

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

[www.treasury.govt.nz/publications/informationreleases/budget/2014](http://www.treasury.govt.nz/publications/informationreleases/budget/2014)

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [3] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(ba)(i) - to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.
- [6] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [7] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [9] 9(2)(h) - to maintain legal professional privilege
- [10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [13] Not in scope
- [14] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



New Zealand  
**DEFENCE  
FORCE**  
Te Ope Kātua O Aotearoa



THE 2014/15-2017/18

# FOUR YEAR PLAN



New Zealand Government

---

## Version

Version	Date	Description
1.0	17 January 2014	Approved by CDF

## References

Document Name	Date/ Version
<i>Defence White Paper 2010</i>	November 2010
<i>Future35 - Our Strategy to 2035</i>	November 2012
<i>Defence Capability Plan</i>	November 2012
Defence Mid-point Rebalancing Review (DMRR)	November 2013

## In Consultation

Group Name	Date of Review	Checked by
Finance Branch, Capability Branch, Defence Personnel Executive	November / December 2013	COS, COO, CFO,
Central Agencies	November / December 2013	Treasury and SSC Analysts

**File: NZDF S35ZT**

---

# TABLE OF CONTENTS

Table of Contents .....	3
Overview .....	5
1.0 STRATEGIC DIRECTION .....	7
National Security and Defence Policy .....	7
Addressing Affordability .....	8
Defence Mid-Point Rebalancing Review .....	8
Key Decision Points and Resource Trade-Offs .....	9
Organisational Improvements .....	11
Maintaining Momentum in Key Relationships .....	11
NZDF Strategy and Operating Model .....	11
A Joint and Integrated Operating Model .....	13
Veterans' Affairs New Zealand .....	13
2.0 STRATEGIC DELIVERY .....	16
NZDF Output Model .....	16
DMRR Implementation .....	17
Investment Readiness .....	17
Continually Improving Defence Affordability .....	23
Veterans' Affairs New Zealand .....	24
New Activity / Significant Changes .....	25
3.0 RISKS TO IMPLEMENTATION .....	27
Overview .....	27
Significant Risks to the Delivery of the Plan .....	27
Sustainability of the 4YP Beyond 2017/18 .....	29
Resilience in Overcoming Risks to Strategic Direction .....	29
4.0 ORGANISATIONAL CAPABILITY AND WORKFORCE DELIVERY .....	30
NZDF Workforce Context .....	30

---

External Environment .....	30
NZDF Workforce Direction.....	31
Workforce Capability and Capacity .....	33
NZDF Culture .....	34
<b>5.0 FINANCIAL SUMMARY .....</b>	<b>37</b>
The Defence Mid-Point Rebalancing Review Costing Process .....	37
Cost pressures .....	44
Workforce recovery .....	46
Budget 2014 Significant Initiatives .....	49
Budget 2014 Technical Initiatives.....	50
Other changes to be sought in the March Baseline Update .....	51
Financial Tables in 4YP .....	52
ANNEX A: Workforce Capability, Capacity and Costs .....	53
ANNEX B: Supporting Financial Information.....	59
ANNEX C: 2014 Budget Initiatives.....	64
ANNEX D: Expected Outyear Funding Requests .....	72
ANNEX E: Capital Strategy and Future Intentions .....	73
ANNEX F: ICT Strategy.....	80
ANNEX G: Risks .....	91
ANNEX H: Government Priorities .....	96

---

# OVERVIEW

The Government's *Defence White Paper 2010* (hereafter White Paper) set the future direction of the New Zealand Defence Force (NZDF) looking out over a 25 year horizon.

The strategic outlook suggested that while the principal tasks of the NZDF would likely remain similar in nature there would potentially be greater calls upon the NZDF in response to a changing and more unpredictable security environment.

This long-term view therefore set out the pathway through to 2035 to retain and enhance the NZDF's capabilities so that it could perform the tasks expected of it by Government. Central to this was the NZDF maintaining its disciplined forces available at short notice, capable of providing task forces of integrated ships, vehicles and aircraft to provide Government with options to respond to likely contingencies.

The White Paper also prioritised improvement to the affordability of the NZDF's capabilities. The NZDF subsequently undertook reform to its 'direct' and 'indirect' support functions – one of the most ambitious reform programmes in the public sector - freeing up resources to be reinvested in new and improved military capability. As at 30 September 2013 the Programme had achieved \$205 million in annual reoccurring savings.

Nonetheless, the White Paper noted that such redistribution from within the existing budget would not remove the need for the Government to contribute new money over time. The recent Defence Mid-point Rebalancing Review (DMRR), undertaken in conjunction with the Ministry of Defence and central agencies, identified the level of funding required to deliver the White Paper priorities.

Through this DMRR process, the Cabinet confirmed the breadth of capability to be retained within the NZDF and its funding parameters. The Government endorsed the NZDF retaining and replacing at the end of life its current combat and resource and border protection capabilities. It also agreed that the NZDF should be sufficiently resourced to lead an operation in our region similar in size to New Zealand's contribution to Timor Leste, without being reliant upon other nations, as well as make concurrent contributions to international security.

[7]

This Four Year Plan (4YP) is therefore important because it outlines how the first elements of capability, training and development outlined by the DMRR process – and the basis from which the future development will flow – have been prioritised and budgeted for.

The NZDF's *Future35* strategy had already identified five priority themes consistent with generating the future force. It will now be updated to reflect DMRR outcomes. The themes are:

- Focusing operational capabilities to create a Joint Amphibious Task Force;
- Developing our people, their health and well being;
- Sustaining and preparing for operations;
- Reinvesting in Defence; and

- 
- Integrating and enabling support to operations.

This 4YP outlines the NZDF's strategic direction and delivery through to the end of the financial year 2017/18. It sets the priorities that will be pursued to ensure the NZDF continues to be able to secure New Zealand against external threats, protects our sovereign interests, and is able to take action to meet all likely contingencies in our strategic area of interest.

The NZDF has the processes in place to ensure that the organisation is "investment ready" to implement the White Paper intentions which the Cabinet reconfirmed and allocated indicative funding to through the DMRR.

---

# 1.0 STRATEGIC DIRECTION

## NATIONAL SECURITY AND DEFENCE POLICY

New Zealand's defence policy is set out in the *Defence White Paper 2010*.

Acting in a leading or supporting role, Defence makes a particular contribution to the following 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 following section outlines the NZDF's strategic direction, ministerial priorities, and operating environment which provides direction and context for the 4YP. As of July 2013, the NZDF includes Veterans' Affairs New Zealand as discussed below.

### NZDF Principal Tasks

The core task of the NZDF is to conduct military operations.

Government also expects the NZDF to advance national security interests and achieve Defence outcomes through the following principal tasks:

- 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.

### Minister of Defence Priorities

The Minister of Defence's key priorities for 2014 are:

- addressing affordability issues;

- 
- organisational improvements; and
  - maintaining momentum in key relationships.

These priorities are reflected in the NZDF's strategic delivery plan as detailed in Section 2.

## **ADDRESSING AFFORDABILITY**

The White Paper noted that in order to improve the affordability of Defence capability in the future, the NZDF would need to free up \$350 - \$400 million on an annual recurring basis by 2014/15, to be redistributed to front line capabilities (the Savings Redistribution Programme). As at 30 September 2013 the programme has achieved \$205 million in savings. These savings have been redistributed to front line capabilities to cover inflationary pressures, increased operating costs arising from previous acquisitions, depreciation expenses due to asset revaluation and initiatives to achieve White Paper objectives while the NZDF has operated within a fixed baseline [CAB (13) 17/2 refers].

The White Paper set out the pathway to maintain and enhance existing NZDF capabilities so it can perform the tasks expected of it to 2035. The force structure and equipment the NZDF needed to conduct its principal tasks are detailed in the 2011 *Defence Capability Plan*.

Redistribution from within the existing budget was anticipated to make the White Paper capability proposals more affordable. However, the White Paper stated that redistribution would not remove the need for the Government to contribute new money over time.

## **DEFENCE MID-POINT REBALANCING REVIEW**

The NZDF, in conjunction with the Ministry of Defence and central agencies has recently concluded a Defence Mid-Point Rebalancing Review (DMRR) to identify the level of funding required to deliver White Paper priorities. The terms of reference directed that policy settings outlined in the White Paper and the principal tasks expected of the NZDF be held extant.

[7]

Through the DMRR process Defence, in partnership with central agencies, has valued, costed and ranked every aspect of the NZDF's business. The Review considered approximately 220 military and enabling capability options, including alternative means of delivering the current level of military capability, and involved 40,000 hours of staff effort.

The DMRR determined from first principles the set of coherent capabilities required by the NZDF to deliver against White Paper policy settings. Using a multi-criteria decision analysis evaluation conference, capabilities were ranked in terms of their overall benefit to the Government on the basis of the particular relative contribution they made against a set of criteria drawn from the White Paper.

---

These criteria were:

- a safe and secure New Zealand;
- international order;
- significant relationships;
- regional security; and
- the future proofing of the NZDF.

The results of the evaluation conference, together with the costing data, provided an order of preference of defence capabilities based on highest value for money through to the lowest. These rankings were used to inform the development of six different coherent capability sets. This process included scaling support functions to match military capabilities.

Each capability set was designed to optimise policy delivery within particular funding track parameters set by Ministers. These tracks specified the levels of operating and capital funding over time. [7]

### **NZDF Operating Cost Pressures**

The DMRR analysis demonstrated that the most significant NZDF output expense cost pressures over the next 15 years by order of impact are forecast to be:

- operating costs associated with the employment of new and upgraded capabilities;
- inflationary pressures – primarily in personnel costs but also in other operating expenses;
- growth in the size of the NZDF's workforce over the 2013/14 baseline;
- remediating and maintaining the Defence Estate following many years of under investment and as a result of a range of constraints in relation to consolidation; and
- operating costs associated with changes in activity levels.

Detail of the magnitude of these costs and supporting information is provided in Section 5 - Financial Summary.

## **KEY DECISION POINTS AND RESOURCE TRADE-OFFS**

Major decisions on Defence policy are set within the context of the 5-year cycle of Defence Assessments and where required an associated Defence White Paper. The DMRR marks a major mid-point milestone within the current 5-year cycle. In considering the DMRR, Ministers considered options and trade-offs between defence policy, capability levels and funding for the NZDF.

The key trade-off presented to Ministers was the breadth of capability to be retained within the NZDF and its funding parameters. This included the reduction in the risk presently carried in NZDF budgets to provide certainty to successive governments that there will be sufficient flexibility to respond to, and manage, future security challenges. This places the NZDF on a more sustainable footing.

---

The Government has agreed to the recommendations made in the DMRR and its associated indicative funding increases [Cab Min (13) 38/5 refers]. Key outcomes of the DMRR, premised around the provision of the indicative levels of funding agreed by Cabinet, included that:

- the NZDF would retain (and be able to replace at end of life) its current combat and resource and border protection capabilities, and that the NZDF would be able to lead an operation in the region (similar in size to New Zealand’s contribution to Timor-Leste) and/or operate without needing to rely on others, as well as make concurrent contributions to international security;
- the NZDF is able to maintain the current level of directed output, but with greater availability, reliability and reduced risk compared to alternative capability mixes;
- [7]

•

•

[7]

[1]

[7]

---

<sup>1</sup> This varies by function but translates to a range from 75-100%.

## **ORGANISATIONAL IMPROVEMENTS**

The White Paper directed a number of organisational improvements. Current priorities in this area include implementation of the Health and Safety Framework, employment equity, leadership, and continuous improvement. The self assessment and Performance Improvement Framework (PIF) to be undertaken this year will provide insight as to where future attention is most needed.

## **MAINTAINING MOMENTUM IN KEY RELATIONSHIPS**

New Zealand's security is enhanced by maintaining a variety of international networks and bilateral relationships. The NZDF supports the maintenance of these relationships through formal defence relations, including military-military dialogues, exercises, and participation in international peace operations.

A priority for the coming year is co-chairing with Brunei, the ASEAN Defence Ministers Meeting Plus Expert Working Group of Maritime Security and our engagement with the International Security Assistance Force (ISAF) partners on the conclusion of the mission to Afghanistan.

## **NZDF STRATEGY AND OPERATING MODEL**

The NZDF delivers on Defence Policy and Ministerial priorities through its organisational strategy and operating model.

### **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**

The NZDF's Vision is Joint Operational Excellence. This means the NZDF is integrated in the way it works, trains and operates at home and abroad. The NZDF needs to focus on working better together and being excellent in all it does so that it is better able to win on operations. Joint Operational Excellence will be achieved through cascading timelines of five, 10 and 25 years and the strategic endstates articulated below.

---

## NZDF Values

The NZDF will achieve its vision through the shared values: courage, commitment, comradeship, and integrity.

## NZDF Strategy – *Future35*

Aligned to, and informed by the White Paper, the NZDF's strategy, *Future35*, sets out the strategic framework and roadmap to 2035 for the modernisation of the NZDF, building on the Government's defence policy goals set out in the White Paper. This strategy was reinforced by the DMRR outcome. The NZDF will now refresh the strategy to reflect DMRR.

## Strategic End-states

*Future35* articulates three time-bound strategic end-states out to 2035:

- Delivery of a Joint Amphibious Task Force by 2015.
- Enhanced combat capability by 2020.
- An integrated Defence Force by 2035.

## Strategic Themes

*Future35* sets out five strategic priority themes to generate the strategic end-states and address identified strategic challenges.

[7]

- Developing our people, their health and wellbeing and creating a 'Total Defence Workforce' – to recruit and retain the right personnel, reinforce and build professional mastery and the military ethos of our people and improve the sustainability of force elements through a more flexible workforce approach.
- Sustaining and preparing for operations – to sustain operations, recover and regenerate from the three larger recent land deployments (Afghanistan, Solomon Islands, and Timor-Leste) and be prepared for the next likely contingency and provide military force options to meet New Zealand Government expectations.
- Reinvesting in Defence – the recent DMRR provides greater levels of certainty in ensuring the NZDF has the right mix of capability and resourcing to meet the Government's policy expectations. This reinvestment through replacement, upgrade of existing and introduction of new military and enabling capabilities (such as the significant reinvestment in the NZDF estate), also requires the continual application of efficiency and economy gains which have been built into DMRR forecasts from the outset.

- 
- Integrating and enabling support to operations – 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.

[7]

## **A JOINT AND INTEGRATED OPERATING MODEL**

The NZDF operating model has been deliberately changed in recent years to better support the NZDF strategic direction and delivery of outputs. These changes have occurred to meet the demands of the changing operating environment and challenges described above.

As a result, there is far greater integration of supporting and enabling (back and middle office) functions that were previously delivered separately by each Service. These include the core functions of personnel, logistics and business support, capability management, Communication Information Systems (CIS), estate and infrastructure, and common training.

The primary benefit of the changes to the operating model has been greater efficiency and standardisation achieved through integration and consolidation of people, process and technology. This has enabled the redistribution of personnel resources to higher priority functions.

Further changes to the NZDF operating model are being pursued to capture opportunities from integrating other operational enablers including the functions of intelligence, health, service police, operational communications and information systems, and logistics. Corporate functions, such as finance, have also been reviewed to ensure they are best structured to support NZDF.

Assisting the NZDF to achieve these outcomes are significant investments in Information and Communication Technology (ICT) in particular in the delivery of a new Human Resources Management Information System (HRMIS), which goes live progressively from April 2014. This system will improve business performance through the introduction of standardised HR processes. It will also ensure timely recapitalisation of the NZDF's personnel management ICT increasing reliability. Reduction in annual costs of managing and administering personnel as a result of its deployment have been anticipated and built into the DMRR forecasts.

These changes have been key drivers to support the strategy of focusing operational capabilities to create a Joint Amphibious Task Force by 2015 and integrating and enabling support to operations.

## **VETERANS' AFFAIRS NEW ZEALAND**

Veterans' Affairs New Zealand (VANZ) recently became an operational unit within the NZDF and integration of the former Vote Veterans' Affairs – Defence Force appropriations into Vote Defence Force was completed effective from 1 July 2013. The Minister of Veterans' Affairs remains the Minister responsible for these appropriations within Vote Defence Force.

---

VANZ is responsible for providing policy advice on, and administration of, a wide range of issues relating to veterans' entitlements, care and recognition, coordinating commemorative activities, managing government's relationship with veterans and their representative organisations, and providing ex-service memorials and maintenance of service cemeteries throughout New Zealand.

### **VANZ Mission**

VANZ exists to meet government's obligation to veterans through the provision of policy advice to the Government and service delivery to the veteran community.

### **VANZ Vision**

To provide a professional service that recognises the diversity of the veteran community.

### **Minister of Veterans' Affairs Priorities**

The Minister of Veterans' Affairs has identified three key priorities:

- Modernise the *War Pensions Act 1954*;
- Successfully manage significant commemorations; and
- Support and build relationships between Veterans and their respective organisations and the Government.

### **Modernisation of the War Pensions Act 1954**

The Law Commission's final report on the review of the *War Pensions Act 1954* contained 170 recommendations. Government accepted 132 of the Law Commission's recommendations, adopting them in full or in part, and has committed a \$60 million package over the next five years to implement the new legislation, which will incorporate the accepted recommendations.

The main changes include:

- new and updated legislation replacing the *War Pensions Act 1954*;
- the introduction of two coverage schemes, with the creation of ACC on 1 April 1974 being the point of division between the two schemes;
- increasing the War Disablement Pension and Surviving Spouse Pension rates by 5 per cent, beginning on 1 April 2013 (on top of inflation);
- increasing eligibility for support services such as home help and lawn mowing. This will benefit an estimated 3,000 additional veterans and 1,100 surviving spouses or partners; and
- a veterans' advisory board and specialist medical advisory board will be established to provide the Minister with independent advice.

---

The Veterans' Support Bill was introduced to Parliament on 14 October 2013 and was referred to the Social Services Committee to consider. The Social Services Committee is to report back to the House on or before 27 March 2014.

Concurrent work is also being undertaken on a replacement IT system to be implemented on 1 July 2015. The IT system is a high priority.

### **Successfully Manage Significant Commemorations**

Planning is underway for the 70<sup>th</sup> anniversary commemorations in Monte Cassino, Italy and in France for D-Day in May and June 2014. Officials are still considering the approach to appropriate commemorations for VE and VJ Day in 2015. Advice for Ministers will be developed during 2014.

The period 2014 to 2018 marks the centenary of the First World War. The Ministry for Culture and Heritage (MCH) has oversight of the Interdepartmental Steering Committee established to co-ordinate New Zealand based projects and events. The NZDF is part of this steering committee. Funding arrangements for the wider First World War centenary domestic and overseas commemorations programme will be the subject of a report back to Cabinet by MCH, the Ministry of Foreign Affairs and Trade (MFAT) and the NZDF for inclusion in Budget 2014.

The centenary of the Gallipoli Landings, at Gallipoli, will be part of the broader commemoration of the First World War centenary. [7]

### **Support and Build Relationships between Veterans and their Respective Organisations and the Government**

The Minister has actively engaged with veterans and veterans' organisations on a regular basis throughout 2013 in order to build on and maintain the good relationship established by this Government. It is his intent to continue to do so in the coming years.

In particular, the Veterans' Support Bill recently introduced will result in significant changes to the assistance provided to veterans in the future. It is important therefore that the perspectives of veterans are considered as part of the Select Committee process on the Bill early in 2014.

---

# 2.0 STRATEGIC DELIVERY

## NZDF OUTPUT MODEL

The NZDF ensures that a range of capabilities are available to Government by delivering directed outputs in line with Defence policy. This provides the Government with a suite of options for the use of the NZDF in response to contingencies.

In broad terms, the NZDF's capabilities include:

- **Domestically**
  - Maintaining enduring situational awareness of the maritime approaches to New Zealand and contributing to the national wide-area surveillance capabilities for resource and border protection operations;
  - Supporting civil authorities to protect and secure offshore maritime zones, including operations in relation to fisheries protection, illegal immigration, terrorism, smuggling, quarantine evasion, protection of offshore territories, security of offshore installations, protection of resource exploration activities and other border security tasks;
  - Supporting search and rescue operations across the mainland and breadth and depth of the New Zealand Maritime Search and Rescue Region;
  - Supporting emergency response efforts by civil authorities in the event of a major disaster when the scale of the disaster exceeds the capacity of other agencies;
  - Maintaining high-readiness forces to support domestic counter-terrorist operations and deal with other asymmetric security events,
  - Maintaining high-readiness capabilities to deal with explosive ordnance disposal, improvised explosive devices and biological, chemical and radiological incidents; and
  - Supporting New Zealand's veterans through a range of government funded services.
- **Regionally**
  - Providing humanitarian assistance and disaster relief assistance to regional nations when necessary;
  - Being responsive to short-notice, limited warning tasks such as the evacuation of nationals by air and by sea from high-risk environments offshore;
  - Having the capacity to assist regional nations manage their marine resources and deter illegal and unauthorised activities within their EEZs; and
  - Remaining prepared to project and sustain New Zealand forces operating in the near region by air and sea, at short notice.
- **Globally**
  - Being ready to deploy and sustain New Zealand military forces in different areas of operations within an agreed response time; and

- 
- Contributing military capabilities to international operations in support of New Zealand's wider strategic interests for an extended period.

The Defence output model is currently undergoing a review which is discussed below as part of the post DMRR work plan.

## **DMRR IMPLEMENTATION**

This 4YP is largely driven by the decisions made through the DMRR process. The DMRR affirmed the suite of capabilities directed by the White Paper. The DMRR also produced a series of work streams which will enable the NZDF to deliver on its agreed funding stream and achieve on-going organisational efficiencies [Cab Min (13) 38/5 refers]. The workstreams to be conducted in the near term are discussed further below and include:

1. Developing Revised Capability and Capital Plans.
2. Review of NZDF Output structures.
3. Procurement Assurance Review.
4. Review of NZDF Personnel Establishment and Demand.
5. Finalising the approach to the Defence Estate.
6. Determining the approach to the next Defence White Paper.

## **INVESTMENT READINESS**

Cabinet made final decisions in relation to DMRR outcomes on 4 November 2013. [7]

Defence is now undertaking the necessary detailed implementation planning, with the assistance of central agencies and the NZDF's industry partners (primarily through the workstreams detailed below), to ensure that it is investment ready for Budget 14.

### **Workstreams**

#### **1. Developing Revised Defence Capability and Capital Plans**

[7]

Cabinet were presented a revised Defence Capital Plan aligned to the DMRR funding trajectory in December 2013 which is focussed on capability renewal and enhancement to

---

achieve White Paper intentions [SEC Min (13) 18/4 refers]. Defence will develop this into a Defence Capability Plan addressing all of the PRICIE<sup>2</sup> elements of capability by mid 2014. [7]

Ministerial decisions will be required as the major capital projects progress through Cabinet in accordance with the Better Business Case framework.

*One-year horizon: Business cases*

In the next year, Defence will bring forward the following business cases:

[7]

---

<sup>2</sup> Military capability goes beyond just equipment and includes all necessary components that, together, enable a military capability to achieve operational effect. The components that make up military capability are preparedness and the components described by the acronym PRICIE:

- Personnel, all personnel elements including personnel sustainment and individual training;
- Research and development;
- Infrastructure/organisation and structure;
- Concept of operations/doctrine/collective training;
- Information technology; and
- Equipment and logistics.

[7]

<sup>4</sup> Benefits are likely to take approximately five years to be fully realised.

---

[7]

*10 year plus horizon: capital investment*

[7]

---

[7]

## 2. Review of NZDF Outputs

The NZDF is undertaking a review of the current output model, which will be reported to Ministers in early 2014. The current model measures NZDF outputs by activity drivers or inputs. The output review seeks to move to an outcome-based model and strategy-focused framework that delivers military capability within the parameters set by Cabinet's DMRR decisions.

The Output Review takes into account the complexities and uncertainties inherent in the business of Defence and the delivery of Defence policy.

Contributions to the achievement of high level government outcomes are multi-dimensional, often involve a number of agencies across government and rarely come about as a result of actions by a single department. While the core task of the NZDF is to conduct military operations, many everyday NZDF activities are directed towards the achievement of government's collective objectives or outcomes.

The NZDF is part of the External Sector, which is administered by four departments – MFAT, the New Zealand Customs Service, the Ministry of Defence, and the NZDF. These departments are collectively responsible for managing a significant portion of New Zealand's official relationships with the rest of the world and protecting its security beyond the border.

The NZDF also provides general support to a wide range of multi-agency operations, as well as tasks in support of foreign and defence policy objectives. Government departments and agencies regularly supported include Antarctica New Zealand, Department of Conservation, the New Zealand Police, Ministry for Primary Industries, Ministry of Social Development, and the National Maritime Coordination Centre.

In addition, through VANZ, the NZDF provides a wide range of government funded services to veterans.

Based on work conducted to date, the NZDF Output Review proposes a new model based on three overarching Defence outcomes. The NZDF generates seven outputs which contribute to these outcomes.

### *Proposed Outcomes:*

- New Zealand's National Interests are Secured;
- International Order is Supported; and
- Veterans' Service is Respected and Honoured

---

*Proposed Outputs:*

- Prepared: Three outputs comprising Navy, Army and Air Force capabilities prepared for joint operations
- Protect: Protection of New Zealand and New Zealanders
- Project: Operations contributing to New Zealand's security, stability and interests
- Inform: Advice to Government
- Veterans' Affairs: Respecting veterans and honouring service

[7]

#### **4. Review of NZDF Personnel Establishment and Demand**

The DMRR determined the personnel numbers needed to deliver the capability suite selected by Ministers during the Review. [7]

[7]

A key personnel deliverable this coming year is the NZDF Establishment Review directed by Ministers to be completed by mid-June 2014. [7]

---

## 5. Finalising the Approach to the Defence Estate

[7]

## 6. Determining the Approach to the next Defence White Paper

In the *Defence White Paper 2010* Government committed to undertake a Defence Assessment on a five-yearly cycle. The first phase will be a joint Ministry of Defence and NZDF submission on the scope, scale and timelines for the proposed Defence Assessment in early 2014. It is anticipated that this work will overlap with and be informed by the *National Security and Resilience Plan* being developed by the Department of the Prime Minister and Cabinet. The Defence Assessment will include a strategic assessment and will discuss change since the last assessment in 2010. The conclusions of the Defence Assessment will inform the subsequent approach to be taken and whether Green and/or White Papers are appropriate.

---

## CONTINUALLY IMPROVING DEFENCE AFFORDABILITY

In order to ensure the force structure outlined in DMRR can continue to be delivered within the funding trajectory agreed by Cabinet and to maintain a culture of continuous improvement, on-going initiatives to redistribute money to front line capabilities will be required.

### Planned Efficiencies Built into DMRR

The DMRR incorporated a number of deliberate downward pressures on costs including future efficiency initiatives identified, but not realised, into forecasts to help make the NZDF more affordable over time. These include:

- \$205m of annually recurring savings from the NZDF Savings Redistribution Programme achieved by the end of September 2013.

[7]

### Further Integrating Support to Operations

As described in Section 1 a key theme of the *Future35* strategy is to integrate operational enablers where beneficial. Intelligence, Health, Service Police, Logistics, Communications and Information Systems, and commissioned officer joint professional military education - are currently being investigated. These will progress to implementation if there are clear benefits to NZDF outcomes while maintaining single Service mastery of the respective military maritime, land and air environments.

Training is also moving to an increasingly joint model with the commencement of the first Joint Officer Induction Course scheduled for January-February 2014. Collectively, the initiatives above are designed to reduce and create a more integrated NZDF.

---

## Continuous Improvement and Innovation through Defence Excellence

The NZDF has embarked on a long term programme of continuous improvement through Defence Excellence. The Defence Excellence programme leverages the internationally recognised Baldrige criteria for performance excellence and utilises Lean Six Sigma and other continuous improvement tools. Defence Excellence 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 Defence Excellence is to make significant contributions to the growth of continuous improvement culture within the NZDF by:

- embedding a culture of continuous improvement; and
- utilising process improvement to ensure that processes which don't add value are dispensed with.

## Performance Improvement

The NZDF will undertake a PIF review in 2014 to support further organisational capability improvements. In preparation for the PIF review, the NZDF will undertake a self-review in early-2014 with support from the New Zealand Business Excellence Foundation. The Four-year Excellence Horizon developed from the PIF review will help the NZDF understand the future challenges, remain ahead of emerging opportunities and respond quickly to unexpected issues.

In addition to the insight that will come from the PIF, the NZDF will continue to undertake the following to help improve the affordability of the NZDF over time:

- Continuing to build further savings from those pre-existing savings initiatives that have further potential.
- Ensuring that the Benchmarking Administrative and Support Services (BASS) benchmarks are referenced before allocating NZDF resources internally.
- On-going rationalisation of overhead costs.

## VETERANS' AFFAIRS NEW ZEALAND

### Context

The VANZ portfolio covers the provision of a wide range of government funded services to veterans. VANZ currently administers a departmental multi-class output appropriation (replaced by a multi-category appropriation from 1 July 2014) for policy advice, administration and payment and advice services to veterans; two non-departmental outputs covering development and maintenance of services cemeteries and support for veterans and their families and a number of benefits and other unrequited expenses and non-departmental other appropriations. The VANZ outputs are not expected to change as a result of the NZDF Output Review but will be included within the revised structure.

VANZ is an operational unit of the NZDF whose staff are civil staff members of the NZDF. VANZ therefore does not have separate organisational capability and workforce delivery requirements to that of the overarching NZDF commentary in Section 4 of this Plan. In a like manner, risks to the delivery of VANZ outputs around retention of key staff and delays in the

---

delivery of an IT solution for example, are ultimately wider NZDF risks. The new VANZ IT solution is being managed by an NZDF- led project team and is a high priority. NZDF risk commentary is set out at Section 3 and defined in detail at Annex G.

VANZ operating expenditure and costs pressures are included within the wider NZDF commentary on operating expenditure – Departmental in Section 5; a Non-Departmental Financial Table is also included. VANZ Budget initiatives are set out at Annex C.

### **Outcome Framework**

The Government's stated intent underpinning policy related to veterans is 'Respecting Veterans, Honouring Service'. This is substantiated by the broader principles of:

- Respecting veterans;
- Strengthening Communities; and
- Dignity for older New Zealanders

In order to ensure the Government's expectations for the delivery of services to veterans are met and to support the achievement of the key government priorities, VANZ has identified the following outcomes:

- Veterans are acknowledged and recognised for their service and sacrifice and the community is aware of the role veterans have played and continue to play in developing New Zealand as a nation;
- Working in partnership with the NZDF, the impacts of service on eligible veterans and their dependants is monitored and they have information about, and access to, services and support that promote wellbeing; and
- The veterans' perspective is considered as part of government decision-making on issues that impact on their lives.

## **NEW ACTIVITY / SIGNIFICANT CHANGES**

### **Veterans' Support Bill**

The background to the Veterans' Support Bill and its status was covered in Section 1. It is intended to be enacted by 30 June 2014 with Scheme One introduced on 1 July 2014 and Scheme Two on 1 July 2015. This will see significant organisational change required within VANZ as new business processes, a new decision-making structure and changed operational policies are embedded.

### **Replacement of the VANZ IT System**

The delivery of the new VANZ IT system has been delayed from that previously signalled to 2015/16. The project has been rescoped to incorporate the work required to implement the Veterans' Support Bill currently before the House.

---

The new Veterans' Support Services project comprises three inter-related streams:

- Stream One - Legislation (i.e. development and enactment of the Veterans' Support Bill and associated Regulations);
- Stream Two - Any necessary changes required to the current legacy VANZ IT system to ensure it is fully capable of delivering on the changed VANZ requirements, together with any business process changes, for Scheme One under the Act to be implemented on 1 July 2014; and
- Stream Three - the replacement IT system which incorporates all business requirements is to be implemented on 1 July 2015 concurrently with Scheme Two under the Act.

---

# 3.0 RISKS TO IMPLEMENTATION

## OVERVIEW

The NZDF manages a number of strategic, operational, organisational and fiscal risks. These arise from:

- The NZDF's operating environment
- The significant programme of change and organisational development outlined in this 4YP, the Defence Capability Plan and the White Paper
- Changes in the external environment, both domestically and globally
- A workforce of more than 11,000 personnel, many with skills in demand from outside the organisation
- The large asset base of specialist military equipment and the Defence Estate

The Defence Force Leadership Board reviews performance and risks monthly and strategic risks at least quarterly. The NZDF is compliant with ISO AS\NZS 31000 2009. There are on-going improvements being made to the way that performance and risks are reported and managed. These will be further informed by the insights gained through the NZDF's self assessment and PIF in 2014.

The NZDF also receives advice from the Ministry of Defence Evaluation Division on the effectiveness of the NZDF's military capability and its performance.

To further strengthen governance, the NZDF has established a joint governance body with the Minister of Defence (the Defence Business Committee) which provides a forum for the Ministry of Defence and the NZDF to identify and mitigate the risks they share.

## SIGNIFICANT RISKS TO THE DELIVERY OF THE PLAN

There are six significant risks to the delivery of this 4YP. These are:

[7]

2. financial parameters vary significantly from the assumptions underpinning the plan;

[7]

4. asset revaluations of property, plant and equipment significantly increase the value of NZDF's asset base;

[7]

[7]

An overview of the risks detailed above follows, while Annex G provides more details about the risks and their treatments. While the NZDF is very agile on operations, there are long lead times particularly in developing people capabilities and our military equipment which make it challenging to change organisational direction quickly.

---

[7]

## **2. Financial parameters vary significantly from the assumptions underpinning this plan**

The DMRR financial provisions are underpinned by a range of assumptions on key financial parameters that have been consulted with and agreed by central agencies through the Review Governance Board. In reality, these parameters will inevitably vary from the assumptions made. The NZDF has undertaken sensitivity analysis to assess the potential impact of variations, more detail of which is covered in Annex G.

There are no readily available mitigations for variation in some of these parameters such as inflation. Variations can be treated through revisiting other elements of the plan to absorb the impact, for example through rescheduling some of the plan's initiatives. The NZDF will be tracking, reviewing and revalidating these assumptions to ensure the earliest possible warning of significant variation and maximise time for effective treatment.

[7]

## **4. Asset revaluations of property, plant and equipment significantly increase the value of NZDF's asset base**

Consistent with the Crown's forecasting policy, the NZDF has built its depreciation and capital charge costs based on the current value of assets excluding the impact of future revaluations. The revaluation impact on depreciation and capital charge can significantly fluctuate between years. The impact of any significant spike in depreciation and capital charge related to a revaluation would have to be offset within either personnel or operating expenditure with potential second order consequences for the delivery of this plan.

[7]

---

[7]

[7]

## **RESILIENCE IN OVERCOMING RISKS TO STRATEGIC DIRECTION**

The earlier Sections of this 4YP, together with the Financial Summary at Section 5, provide details of the research, planning, forecasting and consultation that were integral to the DMRR, which has provided the basis of this 4YP. Central Agencies assessed the review as robust. The NZDF has carefully identified and assessed its risks, and with its planned treatments of these risks is confident that it will be resilient to most unplanned eventualities. The individual and combined residual levels of risks identified fall within the NZDF's risk appetite.

---

# 4.0 ORGANISATIONAL CAPABILITY AND WORKFORCE DELIVERY

## NZDF WORKFORCE CONTEXT

The NZDF comprises a workforce of full time military personnel, reserve forces, and civilians, supplemented by contractors. This diverse workforce is responsible for delivering NZDF outputs to the Government.

One of the NZDF's key capabilities is its people and the skills, knowledge and experience that they bring. Its military workforce is notable for the diversity of its skills and the fact that nearly all of these competencies are grown internally, with limited opportunities to increase numbers through lateral recruiting. Additionally, the majority of the NZDF's personnel are military and are not subject to New Zealand employment legislation, as they serve, rather than are employed by the NZDF. These defining workforce characteristics collectively shape the NZDF's culture and set it apart from many other organisations.

Against this environment the NZDF must maintain the delivery of a capable and motivated force now and into the future through recruiting, training and retaining the right personnel. The potential impact of future trends on the way the NZDF will operate, and the changing personnel requirements necessary to support this operation, are complex and often uncertain.

The most critical personnel challenge faced by the NZDF over the next four years will be ensuring that the NZDF is able to recruit and retain the personnel needed in the numbers required.

## EXTERNAL ENVIRONMENT

The external environment will continue to be a major factor influencing the recruitment and retention of personnel. The right people, both civilian and military, are likely to become harder to attract, more costly to recruit and train, and more marketable in the external employment market.

### **Economy and Employment**

The Treasury has advised that New Zealand's recovery from the global financial crisis is slow, interrupted by the Canterbury earthquakes, though economic and employment growth is gradually improving. Unemployment amongst young people (17-24 year olds) remains high. Therefore, alternative employment opportunities amongst the NZDF's traditional recruitment cohort may be limited in the short-term. [7]

- 
- [7]

In the medium-term (two to five years), the New Zealand 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 medium-term, employment growth is expected to be strongest amongst skilled and highly skilled occupational groups.

The population and labour force is becoming more ethnically diverse. 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. 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 increasing diversity.

### **Technology and Complexity**

Technology and security trends will continue to shape the structure and roles of the future NZDF workforce.

The operational environment is becoming more complex. NZDF personnel will have to comprehend situations and conduct tasks that require a greater depth and breadth of knowledge and competence.

These two trends of technology and complexity will require increased skill levels from NZDF personnel.

## **NZDF WORKFORCE DIRECTION**

Guiding the strategic direction of workforce requirements are the NZDF's strategy *Future35* and the recent DMRR decisions discussed in Sections 1 and 2.

[7]

---

## Review of NZDF Workforce Demand

As outlined in Section 2, the NZDF Establishment Review will be completed by mid-June 2014 [Cab Min (13) 38/5 refers]. The work will also address the need for a revised approach to determine and manage its establishment, based on force structure.

### An Integrated Workforce

To deliver capability as effectively and efficiently as possible the NZDF has moved from an organisation operating as three distinct single Services to an increasingly integrated operating model across middle and back functions. With specific regard to the workforce, this will require the NZDF to continue to develop:

- the appropriate policies and practices to support the integrated workforce of the future;
- a focus on the organisational culture required for the future;
- systems and training to ensure the desired behaviours are developed and recognised; and
- a coherent HR Management Information System (as described in Section 1).

In the effort to rationalise spend and to obtain greater economies, the NZDF, will continue to optimise opportunities for amalgamating functions into a joint capability through the 'Joint Enablers' work programme. This programme aims to remove duplication across the three Services. Other opportunities include identifying where one Service is better placed to provide a particular capability or service. This will provide the NZDF with increased depth within those areas, as well as growing and managing personnel to operate as one integrated workforce.

### Future Workforce Requirements

To achieve its strategic intent expressed in *Future35*, and to deliver the capabilities directed by Ministers, the NZDF Culture Review has indicated that NZDF will increasingly need a workforce that is:

- **Operationally Focused:** The NZDF will be agile and adaptable; an organisation that can respond quickly and flexibly to situations and changing demands. The NZDF will be 'high tech' and well-equipped, keeping pace (or leading) in its adoption of new technologies.
- **Joined Up:** An NZDF where the three Services work together collaboratively and complementarily. The NZDF will integrate its civilian and military workforce and be a culture where personnel work together in harmony and are equally valued. The NZDF will support and value its people with a culture that embraces and leverages diversity. The NZDF will reinvigorate and maintain a caring, 'people first' culture.
- **Talent-Centric:** The NZDF will be a human capital focused organisation that attracts, identifies, develops and supports talent and manages 'talent flow'. The NZDF will be an organisation that fosters and rewards innovation and which captures and enhances organisational knowledge. The NZDF will be an organisation that invests in the development of all of its people and maximises reach and impact of training whilst maintaining and promoting a unique identity and military culture and ethos.

- 
- Valued: The NZDF will build upon its strong culture and reputation and will be an organisation that is highly regarded as credible, relevant, and professional. The NZDF will be valued by the New Zealand public.
  - Leadership, Communication and Consultation: NZDF leaders will show visible and committed leadership and will be accountable, and transparent. There will be good communication flow both up and down the command chain, and across the Services.

## **WORKFORCE CAPABILITY AND CAPACITY**

To ensure that the NZDF has both the capability it requires and the workforce capacity (numbers) needed, this 4YP includes a strong element of 'recovery' in terms of competencies, experience and culture. This activity includes the Defence Professional Development Framework and Recruitment and Retention Strategies.

### **Defence Personnel Capability Development Framework**

The Defence Personnel Capability Development Framework will provide consistency in professional development across the NZDF. Personnel will have a better awareness of what is expected of them in their rank and position and how they can develop towards more senior roles. The Professional Development Framework is expected to have a positive affect on retention through an increase in satisfaction of performance assessment and improved personal development programmes.

### **Recruitment and Retention Strategies**

Fully re-growing the experience levels required is expected to take a number of years. In the interim, mitigation plans have been put in place to minimise the impact of these shortages on outputs. Key short-term strategies include:

- increased direct entry recruitment;
- increased focus on lateral recruitment of re-enlistments and overseas recruits; and
- actively targeting 'hard to recruit' trades all year round, rather than aligning recruitment with trade training courses.

In the medium-term the NZDF will develop initiatives and strategies to:

- rebuild the core training pipeline by 2020;
- stabilise recruit numbers to avoid shocks through the personnel pipeline;
- return career management to a more relational basis rather than a transactional (posting) basis;
- focus on reinforcing and building professional mastery and military ethos; and
- concentrate on alleviating shortages in under strength key trades (in terms of numbers, competencies and experience).

This work addresses the key areas of personnel demand, supply and retention.

---

The NZDF is well aware of the potential negative impacts of attrition and has a number of strategies in place to:

- manage workforce development;
- monitor attrition rates and warning signs, generally and for at risk trades; and
- respond to emerging reasons for attrition across the military and for targeted groups.

Retention is best encouraged through a combination of long term, universal strategies that build a strong foundation of satisfaction with military service and short term, targeted interventions that respond quickly to emerging acute trends.

The NZDF will need to continue focusing on the development of recruitment and retention strategies aligned to the results of the review of NZDF culture. Current work includes:

- Women in the NZDF – development and implementation of strategies to attract and retain more women into the NZDF.
- Workforce Supply Modelling – gain greater understanding of the employment market to align recruitment strategies to attract and recruit more personnel.
- Recruitment Testing Review – ensure recruitment entry testing is reflective of the entry requirement to meet the training standard. Making adjustments is likely to broaden the recruitment pool.

[7]

This longer term area of work is a key focus after the Establishment Review has been completed and the future demand is clearly defined.

## **NZDF CULTURE**

NZDF culture is a fundamental foundation of the organisation and its outcome. While each service has its own unique cultural elements, they combine at various levels to create the NZDF Culture. The importance of culture is recognised in NZ Defence Doctrine:

*The NZDF has a unique culture that is underpinned by the shared values of courage, commitment, comradeship, and integrity. These cultural values are the tenets from which the NZDF builds an organisation that is united, professionally trained, competent, appropriately equipped, and capable of serving the interests of New Zealand, confronting the security challenges of the future, and meeting the requirements of the New Zealand Government. This culture provides the foundation for New Zealand's unique approach to the conduct of military*

---

operations.<sup>5</sup>

## **NZDF Organisational Culture Review**

The NZDF Organisational Culture Review, discussed in the previous 4YP, has completed two of the three main phases. The project will provide a comprehensive understanding of the current organisational culture of the NZDF, and identify barriers and enhancers to developing the essential cultural characteristics required of the NZDF in 2020 and 2035.

As a result of work undertaken to date, the NZDF has an empirical understanding of the current organisational culture at both single Service and NZDF levels as well as through a civilian employee lens.

The outcomes from the first two phases have been included into leadership training, senior leader briefings and discussions on Health and Safety in the NZDF and are informing deliberate decision making on workforce strategies.

The third phase of the Review will develop a NZDF tool to measure on-going organisational culture. This will provide the organisation with key recommendations and actions to maintain and support the People Strategy by developing the essential core of the organisational culture going forward. The project is also expected to support retention in the long term by allowing the NZDF to understand the likely cultural impacts of other organisational change and associated future personnel change initiatives.

Key elements of the NZDF culture that will undergo change include:

- Women in Defence; and
- Health and Safety

### **Women in Defence**

The NZDF has had a long term objective to create a welcoming environment embracing all forms of diversity. More recently a Ministry of Defence Evaluation of Opportunities for Military Women in the NZDF has been conducted. This provided insights into the environment for women in the NZDF and has highlighted opportunities a number of areas for improvement. The establishment of a Women's Development Forum and consequent programme of work will see tangible improvement in the environment, policy and culture for women in the NZDF.

### **Health and Safety**

The culture of safety and care for our workforce is a fundamental value that we will highlight and improve on. The NZDF is continuing to implement the recommendations from the External Safety Management Review, which outlined required improvements to the NZDF Health and Safety systems. Undertaken as a result of a number of high profile accidents, the NZDF is committed to improving safety, and is putting in place the necessary governance, policies, systems and practices to ensure the robustness of the NZDF safety system.

---

<sup>5</sup> NZ Defence Doctrine (DDP (3<sup>rd</sup> edition), NZDF, Wellington, June 2012, Paragraph 1.55

---

The new Health and Safety Framework will be implemented throughout all parts of the NZDF. This will provide the CDF with timely and comprehensive information about health and safety risks and trends to support decision making. The NZDF will continue the implementation of the recommendations from the External Safety Management Review, key aspects of which are the broader education of personnel and embedding of safety into NZDF's organisational culture. The Health and Safety system will be supported by an integrated ICT business solution.

---

# 5.0 FINANCIAL SUMMARY

## THE DEFENCE MID-POINT REBALANCING REVIEW COSTING PROCESS

In February 2013 Cabinet approved the Terms of Reference for Phase Two of DMRR [CAB Min 13 (4/3) refers]. These provided for the development of options for achieving the desired balance between defence policy, capability and funding based on six possible funding tracks.

[7]

The methodology used for DMRR was a rigorous process to develop the optimum set of military capabilities and accompanying enablers within each of the funding trajectories. It considered the capabilities against a set of decision criteria to rank value for money of each capability.

To develop the sets of capabilities, approximately 220 mutually exclusive but scalable military capability and organisational support options, that could support defence policy, were defined and estimated for whole-of life costs.

Once the set of capabilities that would 'fit' a funding track was agreed upon, the capabilities for each of the six funding tracks then had their costing refined and any duplication from the mutually exclusive costings removed. These force structures represented the optimum set of military capabilities that could fit within each of the six alternative funding tracks.

[7]

The result of the DMRR costing process is that the NZDF has a detailed understanding of the whole-of-life costs of each of its capabilities, and the associated cost drivers.

[7]

## Operating Expenditure – Departmental

	2013/14 \$0.000m	2014/15 \$0.000m	[7]
Current operating expenditure baseline	\$2,311.873	\$2,296.862	
<b>Add</b> any indicative allocation advised of	\$0.000	\$140.976	
<b>Less</b> capital charge increase included in OBU	\$0.000	-\$14.375	
<b>Equals</b> Total funding level for planning	\$2,311.873	\$2,423.463	
Financial movements			
<b>Add</b> cost of new activity to be funded from current baselines	\$0.000	\$0.000	
<b>Add</b> total cost pressures	\$95.000	\$190.704	
<b>Subtract</b> significant changes that will generate savings	\$94.365	\$63.658	
<b>Add or Subtract</b> vote transfers	\$0.635	\$0.445	
<b>Subtract</b> any indicative allocation advised of (as above)	\$0.000	\$126.601	
<b>Equals</b> Total funding level for planning	\$2,311.873	\$2,423.463	

The expenditure analysis provided in this 4YP is based on the detailed costing of NZDF undertaken as part of DMRR, with the current Operationally Deployed Forces output expense and Veterans' Affairs (both of which were outside the scope of DMRR) added in.

DMRR based its costing on 2013/14 budgets – and all outyear costing has been analysed in respect of changes from this base. Consistent with this approach, this 4YP has been developed on the basis of highlighting the change in cost profiles from 2013/14 OBU as a base, with any baseline changes over or under the 2013/14 base noted as specific pressures.

### Cost Pressures for 2013/14

Since the White Paper, the NZDF has been required to live with flat appropriation baselines until 2014/15. Increasing cost pressures as a result of previous Cabinet decisions on new and upgraded NZDF capabilities, inflationary pressures depreciation expenses due to asset revaluation and initiatives to achieve White Paper objectives [ECC Min (11) 33 refers] have been covered through redistributed savings.

[7]

---

[7]

[7]

### **Costing basis**

DMRR built the future direct costs of the NZDF based on the activity drivers of the military capabilities included in [7]. The operating enablers were then sized for that level of military capability - this included incorporating the initiatives and savings achieved to date through Saving Redistribution Program.

DMRR has incorporated \$205 million of annually recurring savings from the Savings Redistribution Programme achieved to date. Also included are changes associated with future savings initiatives that have yet to be introduced, particularly in the areas of workforce costs and estate maintenance.

---

[7]

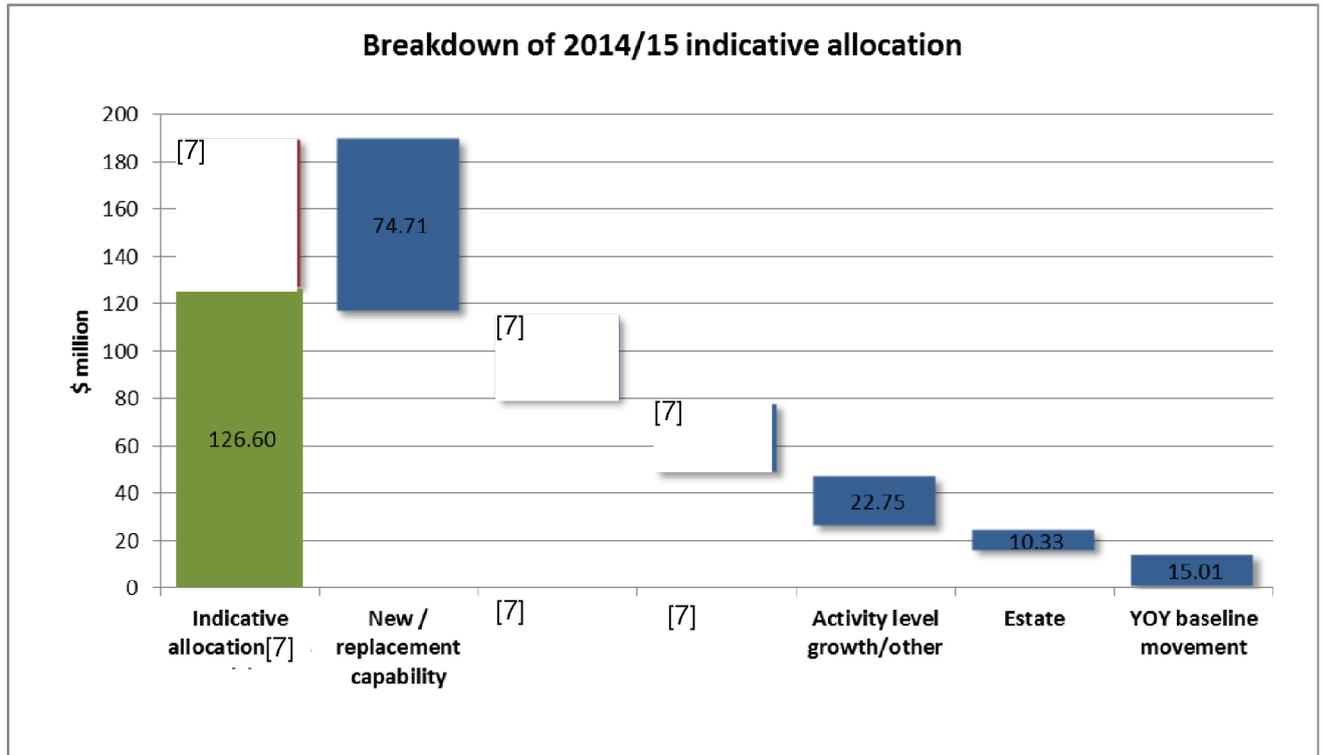
## NZDF Operating Expenditure - Summary of 4YP

Table 1 and Figure 1 below summarises the data in the financial tables of the 4YP, with the following sections providing further detail.

Table 1: Summary of 4YP

\$ million	2014/15	
<b>Indicative allocation</b>	<b>126.60</b>	
Add pressures funded by Vote transfers	0.45	
<b>Total cost pressures</b>		
Made up of:		
DMRR costing - increase from 2013/14 OBU baseline	175.69	
Add year on year baseline movement impact	15.01	
<b>What the indicative allocation will be spent on:</b>		
New/replacement capability	Depreciation	42.02
	Operating - new	10.43
	Operating - introduction to service	20.95
	Capital charge	1.32
Estate increased spend to reach 90% of best practice	10.33	
Activity level growth/other	22.75	
YOY baseline movement impact	15.01	
<b>Total cost pressures</b>		
Funded by Vote transfers	(0.45)	
<b>Indicative allocation</b>	<b>126.60</b>	

Figure 1: What the indicative allocation will be spent on for 2014/15



**Funding level for planning purposes – indicative allocation**

Cabinet agreed that the NZDF use the indicative increase in funding over Main Estimates from Funding<sup>[7]</sup> for planning purposes [CAB Min (13) 38/5 refers]. However, this 4YP provides information against 2013 OBU baselines. In 2013 OBU, baselines were increased by \$14.375 million per annum to fund an increase in capital charge resulting from a revaluation of assets as at 30 June 2013. The increase in capital charge had already been costed as part of DMRR. For this reason, the funding level for planning purposes used in this 4YP has been reduced by the increased capital charge funding from 2013 OBU, as shown in Table 2.

Table 2: Revised indicative allocations

\$ million	2014/15 <sup>[7]</sup>
Indicative allocation (DMRR cabinet paper)	140.97
Less: Capital charge increase included in 2013 OBU	(14.38)
<b>Revised indicative allocation</b>	<b>126.60</b>

[7]

---

2013/14. This reduction in 3<sup>rd</sup> party revenue creates an additional unmet cost pressure over that costed as part of DMRR, as shown in Table 3.

Partially offsetting this is a proposed transfer from Vote Revenue to reimburse NZDF for the costs of paid parental leave to Regular Force personnel not currently eligible under criteria prescribed in the *Parental Leave and Employment Protection Act 1987*.

*Table 3: Unmet cost pressure*

[7]

[7]

[7]

---

## DMRR cost profile

[7]

The costs developed in DMRR Track 1 indicate significant cost pressures over 2013/14 OBU baselines. Table 5 details the increase by expenditure type against the 2013/14 budget.

Table 5: Increase from 2013/14

<b>\$ million</b>	<b>2014/15</b>	<b>[7]</b>
Personnel	51.95	
Operating	80.41	
Depreciation	42.02	
Capital Charge	1.32	
<b>Total</b>	<b>175.69</b>	

## Variability of expenditure

Much of the NZDF's expenditure (operating) is largely variable since it is driven by the capabilities/ level of activity required to deliver the outputs/outcomes selected by Government. However, once a capability set/activity level is selected, direct operating expenditure becomes largely fixed as there is little variability or potential for cost savings in capability operating costs.

The NZDF also has a range of specific functions required to enable a coherent and joined up defence force with a trained and ready workforce. While there is some variability in these costs, again they are closely linked to the capabilities being operated.

There is a degree of variability in the level of expenditure required to support NZDF. This includes the 'back office' type functions typical of any organisation. These functions have been optimised through DMRR to balance affordability and the appropriate level of support to front line activities.

## COST PRESSURES

### New/replacement capability – depreciation, operating expenditure and capital charge

Aligned to the selected DMRR funding trajectory a revised *Defence Capital Plan* was presented to Cabinet [SEC Min (13) 18/4 refers]. The capital plan has implications for depreciation, operating cost and capital charge as<sup>[7]</sup>. In addition, over the 4YP period, three replacement capabilities will complete their introduction to service – NH90, A109, and Seasprite helicopters.

### Depreciation

Table 6: Depreciation movement from 2013/14

\$ million	2014/15
Baseline depreciation	(6.69)
Minor Projects	6.44
C-130 life extension	8.20
ANZAC Self -Defence Upgrade	-
Seasprite Helicopter Upgrade or Replacement	1.50
NZDF Helicopter Capability	6.14
Pilot Training Capability	3.34
CIS infrastructure	2.23
P3K Upgrade	4.46
Strategic Bearer Network	1.56
Night Vision Equipment	1.56
Medium/Heavy Operational Vehicles	2.82
Capital Maintenance	1.38
Human Resources Information Mgmt System	1.90
Rotables	0.57
Special Operations Training Facilities	1.02
Joint Control and Command System	1.60
Other	3.97

[7]

## Operating expenditure

As shown in Table 7, there is forecast to be an additional \$10.43 million of operating expenditure associated with new/replacement capability in 2014/15, rising to \$39.96 million by 2017/18.

Table 7: Opex to support new/replacement capability

<b>\$ million</b>	<b>2014/15</b>	<b>[7]</b>
Consolidated Logistics Programme (improved fleet and asset management)	1.87	
Land Simulation Training Programme	0.58	
Intelligence Analysis Capability	-	
In Service Weapon Replacement Upgrade	-	
Land Force Counter Explosive Hazards	0.40	
Network Enabled Army: Operating	3.80	
Pilot Training Capability	3.78	
ISR Satellite Capability	-	
ANZAC frigate system update	-	
JCCS	-	
Other	-	
<b>Total</b>	<b>10.43</b>	

The three replacement capabilities due to complete introduction into service during the 4YP period are shown in Table 8.

Table 8: Opex for replacement capability introduction to service

<b>\$ million</b>	<b>2014/15</b>	<b>[7]</b>
Seasprite	11.80	
NH90	7.80	
A109	1.35	
<b>Total</b>	<b>20.95</b>	

---

[7]

[7]

[7]

---

## Scalability / variability

Personnel costs can be varied. However, changing personnel costs requires a lead time and may require up-front costs in some cases. However, the level of staffing provided for in this plan is based on a gradual regeneration of the workforce to deliver on the capabilities and activities selected in [7] of DMRR. Tension has already been applied to plans as noted above.

Delaying personnel growth is possible, but would result in a significant delay to addressing the current output failure and may put some capabilities at long term risk of sustainability. Additional implications exist for morale and culture and subsequent retention/attrition may be significant if current personnel shortages are not seen to be addressed.

A key personnel deliverable is the NZDF Establishment Review directed by Ministers to be completed in June 2014 [Cab (13) 38/5 refers].

## Inflation

The inflation provided for in the costing of operating expenditure is made up of different rates for different expenditure types. However, the overall average inflation rates used are:

*Table 11: Operating expenditure inflation rates*

[7]

For personnel costs, the following rates have been used:

*Table 12: Personnel expenditure inflation rates*

[7]

[7]

## Activity level growth/other

This category includes a number of smaller items including increased activity levels, operating costs to support FTE growth in the Army, provisioning for obsolete inventory, and restatement of operating budgets for Air and contractors/consultants that have been reduced in 2013/14 beyond sustainable levels to offset pressures this year.

## Year on year baseline movements

While not technically a cost pressure in the true sense of the word, the NZDF operating baselines are not steady at 2013/14 levels, largely due to expense transfers. However, because the 4YP analysis has been based on changes in costs from 2013/14, any change in funding from 2013/14 also impacts on the operating allowance.

The figures for year on year baseline movements do not represent increased costs, but changes in funding.

## Capital Expenditure - Departmental

	Increase (Decrease)	
	2013/14 \$0.000m	2014/15 \$0.000m
Operating balance funding available	\$509.803	\$309.930
<b>Add</b> depreciation funding received	\$396.969	\$431.721
<b>Add</b> receipts from sale of assets	\$0.000	\$0.000
<b>Add</b> capital injections already approved	\$14.050	\$19.150
<b>Add</b> capital injections sought	\$0.000	\$0.000
<b>Equals</b> total baseline funding available	\$920.822	\$760.801
<b>Subtract</b> capital investments funded from baselines	\$610.892	\$640.284
<b>Equals</b> closing baseline funding available	\$309.930	\$120.517

Aligned to the selected DMRR funding trajectory a revised *Defence Capital Plan* was presented to Cabinet [SEC Min (13) 18/4 refers].

In order to maintain the NZDF's current capabilities, capital provisions were made for the replacement of a range of platforms. These are discussed in detail in Section 2 and Annex E. In order to fund these replacements, the NZDF is forecast to need capital injections in addition to the capital available from the current balance in the Crown Debtor and from depreciation streams.

The first capital injection is not required until 2015/16, so is not sought in a Budget 2014 bid.

## Operating Expenditure - Non Departmental

	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
Current operating expenditure baseline	\$3.323	\$3.323	\$3.323	\$3.323	\$3.323
<b>Add</b> any indicative allocation advised of	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
<b>Equals</b> Total funding level for planning	\$3.323	\$3.323	\$3.323	\$3.323	\$3.323
Financial movements					
<b>Add</b> cost of new activity to be funded from current baselines	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
<b>Add</b> total cost pressures	\$0.000	\$0.200	\$0.200	\$0.200	\$0.200
<b>Subtract</b> significant changes that will generate savings	\$0.000	\$0.200	\$0.200	\$0.200	\$0.200
<b>Add or Subtract</b> vote transfers	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
<b>Subtract</b> any indicative allocation advised of (as above)	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
<b>Equals</b> Total funding level for planning	\$3.323	\$3.323	\$3.323	\$3.323	\$3.323

VANZ is seeking an adjustment to War Pension Travel Concession Mileage Allowance. It is proposed this initiative be funded through a proposed reprioritisation of \$200,000 annual appropriation from the Non-Departmental Other Expenses 'Ex-Gratia Payments and Comprehensive Medical Assessments for Viet Nam Veterans' to the Non-Departmental Benefits and Other Unrequited Expenses (BOUE) 'War Disablement Pensions'. The current rate paid of 22.5 cents per km was set in Regulations in 2010. This initiative, deferred in Budget 2013, seeks to raise the rate to 27.1 cents per km with an associated fiscal impact of \$200,000 per annum from 2014/15.

## BUDGET 2014 SIGNIFICANT INITIATIVES

The following Budget 2014 initiatives have been entered into CFISnet.

### Defence Mid-Point Rebalancing Review - Departmental

The funding sought at Budget 2014 is based on CAB Min (13) 35/8) adjusted to remove the capital charge funding agreed in 2013 OBU.

The amount sought in Budget 2014 differs to the indicative allocation for Departmental Operating Expenditure as the amount sought for Budget 2014 only fully funds the 2014/15 increase sought. Additional bids in subsequent Budgets will be required as shown in the following table.

<b>Funding Sought</b>	<b>2014/15</b> <i>\$0.000m</i>	<b>2015/16</b> <i>\$0.000m</i>	<b>2016/17</b> <i>\$0.000m</i>	<b>2017/18</b> <i>\$0.000m</i>
Budget 2014	\$126.601	\$79.689	\$175.939	\$175.939
[7]				
<b>Indicative allocation advised of</b>				

[7]

### **War Disablement Pension Travel Concessions – Non Departmental**

Adjustment to War Pension Travel Concession Mileage Allowance – proposed to be funded through a proposed reprioritisation of \$200,000 annual appropriation from the Non-Departmental Other Expenses 'Ex-Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans' to the BOUE 'War Disablement Pensions'.

### **BUDGET 2014 TECHNICAL INITIATIVES**

The following technical initiatives have been entered into CFISnet.

[7]

---

[7]

### **Budget reprioritisation - Departmental**

A 'placeholder' initiative will be entered (with no values) to allow fiscally neutral adjustments to:

- reprioritise output expense appropriations to meet cost pressures;
- adjust capital expenditure appropriations for 2013/14 and outyears; and
- undertake expense transfers/in principle expense transfers.

The values for any of these initiatives will be sought in the March Baseline Update.

[7]

## FINANCIAL TABLES IN 4YP

The following table itemises the basis used for completing each section of the 4YP.

<b>Item in 4YP</b>	<b>Basis used</b>
Current operating expenditure baseline	2013 OBU
Any indicative allocation advised of	DMRR Cabinet Paper
Capital charge increase included in 2013 OBU	Capital charge expenditure calculated for DMRR included the portion that was funded through 2013 OBU so the NZDF's baseline can reduce by this amount
Workforce costs	As per DMRR costings
[7]	
Cost pressure from capital planning – depreciation	Movement in depreciation expense between 2013/14 OBU and DMRR
Cost pressure from capital planning – capital charge	Increase in capital charge as a result of indicative capital injections from DMRR
Cost pressure from other – total defence workforce growth	Increase in personnel cost between 2013/14 OBU and DMRR excluding inflationary impact
Cost pressure from other – inflation	Operating cost inflation applied in DMRR costing
Cost pressure from other – individual items	Increase in operating items between 2013/14 OBU and DMRR
Cost pressure from other – baseline changes	Changes from 2013/14 baseline which have been reflected as reduced/increased cost pressure
[7]	

---

[7]

---

[7]





---

[7]

---

[7]

---

# ANNEX B: SUPPORTING FINANCIAL INFORMATION

## New Activity that will be funded within current baselines

### Departmental – Operating

No new activity

### Non Departmental – Operating

No new activity

## Cost Pressures

### Departmental

---

<b>Summary Table of Total Operational Cost Pressures</b>	<b>2013/14 \$0.000m</b>	<b>2014/15 \$0.000m</b>	<b>[7]</b>
From Increased Service Demand	\$0.000	\$0.000	
From Capital Planning	\$0.000	\$43.331	
From Other	\$95.000	\$132.872	

## Non Departmental

<b>Summary Table of Total Operational Cost Pressures</b>	<b>2013/14 \$0.000m</b>	<b>2014/15 \$0.000m</b>	<b>2015/16 \$0.000m</b>	<b>2016/17 \$0.000m</b>	<b>2017/18 \$0.000m</b>
From Increased Service Demand	\$0.000	\$0.200	\$0.200	\$0.200	\$0.200
From Direct Employment Costs	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
From Capital Planning	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
From Other	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
<b>Total Non Departmental Cost Pressures</b>	<b>\$0.000</b>	<b>\$0.200</b>	<b>\$0.200</b>	<b>\$0.200</b>	<b>\$0.200</b>

## Cost pressures arising from increased service demand

<b>Cost Pressures arising from increased demand on service delivery</b>	<b>2013/14 \$0.000m</b>	<b>2014/15 \$0.000m</b>	<b>2015/16 \$0.000m</b>	<b>2016/17 \$0.000m</b>	<b>2017/18 \$0.000m</b>
Adjustment to the War Pension Travel Concession Mileage Allowance Rate	\$0.000	\$0.200	\$0.200	\$0.200	\$0.200
<b>Total</b>	<b>\$0.000</b>	<b>\$0.200</b>	<b>\$0.200</b>	<b>\$0.200</b>	<b>\$0.200</b>

[7]

---

## Cost pressures arising from capital planning

[7]

---

## Other cost pressures

### Departmental

[7]

\*\* The 2013 OBU baseline fluctuates in outyears as expense transfers increase or reduce appropriations. The impact of changing levels of expense transfer is to increase or reduce the difference between funding and costs between years so have been reflected as increased or reduced cost pressures.

## Changes that will generate savings

### Departmental

Intention Name and Brief Description	2013/14 \$0.000m	2014/15 \$0.000m	[7]
Deficit as per DMRR - level of risk that will be held by NZDF	\$0.000	\$56.606	
Additional level of risk held due to reduction in 3rd party rev		\$7.497	
Paid parental leave - ex IRD	-\$0.635	-\$0.445	
2013/14 savings achieved to date	\$39.000		
2013/14 level of risk under management	\$56.000		
<b>Total</b>	<b>\$95.000</b>	<b>\$63.658</b>	

### Non-Departmental

Intention Name and Brief Description	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
Reprioritisation from Non-Departmental Other Expenses 'Ex-Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans'	\$0.000	\$0.200	\$0.200	\$0.200	\$0.200
<b>Total</b>	<b>\$0.000</b>	<b>\$0.200</b>	<b>\$0.200</b>	<b>\$0.200</b>	<b>\$0.200</b>

# ANNEX C: 2014 BUDGET INITIATIVES

## Initiatives

Initiative Name	Vote	Department	Contact Person
Defence Mid-point Rebalancing Review (DMRR)	Vote Defence Force	New Zealand Defence Force	Jo Devine, CFO

Describe **what this funding request is for and what the expected results** from this spending are:

DMRR determined from first principles the set of capabilities required within a coherent NZDF able to deliver against Defence White Paper 2010 policy settings.

Extensive analysis as part of DMRR confirmed the requirement outlined in the White Paper for new money to be allocated to Defence over time. This funding request seeks the indicative allocation for Budget 2014 agreed by Cabinet [CAB Min (13) 38/5].

The expected results from this spending is:

- the NZDF would retain (and be able to replace at end of life) its current combat and resource and border protection capabilities, and that the NZDF would be able to lead an operation in the region (similar in size to New Zealand's contribution to Timor Leste) and/or operate without needing to rely on others, as well as make concurrent contributions to international security;
- the NZDF is able to maintain the current level of output across Defence policy, but with greater availability, reliability and reduced risk compared to alternative capability mixes; and
- [7]

Detail of the indicative capabilities delivered under this funding track, as presented to and agreed by Cabinet in November 2013, are repeated in the appendix to this Annex.

Describe **how the expected results will be measured**:

Cabinet directed Defence undertake a series of work streams post-DMRR to ensure the NZDF delivers on its agreed funding stream and achieves on-going organisational efficiencies in order to maintain an on-going balance between defence policy, capability and funding.

Results will be measured by assessing progress in each workstream. The NZDF will

also report on the effects achieved through this 4YP, for example increases in personnel, improvements in the Defence Estate. Additional measures will use extant financial and non-financial performance measures in terms of output delivery including operational preparedness / readiness.

<b>Funding Sought at Budget 2014</b>	<b>2014/15 \$0.000m</b>	<b>2015/16 \$0.000m</b>	<b>2016/17 \$0.000m</b>	<b>2017/18 \$0.000m</b>
<b><i>Operating</i></b>				
Operating funding sought	\$126.601	\$79.689	\$175.939	\$175.939
<b><i>Capital</i></b>				
Capital funding sought	\$0.000	\$0.000	\$0.000	\$0.000

Describe how, if the funding sought represents the total amount required for the initiative - and if not, **what the total is and where the additional funds are coming from:**

Cabinet have agreed the indicative capabilities required in the NZDF to achieve White Paper policy intentions. [7]

[7]

Describe how this new funding request **supports the Governments priorities:**

As explained in Section 2, the primary objective for the NZDF concerns the preparation and availability of a credible and effective Armed Force, capable of serving the Government's defence and national security policy objectives. Indirectly the NZDF also contributes to all four specific Government priorities as outlined at Annex H.

Describe how this new funding request **aligns with your Strategic Direction and delivery** thereof, as described in your 4YP:

DMRR determined from first principles the set of capabilities required within a coherent NZDF able to deliver against Government's Defence policy settings as detailed in the White Paper. Cabinet agreed the capabilities required and the indicative funding now sought through this 4YP. This will enable delivery of White Paper policy settings through the NZDF's *Future35* strategy.

Describe **why this new initiative cannot be funded within baselines:**

Extensive analysis during the DMRR demonstrated that current funding levels cannot deliver the capabilities needed to deliver White Paper policy settings, even with the

---

delivery of the Savings Redistribution Programme.

Describe **what other activities** are already being undertaken, either within your agency or across the State sector, **to address the issue this new funding will look to address:**

The White Paper noted that in order to improve the affordability of Defence capability in the future, the NZDF would need to free up \$350 - \$400 million on an annual recurring basis by 2014/15, to be redistributed to front line capabilities (the Savings Redistribution Programme).

The programme has achieved \$205 million in savings as at 30 September 2013 and Cabinet noted that further pursuit of savings target of \$350 - \$400 million by 30 June 2015 would compromise NZDF's ability to maintain capabilities outlined in DMRR [Cab (13) 17/2 refers].

Describe **the implication if this funding is not approved:**

If this funding is not approved, and the NZDF was to live within its 2013 OBU baselines, it would deliver only some of the capabilities and associated outputs that Ministers have agreed they want. [7]

At 2013 OBU levels and in the short term, the NZDF would be able to retain its combat and resource and border protection capabilities, but with a reduction in enabling capabilities, and hence the ability to act independently or in a lead role within the region. The NZDF would have to rely on others to a greater extent to support deployed forces. This would also constrain the NZDF's ability to assist security partners, and to augment their forces with substantive enabling functions.

[7]

If partial funding of this initiative is an option, please describe **how partial funding might work:**

If only partially funded, the NZDF would deliver only some of the capabilities and associated outputs that Ministers have agreed they want to retain. The capabilities withdrawn would come from those identified in the box above with loss of those identified as "immediate" ahead of those identified as "longer term".

<b>Initiative Name</b>	<b>Vote</b>	<b>Department</b>	<b>Contact Person</b>
Adjustment to the War Pension Travel Concession Mileage Allowance Rate	Vote Defence Force	New Zealand Defence Force (Veterans Affairs New Zealand)	Michael Moran

Describe **what this funding request is for and what the expected results** from this spending are.

Regulation 43D of the War Pensions Amendment Regulations (No 2) 2010 (SR 2010/86) came into effect 13 May 2010 and at clause 43D (1) (c) set the mileage allowance rate of travel by private vehicle at 22.5 cents per km. This rate was based on the average of the 2009 Automobile Association of New Zealand Running Cost per Kilometre (averaged across small, compact, medium and large vehicle categories).

In the three years since 13 May 2010 the cost of the pump price of fuel (as shown by the AA) has moved up from around \$1.67 per litre to around \$2.10 per litre (including one-off Emissions Trading Scheme and GST increases [12.5% to 15%] both in 2010).

It is proposed to increase the rate to 27.1 cents per km being the 2013 NZAA average running cost per km at a cost of \$200,000 per annum from 2014/15. Separately, VANZ will be required to change the Regulations to reflect the increased mileage allowance rate and include a mechanism allowing for review and adjustment of the rate every two years. The new policy, deferred from Budget 2013, would commence 1 July 2014.

This spending will alleviate the inequity to veterans arising from Regulation in 2010 without any mechanism for on-going review and increase where necessary.

Describe **how the expected results will be measured**.

Success will initially be measured in terms of how well the policy change is disseminated to the veteran community through mechanisms such as an official press release, posting on the VANZ Web site and inclusion in the VANZ News. VANZ will include a specific targeted question on this initiative in the next annual survey of veterans in order to assess veteran uptake and understanding of the policy change.

In the medium term and as a further indicative measure, the trend in mileage allowance spend and the overall uptake numbers of entitled veterans will be closely monitored as part of on-going BOUE monitoring by the Ministry of Social Development Forecasting and Modelling Unit and VANZ.

<b>Funding Sought at Budget 2014</b>	<b>2014/15</b> <b>\$0.000m</b>	<b>2015/16</b> <b>\$0.000m</b>	<b>2016/17</b> <b>\$0.000m</b>	<b>2017/18</b> <b>\$0.000m</b>
<b>Operating</b>				
Adjustment to the War Pension Travel Concession and Mileage Allowance Rate	\$0.200	\$0.200	\$0.200	\$0.200
Reprioritisation from Non-Departmental Other Expenses 'Ex-Gratia Payments and Comprehensive Medical Assessments for Viet Nam Veterans'	-\$0.200	-\$0.200	-\$0.200	-\$0.200
<b>Total</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>

Describe how, if the funding sought represents the total amount required for the initiative - and if not, **what the total is and where the additional funds are coming from:**

The total annual spend to veterans on travel concessions mileage allowance approaches \$1.0 million. The funding sought represents the total amount for this initiative to increase the mileage allowance rate paid from a rate based on 2009 fuel prices (22.5 cents per km) to a rate reflective of 2013 fuel prices (27.1 cents per km).

Describe if this initiative might require **additional funding in future years:**

This initiative will be associated with a change to the Regulations allowing for the rate of mileage allowance to be reviewed and adjusted every two years. In 2016/17 a further review of movements in the fuel price would occur. The additional funding sought with this initiative represents 4 years movement in fuel costs and future increases would likely be less, depending on the quantum of price movement.

Describe **how this new funding request supports the Governments priorities:**

This initiative supports the ability of severely disabled veterans to undertake recreational travel. This initiative therefore links directly to the VANZ Outcome 'working in partnership with the NZDF, the impacts of service on eligible veterans and their dependants is monitored and they have information about, and access to, services and support that promote wellbeing'. This also supports the wider Government intent underpinning policy relating to respecting veterans, strengthening communities, and dignity for older New Zealanders.

Describe **how this new funding request aligns with your Strategic Direction and delivery** thereof, as described in your 4YP:

VANZ exists to provide service delivery to the veteran community relating to veteran's entitlements, care and recognition. This initiative will directly support entitled veterans to undertake recreational travel contributing to their overall wellbeing and aligning with the VANZ service-delivery model and strategic direction.

---

Describe **why this new initiative cannot be funded within baselines**:

This funding is required for BOUE War Disablement Pensions. The Minister has requested a reprioritisation of \$200,000 per annum from the Non-Departmental Other Expenses 'Ex-Gratia Payments and Comprehensive Medical Assessments for Viet Nam Veterans' to the BOUE 'War Disablement Pensions' to enable this initiative.

Describe **what other activities** are already being undertaken, either within your agency or across the State sector, **to address the issue this new funding will look to address**:

There are no other activities being undertaken to address this specific initiative.

[7]

If partial funding of this initiative is an option, please describe **how partial funding might work**:

The Minister has requested a reprioritisation of \$200,000 per annum from the Non-Departmental Other Expenses 'Ex-Gratia Payments and Comprehensive Medical Assessments for Vietnam Veterans' to the BOUE 'War Disablement Pensions' to enable this initiative.





---

# ANNEX D: EXPECTED OUTYEAR FUNDING REQUESTS

## Initiatives

[7]

# ANNEX E: CAPITAL STRATEGY AND FUTURE INTENTIONS

## Current state

From a capability and physical asset perspective, the NZDF is characterised across its portfolio by a mix of aged legacy, modernised legacy, and some very new and modern, physical assets, plant, equipment and infrastructure. In the military equipment space:

- The Mercedes UNIMOG truck, soon to be replaced by the Medium Heavy Operational Vehicle, is an example of aged legacy equipment.
- The C-130 Hercules Life Extension Programme represents a technically modern capability based upon a modernised legacy platform.
- The A109 and NH90 helicopters represent modern new platforms, plant and equipment in their respective capability sets.

Considering estate and infrastructure:

- The recently commissioned new build defence data-centre is an example of modern contemporary ICT and estate infrastructure. The NZDF does not own the facility but is a key participant in this All of Government investment initiative.
- Similarly, the recent additions of new buildings at Ohakea air base, supporting the NH90 and A109 helicopters, represent modern, fit for purpose and sustainable physical infrastructure assets.

[7]

The enhanced focus on developing network-enabled capabilities right across the Defence portfolio looks to address development requirements to meet policy intent in this critical area.

Having described the physical state of the NZDF's asset base, the table below summarises the current capital asset position in purely financial terms:

<b>Values at 30 June 2013 (\$ million)</b>	<b>Land</b>	<b>Buildings</b>	<b>Specialist Military Equipment</b>	<b>Plant and Equipment</b>	<b>Office and Computer Equipment</b>	<b>Total</b>
Cost or valuation	642	1,289	3,084	265	96	5,377
Accumulated depreciation	0	0	0	(165)	(61)	(226)
Net PPE at 30 June 2013	642	1,289	3,084	100	35	5,151

The NZDF policy is to revalue property, plant and equipment at least once every five years. Note that the revaluation of land, buildings and specialist military equipment undertaken as at 30 June 2013 eliminated all accumulated depreciation.

The table below summarises the revaluation reserve as at 30 June 2013.

<b>Values at 30 June 2013 \$ million</b>	<b>Land</b>	<b>Buildings</b>	<b>Specialist Military Equipment</b>	<b>Total</b>
Balance	601	858	558	2,018

## **Performance**

Defence has performed adequately in the management of its capital when delivery against intent stated in the last 4YP is reviewed. Projects following the Better Business Case framework are delivering within tolerance levels and expectation<sup>7</sup> while a small number of 'legacy' projects<sup>8</sup>, have experienced minor cost overruns and delays.

Regular engagement with Central Agencies at the project working level is continuing to provide excellent value to Defence. The feedback and assurance not only improves project products, but identifies general areas for improvement in Defence's delivery of projects using the Better Business Case approach.

## **Drivers and trends in capital utilisation**

Notable drivers and trends in capital utilisation in Defence include:

- The aged character of Estate requiring focussed recapitalisation investment, including seismic remediation to minimum standards.
- Compliance requirements across the portfolio, spanning environmental (HMNZS *Endeavour* double hulling), Health and Safety (modern Battle Training Capability) and specific sector mandated regulatory enhancements (aircraft navigation and communication to meet international standards).
- Necessary focus on developing contemporary network-enabled capabilities to meet expectations both in the tempo of operations and interoperability with key decision makers and partners (both nationally and internationally). A maturing view of the 'whole of life cost' of capability, and the importance of understanding through life costs associated with delivering capability under different models. While attention naturally focusses on the upfront cost of a ship, aircraft, armoured vehicle fleet, building or ICT system, the largest components of cost invariably reside in the through life attributes of the capability and how it is supported.<sup>9</sup>

<sup>7</sup> Pilot Training Capability, Medium Heavy Operational Vehicles, ANZAC Frigate Systems Upgrade are examples.

<sup>8</sup> ANZAC Platform Systems Upgrade and HRMIS are examples

<sup>9</sup> The Defence Capability Management Framework, sitting within the Governments Capital Asset Management regime, is leading the development of a more complete understanding of capability decisions, including alternative models of capital investment and in-service support.

---

Defence is regularly investigating opportunities to cooperate with other Government agencies in All of Government and syndicated government procurement and capability delivery alternatives. The recent Data-Centre is an example of cooperation across agencies to reduce the call on capital at the all of government level. In a similar vein, Defence recently led a syndicated procurement for bulk fuels, returning approximately \$2 million per annum to the Government across a number of agencies.

[7]

[11]

### **Existing balance sheet**

As at 30 June 2013, the NZDF had a working capital ratio (current assets to current liabilities) of 1.97:1 including a Debtor – Crown of \$509 million. Property, plant and equipment had a book value of \$5,151 million with a further \$228 million in non-current inventory.

The level of accumulated depreciation (\$226 million at 30 June 2013) is relatively low as NZDF revalues its land, buildings and specialist military equipment at least once every five years. At the time of a revaluation, accumulated depreciation is eliminated in accordance with New Zealand Equivalents to International Financial Reporting Standards.

This means that the level of accumulated depreciation does not accurately reflect the provisioning required to replace assets as their useful lives expire. As a proxy, the NZDF uses the balance in Debtor – Crown as the representation of the value of assets requiring replacement.

---

[7]

### **Prioritising capital to highest value use**

As previously outlined, projects within the NZDF Capital Plan are managed within the Capability Management Framework, following the Better Business Case approach within the Capital Asset Management (CAM) regime. Involvement of Central Agencies throughout the process provides assurance that Government policy, value, and 'alternatives' are considered by Defence in generating the options and recommendations for capability delivery and capital investment.

As previously noted in Section 1, the DMRR analysis has determined the overall benefit offered by each of the capabilities operated by the NZDF. As a consequence Ministers have been presented options based on benefit and value for money. An updated *Defence Capital Plan* has also been agreed by Ministers. As business cases are developed for each significant capital acquisition on the plan, there will be opportunities to further test the policy utility and affordability of individual projects on a case by case basis.

### **Capital pressures and future funding**

Future capital pressures facing Defence primarily relate to:

- increases in depreciation charges as new capability is accepted into service
- the impact on depreciation resulting from the revaluation of existing capability<sup>10</sup>, and
- the recapitalisation costs associated with maintaining existing Defence estate and infrastructure.

[7]

### **Major capital challenges/decisions**

The major capital challenges over the next 10 years will likely remain aligned to managing the capability reform and renewal programmes within the indicative planning envelope provided.

---

<sup>10</sup> The capital pressure of regular and military specific inflation, mentioned in previous plans, is not recorded as a pressure as DMRR addressed 'escalation' when developing and generating capital forecasts.

<sup>11</sup> Current planning does not foresee requirement for additional capital injections in the 2018/19 or 2019/20 periods.

---

From a capital perspective, the on-going uncertainty of revaluation of specialist military equipment and maintenance of the existing Defence Estate will continue to pose challenges.

Defence is working to finalise the proposed Estate delivery approach for increased estate recapitalisation for submission to Ministers before the end of 2014.<sup>12</sup> Increased recapitalisation will reduce operating costs associated with maintaining dilapidated estate beyond economic life.

[7]

### **Strategy for managing capital**

Section 1 outlined the detailed analysis undertaken during DMRR that underpins the NZDF's current Defence Capital Plan. This analysis and plan will be the basis on which the NZDF manages its capital over the 4YP. Nonetheless capital management will require the continual investigation and application of efficiency and economy gains across Defence.

Continuing Defence's active engagement with Central Agencies will continue to assist development of robust analysis and options in managing capital. Early identification of NZDF's requirements will assist the Ministry of Defence to engage with industry in order to maximise opportunities for efficient use of capital. Use of standardised off the shelf equipment, with a minimum of specific modifications for NZDF employment, will also help minimize costs.

---

<sup>12</sup> Defence will work with Central Agencies, including the National Infrastructure Unit (Treasury) and Property Management Centre of Expertise to finalise its proposed property delivery approach. This advice will provide a framework, and indicative timings for estate recapitalisation and remediation.



---

INTENTIONALLY BLANK

---

# ANNEX F: ICT STRATEGY

## NZDF ICT Strategy Overview

The NZDF ICT strategy (appended to this Annex) is focused on improving the delivery of information services to enable the outputs and outcomes of the NZDF. The NZDF's *Future35* strategy articulates a joint operational theme, which to succeed will need to be underpinned by robust information services where information is readily accessible to better inform the decision making process. Whether Defence is acting cooperatively with another Government agency, an industry service provider or operating as part of an international coalition, the ability to exchange data quickly and accurately is essential.

The future Defence Information Environment is characterised by:

- A networked enabled military capability
- Delivers ubiquitous communications to mobilise the commander
- Accurate information to make command decisions
- Supports the development of the Total Defence Workforce
- Treats information as a vital asset in delivering outcomes.

The ICT strategy is founded, therefore, on improving:

- ICT effectiveness - the effective delivery of business-led change through the efficient application of ICT and ICT services, effectively the right tools for the right job at the right time.
- Efficiency - the on going drive to work smarter and optimise ICT costs; and
- ICT resilience and security - ensuring all services are appropriately protected and constantly available.

To realise NZDF's goal to have a foundation Joint Amphibious Taskforce capability by 2015 the ICT branch is focused on:

- reducing duplication and developing Joint capability across people, technology and process;
- developing enduring industry partnerships to deliver commoditised ICT services or capability; and
- leveraging technology to automate as much business process as practical and possible.

An early focus for the ICT strategy is accelerating achievement through partnerships. This will be achieved by identifying and exploiting the most appropriate agent for the operation and delivery of services. For example Infrastructure as a Service (IAAS) where NZDF is currently undergoing full transition to the All of Government Data Centre. This coupled with utilising partner ICT skills will enable the branch to focus its IT resources on the Operational aspects of the NZDF.

The outcomes of the White Paper and the Value for Money review of 2010, have guided the development of the strategy. Now that the DMRR initiative is complete the strategy will need to be revised to ensure ICT initiatives are aligned. These business strategies combined with the

All of Government Strategy and Action Plan will continue to guide thinking and development of the strategy.

### Alignment with Government ICT Destination 2017

The NZDF differs from many government agencies in that:

- members of the public are not direct customers; and
- the NZDF has much higher security requirements than most other agencies.

Many of the initiatives in the Government’s action plan are directly related to improved service delivery to the New Zealand public. However, since the NZDF does not deliver services directly to the public, these initiatives are not significant in the NZDF context.

The overarching focus areas are applicable, especially where the NZDF shares information across Defence, government and with our partners. However, practical constraints, imposed by the security requirements of the NZDF’s operating environment, limit implementation of a number initiatives that would otherwise be highly beneficial to the NZDF.

[7]

[1]

A register will be maintained to provide ready access to current information on the alignment of initiatives.

### Services are Digital by Default

Initiative		Brief Description	Applicable to NZDF?	Comments
1.	Rationalise entry points for information and increase accessibility	Make information and services easier for the NZ public to locate and access	Yes	<p>The initiatives outlined in the action plan are directed at public facing services. NZDF will take advantage of these schemes where “Public facing services” are being enhanced for example Recruitment, Veterans Affairs, Medals and NZDF Archives.</p> <p>The overall principle of rationalising entry points is also relevant for internal, cross-agency and partner information services that NZDF delivers to enhance business process and improve productivity.</p>

2.	[7]			
3.	Identity and authentication as key enablers	Ensure Government's identity assurance capabilities for digital service delivery are fit for purpose and build the NZ public's trust and confidence in Government	Under review	Investigating for public facing services.
4.	Enable 'Direct connect'	Create an interface service to provide direct access to Government's processes and data to allow co-creation of public facing services	Yes	NZDF has multiple scenarios where partners acting as service delivery partners to NZDF require access to ICT services. Knowledge gained by other government initiatives will be utilised to improve the way this can be achieved. The NZDF has strategic partnerships with organisations which are under constant innovation and improvement to achieve greater integration for improved efficiencies. Additionally, there are a number of initiatives under way that bring closer integration and interoperation between multiple Government Agencies involved in cross government processes. This is initially in delivering the mission of the National Maritime Coordination Centre.
5.	Over the counter	Implement a standard technology footprint for over the counter office space to support consolidation across agencies in shared premises	No	Public facing services
6.	Contact centres	Rationalise and consolidate Government's contact centre premises and technologies to support the move to digital channels and costs.	Possible	This is targeted to public facing services. There is limited opportunity for benefit to NZDF. Initiatives such as the 'National Service Delivery Program' are investigating the benefits of rationalising and converging internal call centres within the NZDF. External facing contact capabilities such as those required for Veterans Affairs will be investigated for suitability.

7.	Customer insights	Enable the public to easily input into policy discussion and the design of Government services.	No	Public facing services
8.	Digital service delivery models	Implement new models to support agencies to align delivery approaches and channels.	Partially	Not directly applicable as this is referring to public facing services. However, some of these principles may be applicable to how the NZDF delivers services internally.
9.	Measure and improve service performance	Develop and publish consistent delivery and performance measures	Partially	Not directly applicable since this is referring to public facing services. However, some of the work delivered by other agencies might be suitable for improving the way we measure our internal service performance.
10.	Authoritative information and joined up processes	Utilise authoritative data sources and integrated business processes to enable smarter business services to the NZ public	Limited	Not directly applicable since this is referring to public facing services. However, some of the work delivered by other agencies might be suitable for re-use by NZDF in delivering services across government, [1]

### Information is Managed as an Asset

Initiative		Brief Description	Applicable to NZDF?	Comments
11.	Information hubs	Establish information sharing hubs to integrate and consolidate information assets to enrich data, provide authoritative sources to agencies and support improvements in information security	No	Although these services are public facing and not applicable to NZDF, some of the principles and concepts may be suitable for re-use internally.
[7]				
13.	Open by default – active re-use	Enhance the accessibility of public data through providing access to more	No	The NZDF has already been through this exercise with little data available for public

	of information assets	sources and leveraging existing services.		use.
14.	Information management, privacy and security framework	Deliver a management framework that balances service delivery with the protection and security of Government held information, privacy of citizen information and confidentiality		Public facing services although the framework may be useful for internal decisions on how and where services are delivered
15.	Enhance information governance	Establish information governance and custodians and embed information asset management responsibilities across the public section	Partially	Although not directly applicable to NZDF as these are public facing data, the principles and practices established here would serve the NZDF well if adopted, since.
16.	Review information policy and legislation	Review and (if necessary) update information management policy and legislative settings to optimise the sharing and re-use of information	No	Public facing data
17.	Value information assets	Identify, catalogue and value existing information assets.	Partially	NZDF has a number of initiatives currently planned for creating better information management across the organisation. The security requirements of the information assets of the NZDF create some challenges in using shared services. The knowledge gained from All of Government initiatives will be used to the greatest extent possible in any deliberations in the area.

### Investment and Capability are Shared

Initiative	Brief Description	Applicable to NZDF?	Comments
18. Strategic and investment planning	Review and aggregate agency investment plans into a government ICT investment plan that identifies system opportunities and drives collaboration and consolidation	Yes	The NZDF will engage with this initiative recognising that security concerns may limit the initiatives that it will be able to collaborate on.

19.	Government architecture	Fully deploy the government enterprise architecture framework, including common language, capability, standards, tools and processes to all agencies.	Yes	Alignment to a pan-government framework is a desirable outcome.
20.	Optimise commodity ICT ownership	Seek a more cost effective ownership and funding model for commodity ICT assets	Yes	The NZDF will optimise the procurement of commodity assets and/or services
21.	Drive common capability uptake	Drive uptake of common capabilities such as Infrastructure as a Service (IaaS), Platform as a service (PaaS) and Telecommunications as a service (TaaS).	Yes	NZDF is already heavily invested in this area and will continue to investigate future capabilities as they become available
22.	Streamline software procurement	Aggregate demand and simplify supply for software products used across multiple agencies	Yes	Easy to adopt and highly beneficial
23.	End user computing	Complete the full suite of capabilities required to move the entire end user computing platform (including mobile devices) to a cloud/services based model as quickly as practical	Possibly	NZDF will engage on this initiative to determine whether the elevated security needs can be met by this capability.
24.	Common business services	Increase efficiency and support joined up service delivery through the expansion of the suite of common capabilities available to agencies.	No	Public facing services
25.	Back office applications	Extend the scope of the optimise programme to consolidate financial and human resource information systems	No	Unlikely to be suitable for the NZDF due to security reasons.
26.	Developing the ICT workforce	Establish centres of excellence and communities of practice to enhance and share competencies and	Yes	Security issues may make it impractical for the NZDF to make use of any "shared talent" pool.

		practices.  Define skills frameworks and pathways for the future government ICT workforce		
--	--	---	--	--

## Leadership and Culture Deliver Change

Initiative		Brief Description	Applicable to NZDF?	Comments
27.	Re-organise capability - ICT operating model	Formalise new ICT operating model based on 9 – 10 sectors and a larger number of agency clusters, outlining target configurations focussed on information management, assurance and investment planning	Yes	Likely to impact heavily on the NZDF, although an assessment of how is impossible until the engagement begins.
28.	Support functional leadership	Ensure ICT functional leadership has the right mechanisms and support to deliver system change	Yes	Difficult to assess impact at this stage.
29.	Leadership academy	Establish a virtual information and technology leadership academy to build business leadership of ICT at all levels.	Yes	Difficult to assess impact at this stage.
30.	Effective governance	Evolve all of government ICT governance models to align with the objectives of the strategy and action plan	Yes	Difficult to assess impact at this stage.
31.	Assurance	Create a new system of assurance that embeds risk and quality management processes	Yes	NZDF has adopted the Octave Risk Methodology for assuring that risk is managed for ICT projects.
32.	Funding models	Ensure funding approaches support the inception, delivery and operation of shared (all of government) ICT	Yes	NZDF are improving its processes to ensure that whole of life costs are considered at inception and accounted for throughout the lifecycle of a capability.  New funding models for services offered to

		capabilities.		other government agencies, for example SIE will be worked through as part of the project relevant projects.
33.	Engagement	Increase engagement with agencies and industry to strengthen collaboration and system delivery.	Yes	Difficult to assess impact at this stage.
34.	Reporting benefits and learnings	Systematise the reporting of the successes and benefits delivered by all of government ICT initiatives	Possibly	Difficult to assess impact at this stage.
35.	Research and innovation practice	Establish an innovation accelerator programme that focuses on business driven research and development.	Possibly	Difficult to assess impact at this stage.
36.	Leadership networks	<p>Establish networks to support and enhance capability delivery:</p> <ul style="list-style-type: none"> <li>• Establish leadership communities of practice.</li> <li>• Locate specialist capability to provide independent advice.</li> <li>• Establish a programme that coordinates ICT leader secondments.</li> </ul>	Yes	May offer a valuable resource to the NZDF in areas which it currently uses external consultants.

---

## **NZDF ICT Initiatives**

Initiatives that the NZDF is undertaking include:

[7]



---

INTENTIONALLY BLANK

# ANNEX G: RISKS

## Main Risks

Impact	Treatment/Mitigation
[7]	
<b>2. Financial parameters vary significantly from the assumptions underpinning the plan</b>	
<p>Adverse variations increase cost pressures in delivering the 4YP within the indicative funding provisions agreed by the Cabinet in November 2013.</p> <p>[7]</p>	<p>General treatments/mitigation:</p> <ul style="list-style-type: none"> <li>• Track, review and revalidate assumptions</li> <li>• Reschedule some of the initiatives</li> </ul> <p>[7]</p>
[7]	

Impact	Treatment/Mitigation
	[7]
<b>4. Asset revaluations of property, plant and equipment significantly increase the value of NZDF's asset base against those forecast</b>	
<p>Increased depreciation and capital charge over that provisioned for in 4YP forecasts applying unexpected pressure to personnel and other operating provisions in the NZDF budgets.</p> <ul style="list-style-type: none"> <li>• Output delivery becomes pressured</li> </ul>	<ul style="list-style-type: none"> <li>• Early divestment of assets no longer required by the NZDF</li> </ul>
[7]	

---

## Resilience

The Table below summarises the NZDF's view of its resilience across the key components of its capabilities. Overall, the NZDF is broadly resilient in the medium term to most eventualities, but more vulnerable to short term shocks, particularly in relation to personnel. The individual and combined residual levels of risks identified fall within the NZDF's risk appetite.

Component	No resilience to many eventualities	Only weakly resilient to most eventualities	Resilient to some eventualities	Resilient to most eventualities	Strongly resilient to most eventualities
1. Personnel				✓	
2. Infrastructure				✓	
3. Equipment and Logistics					✓
4. Information Communications Technology				✓	
5. Reputation				✓	
6. Finances				✓	

[7]

## Infrastructure

Despite having an aging infrastructure, the NZDF has strong management systems for infrastructure which provide the basis for a very good level of resilience. On-going asset condition appraisals provide a clear indication of current risks. Effective maintenance and recapitalisation prioritisation matrices provide the basis for targeted investment to mitigate risk. The NZDF has good levels of internal capability and capacity to respond to shocks in the infrastructure space and significant contractor and consultant support available to provide

---

specialist expertise when required. Future funding streams will further improve resilience through increased recapitalisation of aging higher risk assets.

The NZDF response capability to respond effectively to ‘shocks’ to infrastructure has been recently demonstrated in the effective response and management of infrastructure damage related to the tornado damage at Whenuapai and Hobsonville in December 2012 and the extensive storm damage to Burnham in mid-2013.

### **Equipment and Logistics**

The NZDF has robust equipment and logistic systems which generally have considerable built in redundancy. Most support contracts are with large multinational companies who in turn are resilient in themselves and their ability to support customers. The market also has a range of alternative suppliers in the event that the NZDF needs alternatives and/or additional capacity, albeit at a cost. NZDF specialist military assets are insured where insurance is available and makes sense from a financial perspective. However, replacements for insured assets may not be available in the short term in the event of loss.

### **Information Communications Technology**

As a result of the White Paper the ICT infrastructure has undergone major remedial action. This has resulted in the current score of ‘resilient to most eventualities’. The NZDF expects to raise this score to ‘strongly resilient to most eventualities’ over the period 2014/15 as the NZDF moves into a new secondary datacentre hosted by an industry partner. This datacentre will provide the capability for increased disaster recovery of core ICT systems. [1]

### **Reputation**

It is unlikely that reputational issues might directly impact the NZDF achieving the goals of the 4YP. However, second and third order effects of reputation shocks can significantly impact the organisation. Issues that hadn’t appeared a priority can develop requiring resources to be redirected towards them. Reputation shocks can also impact morale and have flow-on effects for staff engagement and ultimately attrition. For these reasons the NZDF is likely to be “resilient to most eventualities” but not all.

### **Finances**

The NZDF has robust financial models, tools and systems that were further developed and refined throughout the DMRR. These financial models and systems enable NZDF to monitor, track and anticipate potential financial risks to the delivery of this plan and to provide sound and timely advice on their management.

### **Risks to the Sustainability of the 4YP beyond 2017/18**

Beyond 2017/18 the key risks posed to the NZDF from a sustainability perspective have been considered in the planning undertaken during the DMRR. [7]

[7]

---

[7]

[7]

[7]

Following the DMRR, the long term sustainability of the NZDF has been addressed subject to the realisation of the indicative funding provisions agreed by Cabinet. The Defence Assessment planned for 2014, which occurs on a five-yearly cycle, will provide a further opportunity to review these issues.

---

# ANNEX H: GOVERNMENT PRIORITIES

## Responsibly Managing Resources

The NZDF has undertaken the DMRR to ensure that it understands the value and costs of every aspect of the NZDF's business. The DMRR outcomes, now considered and agreed by Ministers, underpin this 4YP. The NZDF contribution to the three other Government's priorities is outlined below.

## Building a more Productive and Competitive Economy

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, which the NZDF is part of, 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.

New Zealand has a range of national security interests throughout the world including substantial economic and trade interests in the Asia - Pacific region. Defence relationships assist the Government in building confidence between nations. These relationships are important in establishing a high level of trust that not only contributes to international peace and security but encourages nations to engage in a range of trade and related initiatives which promote mutually beneficial economic growth.

As much as 90% 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 Technology Agency (DTA) engages with defence related scientific organisations and contributes to national technology and research community. DTA also seeks to commercialise technology where there is a potential market for the product.

---

## Supporting the Delivery of Better Public Services

The NZDF indirectly supports two of the ten key result areas delivering better public services within tight fiscal constraints by boosting skills and employment through:

- Key Result Area 5 – increase the proportion of 18 year olds with NCEA level 2 or equivalent qualification; and,
- Key Result Area 6 – increase the proportion of 25-34 year olds with advanced trade qualifications, diplomas and degrees (at level 4 or above).

The NZDF actively recruits relatively large numbers of new recruits each year and then develops high levels of trade specialisation, graduate and leadership capabilities, as well as high levels of discipline and teamwork. In 2014/15, the NZDF is planning to recruit approximately 1,300 Regular Force entrants representing approximately 15% of the Regular Force. This creates significant employment opportunities.

At the same time a similar number of skilled and experienced personnel will leave the NZDF, most for employment outside the NZDF. In leaving they provide a significant contribution to boosting skills and employment across a wide range of competencies in the wider economy. The NZDF's Reserve Forces also provide employment opportunities through military and skills training.

The NZDF recognises that educating staff contributes to the NZDF's ability to deliver directed outputs. The NZDF therefore supports both military and civilian staff through funding a range of tertiary education programmes from certificate to doctorate levels. Offering education opportunities also benefits retention.

The NZDF also supports Youth Development Programmes (Limited Service Volunteer scheme, Service Academies in high schools and Military-style Activity Camps). Through such support, the NZDF contributes to the Government's objectives of boosting skills and employment and reducing long term welfare dependency by moving young people off benefits into training and employment. The New Zealand Cadet Forces also provide opportunities for young New Zealanders to develop their skills through leadership training.

## Rebuilding Canterbury

The Air Force Museum at Wigram is managing a significant collaborative programme to assist in the recovery of cultural and heritage organisations. The Canterbury Cultural Collections Recovery Centre has been established as a temporary facility in an extension to the Museum completed in early 2013. Capital funding came from the Museum's Trust Board with assistance from the Ministry for Culture and Heritage and the Christchurch Earthquake Appeal Trust.

NZDF resources are applied to maintenance and infrastructure support and NZDF employees have overall responsibility for management of the Centre. The Centre is currently assisting 21 organisations including Archives New Zealand, Canterbury Museum, the Centre for Contemporary Art and Lyttelton Museum, with storage and professional museum support. Up to 4,500 sqm of space is being made available until January 2016 when activity will be scaled back with up to 1,000 sqm being made available from January 2016 until the end of 2018.

---

In partnership with the Christchurch City Council's event company, Vbase, a further 1,500 sqm of the new Museum building is being used as a temporary conference and convention space. This activity will continue until at least April 2016 when the new convention centre is due for completion. The space can accommodate up to 1200 visitors and allows Christchurch to attract national and international conferences back to the city generating significant economic benefit and helping re-establish the previously lucrative business tourism market. NZDF resources are applied to maintenance and infrastructure support and NZDF employees assist in the coordination of activities with Vbase.

The Burnham Army Camp provides temporary accommodation in 79 Service houses for construction contractors working in the vicinity of Christchurch.