme and project management systems and processes;
- a back-office function that can support its more strategic corporate needs;
- modernisation of core processes;
- movement of some functional areas from a transactional to a strategic focus; and
- a strengthened and modernised evaluation function, moving to a more targeted, risk-based approach.

3.2 Organisational/Sector Capability

3.2.1.1. See paragraph 3.1.1 above.

3.2.2 Change Leadership

3.2.2.1. Following the Ministry strategic planning exercise, a Strategic Business Plan will be produced, the Ministry's operating model revised and an initial implementation plan produced. This work will be completed in June 2013. Implementation of decisions will progress to December 2013.

3.2.3 Culture

- 3.2.3.1. Perhaps the best independent view of the Ministry's culture is provided by the PIF reviewers, who indicated that they had been:

'...struck by the Ministry's happy and collegial ambience. Staff expressed enthusiasm for the diversity of the Ministry's work and a very strong sense of camaraderie. They consistently described the best part of their jobs as the people with whom they worked. Junior staff felt that senior staff were approachable and long-serving staff pointed to effective leadership and a caring culture as the main reasons for their length of tenure.'

- 3.2.3.2. The PIF reviewers found that other, slightly less positive, traits in the Ministry's culture included:

'...excessive modesty, deep conservatism and possibly a short-sighted approach to resource management.'

- 3.2.3.3. The reviewers concluded that if the Ministry is to play the more directional role in the wider national security and foreign policy discourse discussed above, it needs to be less self-effacing in its internal and external interactions. Internal debate on the Ministry's future role is required, and this should then drive a more deliberate organisational development programme in which culture and values are not left to chance but consciously managed.

- 3.2.3.4. These issues and conclusions will be addressed in the context of the strategic planning exercise that will commence shortly.

3.2.4 Workforce

- 3.2.4.1. The Ministry's 'establishment' workforce currently totals 72 FTE. This includes staff employed on fixed terms contract (currently 9). The Ministry's permanent structure is illustrated in the diagram in Annex 1. This is supplemented as required by personnel seconded from the NZDF.

- 3.2.4.2. As observed above, a high proportion of Ministry staff have tertiary educational qualifications. This is essential, given the nature of the work. The exact mix is not fixed, but a rough breakdown by division of typical qualifications is:

- *Policy and Planning:*
 - Various, including international relations, strategic studies, history, science, political science, law, economics, computer science.
- *Acquisition:*
 - Engineering, project management.

- *Evaluation:*
 - Various, including evaluation, finance, internal audit.
- *Finance:*
 - Accounting.
- *Corporate:*
 - Law, information technology, information and records management, human resource management.







3.2.4.3. Following the strategic process referred to in paragraph 1.3.1 above, the Ministry will review its operating model. This may result in some changes to its human resource capability mix. It may also identify opportunities for improving planned training and development across the External Security Sector.

3.2.5 Workforce capacity and capability impacts – intended changes

3.2.5.1. For the reasons referred to in paragraph 1.3.1 above, it is not yet possible to complete this table.

Capacity Change	Capability Change	Context	Change in Capability
<i>[Name of intended change]</i>		<i>[Describe context for change]</i>	<i>[Bullet point changes in capability required (eg, customer service skills, IT capability etc)]</i>
<i>Insert direction [arrow]</i>	<i>Insert size of shift required [circle]</i>		
<i>[Name of intended change]</i>		<i>[Describe context for change]</i>	<i>[Bullet point changes in capability required (eg, customer service skills, IT capability etc)]</i>
<i>Insert direction [arrow]</i>	<i>Insert size of shift required [circle]</i>		

Key

Capacity Change			Capability Shift		
					
Neutral	Decrease	Increase	High	Medium	Low

3.2.6 Workforce capacity and capability impacts – whole of organisation/sector

Capacity Change	Capability Change	Context	Change in Capability
<i>[Name of output/business line etc]</i>		<i>[Describe context for change]</i>	<i>[Bullet point changes in capability required (eg, customer service skills, IT capability etc)]</i>
Insert direction [arrow]	Insert size of shift required [circle]		

<i>[Name of output/business line etc]</i>		<i>[Describe context for change]</i>	<i>[Bullet point changes in capability required (eg, customer service skills, IT capability etc)]</i>
Insert direction [arrow]	Insert size of shift required [circle]		

3.2.6.1. For the reasons referred to in paragraph 1.3.1 above, it is not yet possible to complete this table.

3.2.7 Capability

3.2.7.1. For the reasons referred to in paragraph 1.3.1 above, it is not yet possible to outline our approach to achieving the key capability shifts we require.

3.2.8 Capability pressures

Capability Gap/Pressure	Reason for capability gap/pressure
<i>eg, commercial contract management</i>	<i>Skills in short supply and demand growing</i>
Financial and business case analysis	The provision of policy advice relating to the NZDF's expenditure trajectory, output delivery and capability development programme requires skilled financial and numeric analysis, including quantitative risk assessment. These skills are in high demand in the private sector and are in short supply everywhere.

Acquisition project management	The skills needed to manage large and complex acquisition projects are in high demand in the private sector and are in short supply everywhere. They are also difficult to develop. Military acquisition projects can have particular complexities.
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- 3.2.8.1. Since detailed decisions have not yet been made about future direction, there are also uncertainties about future capability requirements within the Ministry - see paragraph 1.3.1 above. The two issues identified in the table are abiding problems and are unlikely to be impacted by any adjustments to capability balances that might be necessary to reflect changes to medium-term strategic objectives.

3.2.9 Capacity

- 3.2.9.1. The Ministry's current workforce capacity is less than the establishment of 72 FTEs set out in paragraph 3.2.4.1 above. For a range of reasons, including the time needed to obtain security clearances, the Ministry has tended to carry vacancies for longer than most other departments. It is an area where improvements are needed.
- 3.2.9.2. The PIF reviewers observed that *"returning unspent funds to the Crown each year while being very thinly resourced in critical areas is not sustainable over the medium-term and will adversely affect both the morale and energy levels of staff and the quality of outputs. MOD must be willing to invest in or reallocate investment to the key areas that will help give effect to its vision, strategy and purpose."*

3.2.10 Total workforce costs

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Workforce costs – departmental	8.179	8.179	8.179	8.134	8.022
Workforce costs – non-departmental	0.8920	1.4900	1.4900	1.4900	
Total workforce costs	9.071	9.669	9.669	9.624	8.022

3.2.11 FTE numbers

	2012/13	2013/14	2014/15	2015/16	2016/17
FTE numbers – departmental	72	72	72	72	72
FTE numbers – non-departmental	7.6	12.6	12.6	12.6	12.6
Total FTE numbers	79.6	84.6	84.6	84.6	84.6

4 Summary of Total Financial Impact

4.1 For the reasons referred to in paragraph 1.3.1 above, it is not yet possible to complete this table.

Operating – Departmental

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
<i>Current operating expenditure baseline</i>	12.333	11.616	11.566	11.655	11.166
Financial Implication of Planned Changes and Cost Pressures					
Financial implication arising from changes to outputs, services or deliveries (copy from table in Section 2.1.1)					
Direct employment cost pressures (copy from table in Section 6.2.1.1)					
Operational cost pressures arising from capital (copy from table in Section 6.2.1.2)					
Other operational operating cost pressures (copy from table in Section 6.2.1.3)					
<i>Total of all changes and pressures on operating expenses</i>					
Funding for Changes and Cost Pressures Available From					
Operational efficiencies/reprioritisation (copy from tables in Section 6.2.2.1)					
Changes to third-party revenue (copy from table in Section 6.2.2.2)					
Transfers to/from other Votes (copy from table in Section 6.2.2.3)					
<i>Total funds available</i>					
Savings required but not yet identified					
Savings required as % of baselines					

New Funding Sought from the Centre					
Total new funding sought (copy from table in Section 2.1.1)					
<i>Savings required if new funding received</i>					

Operating – Non-departmental

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

New Funding Sought from the Centre					
Total new funding sought (copy from table in Section 2.3)	0.000	0.000	0.000	0.000	0.000
Savings required if new funding received	0.000	0.000	0.000	0.000	0.000

Capital

Capital expenditure

See paragraph 1.3.1

Departmental Expenditure	Increase/(Decrease)				
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Opening balance funding available	1.921	2.033	2.173	2.275	2.397
Depreciation funding	0.412	0.412	0.412	0.412	0.412
Sale of assets	0.000	0.000	0.000	0.000	0.000
Other (please specify)	0.000	0.000	0.000	0.000	0.000
Total baseline funding available (a+b+c+d)	2.333	2.445	2.585	2.687	2.809
Capital investments funded from baselines	0.300	0.272	0.310	0.290	0.290
New capital funding sought from the centre (copy from table in Section 2.1.2)	0.000	0.000	0.000	0.000	0.000
Closing baseline funding available	2.033	2.173	2.275	2.397	2.519

Non-departmental Expenditure	Increase/(Decrease)				
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Baseline funding available for the purchase or development of Crown capital assets	142.402	87.428	65.296	80.624	0.000
New capital funding sought from the centre (copy from table in Section 2.1.2)	0.000	0.000	0.000	0.000	0.000
Capital investment in organisations other than departments	0.000	0.000	0.000	0.000	0.000
Total	142.402	87.428	65.296	80.624	-

5 Key Operational Risks

Risk Number	Description	Likelihood	Consequences	Exposure	Financial Impact and timing by year (where applicable)	Treatment/Mitigation
1	The post PIF strategic planning process fails to identify and/or plan for the best strategic direction	Unlikely	Severe	Moderate	Cost unknown Risk would primarily affect 2013 and 2014	Undertake strategic planning using expert assistance and a robust process.
1a	Risk 1 under mitigation	Rare	Moderate	Low		
2	Implementation of the changes needed to implement the post-PIF strategic planning is poor.	Unlikely	Moderate	Moderate	Cost unknown Risk would primarily affect 2013 and 2014	Professional change management advice. Close oversight by the Senior Management Group.
2a	Risk 2 under mitigation	Rare	Moderate	Low		
3	Outputs are adversely affected by key vacancies remaining unfilled following resignations or retirements	Likely	Severe	High	Cost unknown Risk could affect full four-year period.	Implementation of a strategic human resource strategy that addresses this risk through cross coverage and succession planning.
3a	Risk 3 under mitigation	Unlikely	Severe	Moderate		

4	Outputs adversely affected by work pressure pursuant to the diversion of resources for BAU to undertake major reviews	Likely	Moderate	Moderate	Cost unknown. Risk would primarily affect 2013 and 2014	Obtain additional support from NZDF and apply funds currently unspent due to unfilled vacancies
4a	Risk 4 under mitigation	Possible	Moderate	Moderate		
5	Outputs adversely affected by organisational changes to implement new strategic objectives	Possible	Moderate	Moderate	Cost unknown. Risk would primarily affect 2013 and 2014	Carefully planned change strategy implemented with appropriate transitional supports
5a	Risk 5 under mitigation	Possible	Minor	Low		

6 Detailed Activity and Financial Planning

6.1 Medium-term Intentions – Intended Changes

- 6.1.1.1. Until the Ministry has completed its post-PIF strategic planning, it would be premature to propose specific activity changes or to anticipate possible changes to resource allocation. Accordingly, it is not yet possible to complete this table.

Intention name:					
Note strategic outcome(s) related to this intention:					
Type of action (Insert : New/stop/change)					
Motivation for change (circle)	Generating funds for reprioritisation				
	Seeking greater efficiency/performance from current spending				
	Responding to government priorities				
	Other.....				
Describe the intended change including timeframes of the intended implications:					
Describe and quantify the financial impacts of the intended change:					
Financial impact of intended change	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating impact – departmental					
Operating impact – non-departmental					
Capital impact – departmental					
Capital impact – non-departmental					
If this intention requires new funding from the centre, please:					
<ul style="list-style-type: none"> • explain why the activity cannot be funded from within existing baselines or balance sheets • refer to the 'New Funding' information at the bottom of this section, and • complete the following table. 					

Value of new funding sought from the centre	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating expenditure – departmental					
Operating expenditure – non-departmental					
Capital expenditure – departmental					
Capital expenditure – non-departmental					
Describe any implications for workforce capacity and capability of the intended change:					
Describe any other significant capability implications of the intended change (eg, IT):					
Describe how the success of the intended change will be known or measured, including the value of spending:					

New funding

- 6.1.1.2. The Ministry is not seeking new funding for 2013/14.
- 6.1.1.3. The Ministry is not yet in a position to assess whether the outcome of its strategic and management review points to the need for additional resources.
- 6.1.1.4. The PIF report, however, observed that the Ministry is *“thinly resourced, with very small teams of staff in each critical area”*. The report went on to note that the Ministry *“struggles to sustain major exercises, such as the DWP, except on an exceptional ‘war-footing’. It can secure excellent results but to do so requires a major redirection of resources.”*
- 6.1.1.5. The next defence assessment must begin no later than mid 2014. The Ministry may need additional funding of approximately \$1 million for that purpose in 2014/15 (as it did for the last defence assessment).

6.2 Fiscal Implications

6.2.1 Cost pressures

6.2.1.1. Direct employment costs

6.2.1.1.1. The Ministry's employment-related costs amount to approximately 70% of its total expenditure. It is subject to the same general employment related cost pressures as other departments, [10]

6.2.1.1.2. The forthcoming work on the revised operating model may provide opportunities to reduce these pressures. Until that work has been completed, it is not possible to estimate future direct employment cost pressures in aggregate.

Summary of direct employment cost pressures (summary of white boxes below)

	2012/13 (\$0.000m) %	2013/14 (\$0.000m) %	2014/15 (\$0.000m) %	2015/16 (\$0.000m) %	2016/17 (\$0.000m) %
Total departmental direct employment cost pressures					
Total non-departmental direct employment cost pressures					

Please copy and paste more white boxes as appropriate.

Cost pressure as a result of (eg, negotiated settlements):

Describe pressure in further detail:

	2012/13 (\$0.000m) %	2013/14 (\$0.000m) %	2014/15 (\$0.000m) %	2015/16 (\$0.000m) %	2016/17 (\$0.000m) %
Value of cost pressure					
Departmental					
Non-departmental					

6.2.1.2. Operational cost pressures arising from capital

6.2.1.2.1. There are no operating pressures arising from capital expenditure.

Summary of capital/property-related cost pressures (summary of white boxes below)

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Total departmental depreciation/capital charge cost pressures	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Total non-departmental depreciation/capital charge cost pressures	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000

Please copy and paste more white boxes as appropriate.

Cost pressure as a result of:					
Describe pressure in further detail:					
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Value of cost pressure					
Departmental					
Non-departmental					

6.2.1.3. Other cost pressures

6.2.1.3.1. The Ministry will re-estimate operating cost pressures following completion of the planned revision of its operating model.

Summary of other operating cost pressures (summary of white boxes below including residual box)

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Total departmental other operating cost pressures					
Total non-departmental other operating cost pressures	0.000	0.000	0.000	0.000	0.000

Please copy and paste more white boxes as appropriate.

Cost pressure as a result of:					
Describe pressure in further detail:					
Value of cost pressure	2012/13 (\$0.000m)	13/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental					
Non-departmental	0.000	0.000	0.000	0.000	0.000
Summarise residual cost pressures:					
	2012/13 (\$0.000m)	13/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental					
Non-departmental	0.000	0.000	0.000	0.000	0.000

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

6.2.2.1. Reprioritisation

6.2.2.1.1. The Ministry will undertake reprioritisation in the course of its strategic planning and the review of its operating model.

Summary of funding available from reprioritisation (summary of white boxes below)

	2012/13 (\$0.000m)	13/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Total departmental reprioritised funding	0.000	0.000	0.000	0.000	0.000
Total non-departmental other operating cost pressures	0.000	0.000	0.000	0.000	0.000

Please copy and paste more white boxes as appropriate.

Reprioritised funding available as a result of:					
Describe reprioritisation in further detail:					
Value of available reprioritised funding	2012/13 (\$0.000m)	13/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental	0.000	0.000	0.000	0.000	0.000
Non-departmental	0.000	0.000	0.000	0.000	0.000

6.2.2.2. Third-party revenue

Summary of third-party revenue changes (summary of white boxes below)

	2012/13 (\$0.000m)	13/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Total departmental third-party revenue changes	0.000	0.000	0.000	0.000	0.000
Total non-departmental third-party revenue changes	0.000	0.000	0.000	0.000	0.000

Please copy and paste more white boxes as appropriate.

Appropriation name and type affected:					
Describe third-party revenue changes in further detail:					
Value of change in third-party revenue increase/(decrease)	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental	0.000	0.000	0.000	0.000	0.000
Non-departmental	0.000	0.000	0.000	0.000	0.000

6.2.2.3. Transfers from/to other votes

	\$m Increase/(Decrease)				
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Total transfers	0.000	0.000	0.000	0.000	0.000

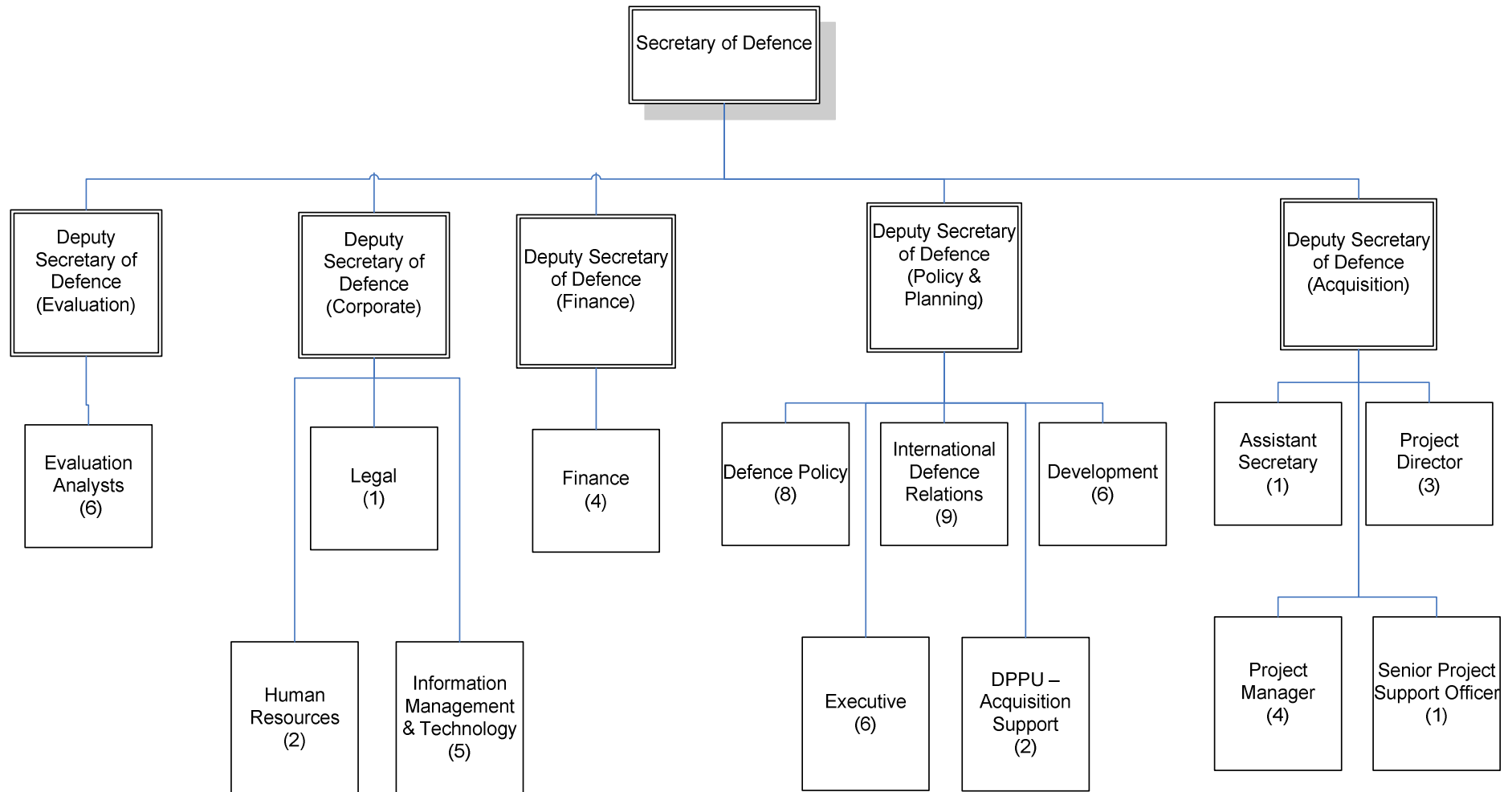
Please copy and paste more white boxes as appropriate.

	2012/13 (\$0.000m)	13/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
From/to:	0.000	0.000	0.000	0.000	0.000
Vote, appropriation name and type affected:					

7 Savings Ideas

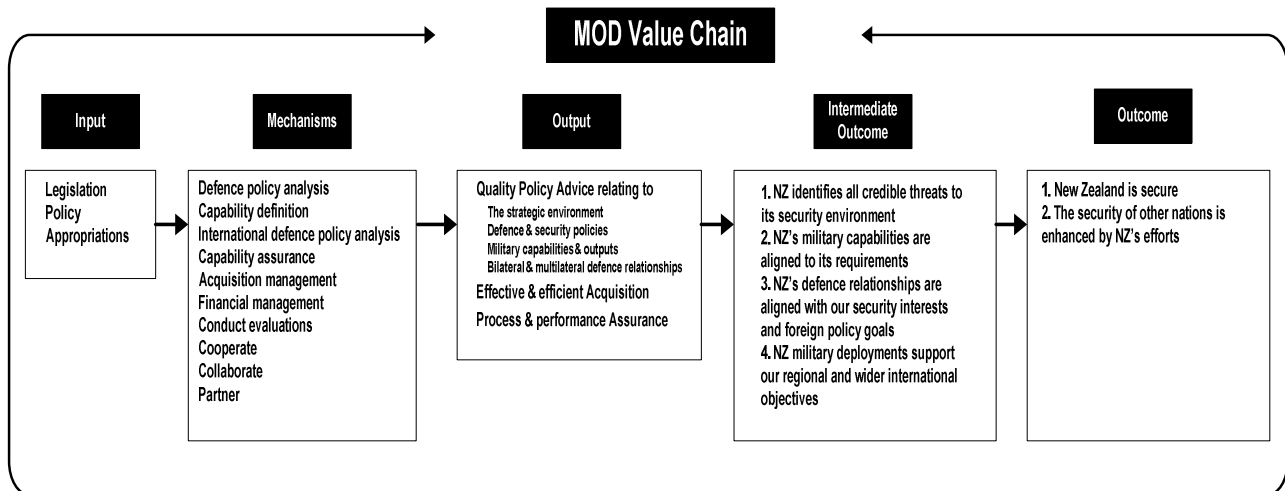
- 7.1 Given a fixed baseline to 2016/17, the Ministry will need to realise efficiencies of approximately 10% over that period. Given its cost structure, it is unlikely that this can be accomplished simply from increased operating efficiencies.
- 7.2 If Ministers were minded to seek further savings from Vote Defence, it would be necessary either to reduce or discontinue one or more outputs. For ease of reference, the three outputs are:
- Policy Advice
 - Management of Equipment Procurement
 - Audits and Assessments.
- 7.3 If expenditure on Policy Advice were to be reduced, there would be risks to the provision of advice on strategic policy, business case analysis for major items of military equipment, the conduct of international defence relations and the operations of the Capability Management Board.
- 7.4 If expenditure on the Management of Equipment Procurement were to be reduced, there would be increased risk to the process of acquiring expensive platforms and items of equipment.
- 7.5 If expenditure on Audits and Assessments were to be reduced, risks to NZDF operations and performance could go undetected and uncorrected.
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Ministry of Defence Organisation Chart



Ministry of Defence Operating Model

1.1 The Ministry's value chain is illustrated in the diagram below.



- 1.2 The Ministry's business model, which is illustrated in the diagram overleaf, represents the organisational arrangements, delivery of core business, and engagement with external stakeholders (within the NZ public sector and internationally) based on responsibilities and legal obligations, a set of policies, direction and appropriations, all set within a dynamic and adaptive environment.
- 1.3 The core legislative basis is provided by the Defence Act 1990. Other legislation including the State Sector Act 1988 and the Public Finance Act 1989 are also relevant. As with other departments, Government policy sets the conditions for Ministry business and capital and operating budget plans. The Crown provides the operating revenue and capital injections, the use of which is governed by Parliamentary appropriations.
- 1.4 The Ministry's most important partnership is with NZDF, but it also engages with a range of public sector partners, particularly the central agencies and security and external sector agencies, and actively participates in the ODESC forum. The Ministry also engages in the international arena, notably with Australia, 'Five-eyes' partners, the FPDA, and Pacific nations.

