



Performance audit report

# New Zealand Defence Force: Progress with the Defence Sustainability Initiative





Office of the Auditor-General  
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500  
Facsimile: (04) 917 1549

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
[www.oag.govt.nz](http://www.oag.govt.nz)

# New Zealand Defence Force: Progress with the Defence Sustainability Initiative

This is the report of a performance  
audit we carried out under section  
16 of the Public Audit Act 2001

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## Glossary

**Consolidation phase** is the third and last phase of the Defence Sustainability Initiative, from the start of the 2010/11 financial year to the end of the 2014/15 financial year.

**Construction phase** is the second phase of the Defence Sustainability Initiative, from the start of the 2008/09 financial year to the end of the 2009/10 financial year.

**Critical trades and ranks** are trades and ranks essential for carrying out military operations. For example, shortages in marine propulsion technicians could mean a vessel could not put to sea. A shortage of pilots would mean planes could not be flown. Too few communication system operators could compromise an Army mission's safety.

**Defence Funding Package** is up to \$4.4 billion in extra operating funds over 10 years to improve the New Zealand Defence Force's military (personnel and equipment) and corporate capability.

**Defence Sustainability Initiative** is the New Zealand Defence Force's 10-year programme to use the Defence Funding Package.

**Deployment** in this report means sending our military forces overseas as directed by the Government (such as to Afghanistan), joint military exercises with other nations, and providing planned support to other government departments (such as the Department of Conservation and the Ministry of Fisheries) to provide public services.

**Effective personnel** are military personnel who are assigned to a position matching their training and rank.

**Foundations phase** is the first three years of the Defence Sustainability Initiative, from the start of the 2005/06 financial year to the end of the 2007/08 financial year.

**Major capital equipment** is equipment that costs more than \$15 million and needs Ministerial or Cabinet approval to buy it.

**Minor capital equipment** is equipment that costs less than \$15 million and the Chief of Defence Force can approve its purchase.

**Project Protector** is a project to buy seven new vessels (the Protector Fleet) for the Navy and introduce them into service.

**Regular Force** is the collective name for the Air Force, Army, and Navy.

**Reserve Force** is the collective name for the Air Force Reserve, the Army Reserve, and the Naval Reserves (other than the Royal New Zealand Naval Reserve and the Royal New Zealand Naval Volunteer Reserve).

**Stock** includes items such as fuel, ammunition, and equipment, which the New Zealand Defence Force needs to have ready for potential new deployments.

**Territorial Force** reinforces the New Zealand Defence Force's land combat forces and is made up of part-time uniformed personnel.

## Overview

In May 2005, the Government approved a Defence Funding Package of up to \$4.4 billion in extra operating funds over 10 years to improve the military (personnel and equipment) and corporate capability of the New Zealand Defence Force (NZDF). The Defence Sustainability Initiative (the Initiative) was NZDF's 10-year programme to use the extra funding. In December 2008, the Government ended the Initiative as a distinct programme, but some of its projects will continue.

My staff audited NZDF's progress for the Initiative's first three years from 1 July 2005 to 30 June 2008 (the foundations phase). I wanted to assess whether expected improvements in NZDF's capability had occurred. I also wanted to report to Parliament about the likelihood that NZDF would achieve the Initiative's goals by 30 June 2015.

I am pleased that NZDF set out, in advance, major areas of focus for the short term, medium term, and long term, and corresponding performance measures to assess progress. This approach means that NZDF has suitable management accountability processes to monitor and report progress and adjust timetables or methods as needed. It also enables others, such as Parliament, the public, and my staff to have a more informed discussion about NZDF's progress.

NZDF anticipated that deployments would be kept at the same level as when the Initiative started. NZDF needed the deployment rate to be no more than 11.7% of Regular Force personnel during the foundations phase to ensure that resources would be available to achieve the Initiative's objectives. It deployed 12.4% in the first year, 15.8% in the second year, and 17.2% in the third year. Sustaining these levels of deployment came at a cost: the Army was not able to meet its targets for improving preparedness for potential new deployments because more of its personnel were deployed. The Air Force and Navy were able to meet their targets, except in two cases, because they had fewer resources deployed.

As well as the effects of deployments, which were widespread within NZDF, rising capital and operating costs (which eroded the value of the Initiative's funding) also slowed progress in achieving the expected results for the foundations phase.

The extra funding enabled NZDF to recruit and train more personnel with the right skills and experience to meet the then Government's expectations. The Army met its target for increasing personnel numbers, but the Air Force and Navy missed their targets by about 3% and 4% respectively.

Funds were also made available for pay increases and most personnel received increases of between 10% and 12%. NZDF believes this has helped to reduce attrition: the Army reduced attrition by about 4%. However, attrition in the Air Force increased by about 1% and in the Navy by about 4%. During 2008, the Air

Force and Navy commissioned in-depth studies to help them understand the precise causes for attrition. They will carry out the recommendations from those studies over the short term, medium term, and long term.

Higher-than-planned deployments and limited progress in reducing attrition were the main reasons that NZDF had made slow progress in improving the numbers and effectiveness of personnel in critical trades and – for the Army – in critical ranks. Improvements were needed because these trades and ranks are critical to starting and completing missions safely and effectively.

Before the Initiative, NZDF had a backlog of minor capital equipment shortages and was also short of the stock that it needed to hold in case there were new deployments. NZDF made good progress in rectifying shortages in both areas for minor capital items. Because of the priority given to those items, NZDF postponed (until the construction phase) projects to increase the quantity of major capital stock.

NZDF was meant to, and did, safeguard enough operating funds to recruit and prepare personnel to use seven new vessels (the Protector Fleet) when they arrived. The vessels' late arrival meant that not all the funding was needed during the foundations phase.

NZDF had to make a significant number of improvements in the delivery of corporate services. NZDF centralised and consolidated the supply of corporate services to the Air Force, Army, and Navy: about 370 fewer personnel now provide these services. Headquarters NZDF increased, as planned, its numbers of personnel, although there are still shortages in numbers and capability in some areas. NZDF's effectiveness and efficiency programme continues to examine the best method for providing corporate services for the organisation.

NZDF faced a significant challenge in carrying out 16 major projects to improve corporate capability. Although slower than planned, NZDF made good progress towards completing all of them. New timetables were set for the delayed projects. The main reasons for delays were optimistic early planning, rising costs, and the effects of deployments.

NZDF is now using its new performance management system to model the level and mix of military capability that it can deliver within specific funding regimes, and to integrate capital and operating resource flows. NZDF had not been able to do this before the Initiative because it did not have the right systems and expertise available.

Although we make some suggestions to NZDF, we have not found it necessary to make any formal recommendations in this report.

I thank NZDF's staff for their helpful and professional co-operation with the audit team.

A handwritten signature in black ink, appearing to read 'Philippa Smith', written in a cursive style.

Phillippa Smith  
Deputy Controller and Auditor-General

1 September 2009



# Part 1

## Introduction

- 1.1 In this Part, we describe:
- the purpose of our audit;
  - the composition of the New Zealand Defence Force (NZDF);
  - NZDF's main duties;
  - how we carried out our audit;
  - how we have reported our findings; and
  - the structure of our report.

### The purpose of our audit

- 1.2 In May 2005, the Government approved a Defence Funding Package for NZDF, which amounted to \$4.4 billion (excluding GST) of extra operating funds over 10 years. The extra funding was not guaranteed. The planned annual increases were subject to change through the annual budget process.
- 1.3 NZDF prepared a 10-year programme to use the extra operating funding to improve military and corporate capabilities, which had become depleted.<sup>1</sup> The programme was called the Defence Sustainability Initiative (the Initiative).
- 1.4 NZDF planned to carry out the Initiative in three phases:
- the foundations phase (from 2005/06 to 2007/08);
  - the construction phase (from 2008/09 to 2009/10); and
  - the consolidation phase (from 2010/11 to 2014/15).<sup>2</sup>
- 1.5 We audited NZDF's progress against the results expected during the foundations phase. We set out our detailed expectations in each Part of our report.
- 1.6 In December 2008, the Government's decisions effectively ended the Initiative as a distinct programme. The current Defence Review and resulting Defence White Paper will set the Government's defence policy.

### The New Zealand Defence Force

- 1.7 NZDF is made up of the:
- Royal New Zealand Air Force (Air Force);
  - New Zealand Army (Army);
  - Royal New Zealand Navy (Navy);
  - Reserve Force;

<sup>1</sup> More information about the Defence Capability and Resourcing Review (February 2005), which led to the Defence Funding Package and the Initiative, can be found at [www.defence.govt.nz](http://www.defence.govt.nz).

<sup>2</sup> More information about the Initiative's three phases, and major areas of focus for each phase, can be found in NZDF's statements of intent at [www.nzdf.mil.nz](http://www.nzdf.mil.nz).

- Territorial Force;
- Headquarters NZDF, which is responsible for strategic command and management roles; and
- Headquarters Joint Forces New Zealand, which is responsible for planning and conducting all deployments.

1.8 The Air Force, Army, and Navy are collectively known as the Regular Force.

### **New Zealand Defence Force's main duties**

1.9 NZDF's duties are mainly in two areas: deploying forces and being prepared for potential new deployments.

1.10 Deployments include:

- deploying forces internationally as directed by the Government, such as to Afghanistan and Timor Leste;
- joint exercises with forces from other nations, such as Australia, Canada, Japan, and the United Kingdom; and
- providing planned support to other government departments, such as the Department of Conservation and the Ministry of Fisheries.

1.11 Being prepared for potential new deployments includes being ready:

- to respond to short-term urgent events, such as to provide humanitarian relief in response to disasters or to support the New Zealand Police; and
- for potential international deployments, such as new peacekeeping or combat missions.

### **How we carried out our audit**

1.12 We based our findings on our analysis of NZDF's public and confidential documents. We worked closely with NZDF to ensure that we correctly understood and used military terms, and the context for our audit and findings.

1.13 During the foundations phase, NZDF was to complete 16 projects to improve capability (see Appendix 1). We audited the steps NZDF took to ensure the quality of the projects' results. However, it was beyond our resources to give assurance about the quality of every project that NZDF had completed or had in progress during our audit. For example, we checked that NZDF had prepared an interim strategic plan (see Appendix 1, project 1), and that the Minister of Defence accepted the plan. But, we did not verify that its contents were optimal. We took a similar approach to other matters.

- 1.14 The then Cabinet approved \$209 million (excluding GST) in the Defence Funding Package for major capital items. Because we are separately auditing the quality of the monitoring and reporting systems that NZDF and the Ministry of Defence use for defence acquisition projects, we excluded them from this audit.<sup>3</sup>
- 1.15 The Defence Funding Package included funding for two projects to improve capability within the Ministry of Defence. We did not audit these projects, but for completeness we have included them in our list of the Initiative's corporate capability projects (see Appendix 1).

### How we have reported our findings

- 1.16 In May 2009, we provided NZDF with a report that contained technical and confidential material (the classified report). We did so to ensure that our detailed findings were available to NZDF as the mid-term review of the Initiative began.
- 1.17 We also circulated the classified report to the Minister of Defence and chief executives of the Ministry of Defence, Department of the Prime Minister and Cabinet, State Services Commission, and the Treasury.
- 1.18 This, therefore, is the second report we have produced and it sets out our main findings. We have adjusted this report to recognise that the Initiative, as a distinct programme, has effectively ended.

### The structure of our report

- 1.19 Parts 2 and 3 of our report discuss NZDF's performance during the foundations phase against expectations for its main military roles: maintaining deployment capability, and being prepared for potential new deployments.
- 1.20 The remaining Parts of our report discuss NZDF's performance against expectations in three broad areas:
- military personnel – NZDF was expected to:
    - increase personnel numbers in the Air Force, Army, and Navy; and
    - increase personnel numbers, and effective personnel, in critical trades and ranks;
  - equipment – NZDF was expected to:
    - clear a backlog of shortages in minor capital equipment;
    - increase the quantity of stock held in readiness for potential new deployments; and
    - ensure that Project Protector had enough operating funds to recruit and prepare crews for the new vessels; and

<sup>3</sup> In June 2008, we published *Reporting the progress of defence acquisition projects*, which was an interim report.

- corporate capability – NZDF was expected to:
  - consolidate corporate services and recruit more corporate personnel; and
  - carry out 16 major corporate projects.

1.21 In Part 12, we discuss NZDF's ability to balance expectations, workload, and capacity. We also comment on NZDF's role in reviews of the Initiative's progress, and its arrangements for managing and reporting the Initiative's implementation.

## Part 2

# Maintaining deployment capability

2.1 In this Part, we discuss whether NZDF was able to maintain deployment capability during the foundations phase.

**NZDF sustained the deployments required by the Government during the foundations phase. This came at a cost: progress in other areas was slower than NZDF had planned.**

2.2 One of NZDF's main roles is to deploy military forces at the Government's direction.

2.3 At the start of the Initiative, Cabinet wanted NZDF to maintain deployment commitments throughout the Initiative at levels no lower than those that existed in February 2005, which involved 11.7% of the Regular Force's personnel.

2.4 NZDF exceeded the Government's deployment expectations during the foundations phase. The percentage of Regular Force personnel deployed was:

- 12.4% as at 30 June 2006;
- 15.8% as at 30 June 2007; and
- 17.2% as at 30 June 2008.

2.5 The Air Force, Army, and Navy did not deploy equal numbers or proportions of personnel. Generally, the Army contributed more personnel. For example, in 2007/08, while the deployment rate for the Regular Force overall was about 17%, the deployment rate for the Army was between 17% and 25%.

2.6 During the foundations phase, NZDF could not sustain deployments using only Regular Force personnel. It needed to use personnel from the Reserve Force as well.

2.7 Maintaining deployments at these levels slowed NZDF's progress in restoring military and corporate capability because it needed more of its personnel to manage and sustain deployments. This left fewer staff available for the Initiative's improvement projects. It also left fewer personnel available to prepare for potential new deployments, which we discuss in Part 3.

2.8 We explain the effects of deployments on NZDF in Appendix 2.



## Part 3

# Being prepared for potential new deployments

3.1 In this Part, we discuss whether NZDF met the Government's expectations for being prepared to respond to potential new deployments. This includes short-term urgent support and potential international deployments.

**The Air Force and Navy mostly met their targets for improving preparedness. The Army did not meet its targets for improving preparedness because it deployed more personnel.**

3.2 One reason for rebuilding military capability is to ensure that NZDF is ready to deploy forces to meet emerging needs. These needs could:

- be short term or long term;
- be domestic or international;
- involve low or high security threats; and
- involve limited or extensive combat.

3.3 Each year, NZDF and the Government agree on how much time NZDF will have to respond to each of the many scenarios it needs to prepare for. Sometimes, NZDF will need to keep its personnel and equipment ready to respond within a few hours. At other times, NZDF will have weeks or months to prepare for a deployment.<sup>1</sup> Twice a year, NZDF tells the Minister of Defence what, if any, new deployment capability could be available during the next six months. The capability available often depends on the current number and complexity of deployments (see Appendix 2).

3.4 Preparedness for potential new deployments was meant to improve during the Initiative, and NZDF set annual targets to monitor improvements. The targets are confidential, so we cannot reveal what they were for the foundations phase. We can report that the:

- Air Force met its targets, except for one of its units that was deployed;
- Army did not meet its targets, mainly because so many personnel were deployed that not enough personnel remained to meet the targets; and
- Navy met its targets, except where a vessel was out of service (because it was being altered to meet international regulations).

3.5 NZDF has a custom-built information system that it uses to monitor the status of its preparedness for new deployments. NZDF has continued to improve the system's capability as its organisational performance management system matures.

<sup>1</sup> Longer notice periods allow time for personnel to be trained for a specific deployment. This training adds to existing skills. Keeping all personnel and equipment prepared to respond at short notice is unnecessarily costly and resource intensive. This is because training must be constantly up to date, and personnel must be available to respond to events with little or no warning (for example, for counter-terrorism and non-combatant evacuations).

- 3.6 During our audit, and partly because of our discussions with NZDF, NZDF began improving the flexibility of its information system. Currently, the targets for improvements in preparedness are fixed. The targets do not alter even if there is no chance of meeting them because there are not enough resources available.
- 3.7 One of the main reasons that not enough resources are available is because personnel and equipment are deployed. Therefore, NZDF is working out how to adjust the preparedness targets to respond to changes in deployment rates. We support NZDF's efforts in this area and we will monitor its effectiveness as part of our regular discussions with NZDF.

## Part 4

# Military recruitment

- 4.1 In this Part, we discuss NZDF's progress with increasing:
- personnel numbers in the Air Force, Army, and Navy; and
  - personnel numbers, and effective personnel, in the critical trades and ranks.
- 4.2 The Defence Funding Package enabled NZDF to recruit and retain personnel with the right skills and experience to meet the Government's expectations. However, it is not easy to recruit trained personnel from the general labour market. Therefore, much of the time, NZDF must recruit and train its military workforce.<sup>1</sup>

### Increasing personnel in the Air Force, Army, and Navy

**The Army achieved, and slightly exceeded, its target personnel numbers. The Air Force achieved about 97% of its target personnel numbers. The Navy achieved about 96% of its target personnel numbers.**

- 4.3 The Air Force, Army, and Navy set annual targets for personnel numbers for each of the Initiative's 10 years. We expected NZDF to meet its personnel targets for the foundations phase.
- 4.4 The results for the foundations phase (up to 30 June 2008) were as follows:
- The Air Force's target was 2570 personnel. It reached 2504 personnel (about 97% of the target), which was 66 personnel fewer than planned.
  - The Army's target was 4733 personnel. It reached 4754 personnel, which exceeded the target by 21 personnel.
  - The Navy's target was 2103 personnel. It reached 2020 personnel (about 96% of the target), which was 86 personnel fewer than planned.<sup>2</sup>
- 4.5 Delays in receiving the new Protector Fleet, and resulting attrition, affected the Navy's performance (see Part 8). The attrition rate also affected the Air Force's performance (see Part 5).

1 Recruits are usually trained in an operational, technical, or support trade or are trained as officers. Some specialists, such as chaplains, psychologists, or engineers could hold some qualifications before enlisting. Personnel are promoted when opportunities are available, and if they have the right skills and experience.

2 We asked NZDF to update these figures. The results at 30 June 2009 were as follows. The Air Force had 2595 personnel (about 99% of their target), which was 14 fewer personnel than planned. The Army had 5003 personnel (about 99% of their target), which was 52 fewer personnel than planned. The Navy had 2104 personnel (about 96% of their target), which was 91 fewer personnel than planned. NZDF says that financial constraints were the main reasons the Air Force and Army did not meet their targets. The Navy experienced high attrition and did not meet recruitment targets.

## Increasing personnel in critical trades and ranks

**The deployment rate and attrition were the main reasons that NZDF gave us for making slow progress in improving the numbers and effectiveness of personnel in critical trades and ranks. Only 10 of the 31 critical trades and ranks improved during the foundations phase.**

- 4.6 Personnel who are assigned to a position matching their training and rank are described as “effective”. To become effective, personnel need access to the right equipment to train with. For example, during the foundations phase, the Navy sent bridge watch officers to train with the Royal Navy because of delays with the Protector Fleet (see Part 8). This was expensive, but allowed training to continue.
- 4.7 Critical trades and – in the Army – critical ranks are important because they are needed to start and complete missions safely and effectively. These trades and ranks are “critical” even when they are fully staffed and personnel are effective. In total, NZDF has identified 31 critical trades and ranks.
- 4.8 NZDF sought to increase the numbers of effective personnel in the critical trades and ranks. No specific targets were set, but improvements were expected in each critical trade and rank during the foundations phase.
- 4.9 NZDF made slow progress in this area: there were improvements in only 10 of the 31 critical trades and ranks by the end of the foundations phase. Between 30 November 2004 and 30 November 2008,<sup>3</sup> the numbers of effective personnel in the:
- Air Force increased for one trade and decreased for four trades;
  - Army increased for two trades, stayed the same for four trades and ranks,<sup>4</sup> and decreased for 11 trades and ranks; and
  - Navy increased for three trades and decreased for six trades.
- 4.10 Most of the 31 critical trades and ranks experienced improvements at some time during the period we have reported on, but these improvements were not sustained.
- 4.11 NZDF told us that the deployment rate (see Part 2) and higher-paid job opportunities outside NZDF were the main reasons for declining numbers of effective personnel in the critical trades and ranks. We discuss other reasons for attrition in Part 5.

<sup>3</sup> These dates take in the foundations phase, which was from 1 July 2005 to 30 June 2008.

<sup>4</sup> In analysing NZDF’s personnel numbers, we considered that the numbers of effective personnel had stayed the same when any change was 2% above or below the 2004 numbers.

## Part 5

# Managing military attrition

- 5.1 In this Part, we discuss NZDF's efforts to reduce attrition in the Air Force, Army, and Navy and to understand the causes of attrition.

### Progress in reducing attrition

**By 30 June 2008, attrition in the Army had decreased by about 4%, and increased in the Air Force by about 1%, and in the Navy by about 4%. Most personnel received pay increases of between 10% and 12% during the foundations phase. NZDF believes that its new remuneration strategy is reducing attrition.**

- 5.2 Personnel numbers can increase by recruiting more personnel and retaining more of the personnel who are enlisted. Nonetheless, some attrition is desirable. For example, vacancies in the higher ranks provide opportunities for promotion for suitably qualified personnel in lower ranks. However, attrition that occurs at the wrong time or that is too high causes problems for NZDF.
- 5.3 NZDF expected attrition to decrease during the foundations phase.
- 5.4 We compared attrition rates for 2004/05 (the year before the foundations phase started) with attrition rates for 2007/08 (the last year of the foundations phase):
- The Air Force's attrition rate increased from about 9% to about 10%.
  - The Army's attrition rate decreased from about 19% to about 15%.
  - The Navy's attrition rate increased from about 13% to about 17%.<sup>1</sup>
- 5.5 Trained military personnel who have leadership experience are often able to get higher-paid employment outside NZDF. NZDF knew that matters relating to pay were affecting attrition. Therefore, as part of the Initiative, NZDF introduced a new military remuneration strategy in July 2008. NZDF had planned to complete the strategy's implementation by 30 June 2009. The strategy's purpose is to recruit the right people and to keep skilled and committed personnel, which includes producing a fair and equitable pay system.
- 5.6 During the foundations phase, most personnel received pay increases of between 10% and 12% (the range was from 0.5% to about 15%). NZDF believes that the new remuneration strategy is reducing attrition. NZDF recognises that the wider economic situation is also helping retention.

<sup>1</sup> We asked NZDF to update these figures. Attrition rates at 30 June 2009 had improved since 30 June 2008. Attrition rates in the Air Force and Army were below the 30 June 2005 rates. The Air Force's attrition rate had decreased from about 10% to about 6%. The Army's attrition rate had decreased from about 15% to about 12%. The Navy's attrition rate had decreased from about 17% to about 14%. NZDF's annualised attrition in 2009 was about 11%, which was about 3% less than in 2008. NZDF attributed the decreased attrition to the combined effects of the remuneration project and the economic environment.

## Understanding the causes of attrition

**In 2008, the Air Force and Navy commissioned detailed studies to find out why personnel stay or resign. The studies identified a broad range of reasons that affect attrition. We consider that the Army should commission a similar study.**

- 5.7 The Air Force, Army, and Navy conduct exit interviews to find out why personnel resign. Most personnel who leave before completing their term of service are interviewed.
- 5.8 In 2008, the Air Force and Navy decided that they needed to explore the reasons for attrition in more depth. They commissioned private providers to carry out detailed studies to identify the precise causes of attrition and the actions that would encourage personnel to stay longer.
- 5.9 The Air Force found that the top five areas of concern were:
- career development and management;
  - workload and work-life balance;
  - leadership and command;
  - pay and remuneration; and
  - housing and accommodation.
- 5.10 The Navy found that the top five areas of concern were:
- workload, stress, and resilience;
  - pay and remuneration;
  - balancing home and family with Navy demands;
  - career opportunities and management; and
  - housing and living environments.
- 5.11 Because of these surveys' findings, some smaller studies are planned. For example, the Air Force will survey the civilian partners of uniformed personnel to discover their views.
- 5.12 The studies' reports included recommendations for improvements. Actions to carry out the recommendations will take place over the short term, medium term, and long term.
- 5.13 The Air Force and Navy studies have shown that the causes of attrition involve matters other than pay. We suggest that the Army would benefit from commissioning similar research to identify reasons for attrition.<sup>2</sup>

2 We note that, in March 2008, the Army asked children of deployed soldiers to contact NZDF if they were interested in taking part in research designed to provide effective resources for families who will experience a deployment. This should be a useful project, but will not cover the same areas as those covered by the studies the Air Force and Navy commissioned in 2008.

- 5.14 We recognise that the:
- Army met its personnel targets for the foundations phase (see Part 4);
  - Army's higher deployment rate (see Part 2) was the main reason it was not able to improve its ability to prepare for potential new deployments (see Part 3); and
  - Army reduced its attrition rate during the foundations phase (see paragraph 5.4).
- 5.15 NZDF expects, and we agree, that it might be able to improve its ability to quantify the effects of individual deployments as its performance management systems mature. However, quantifying the effects of deployments after the event is different from being able to forecast the effects of a new deployment with enough confidence to, for example, schedule intakes of recruits. We accept that NZDF may never be able to accurately forecast the effects of individual deployments on retention and capability.



## Part 6

# Minor capital equipment

- 6.1 In this Part, we discuss NZDF's progress in rectifying shortages of minor capital equipment.
- NZDF has made good progress in clearing a backlog of minor capital equipment shortages.**
- 6.2 The Defence Funding Package provided funding to help NZDF deal with a backlog of minor capital equipment shortages. NZDF planned to rectify the shortages over 10 years, but assigned a higher proportion of the funding to the first three years.
- 6.3 During the foundations phase, NZDF spent about \$323 million on minor capital equipment, which was double the amount spent in the preceding three years. There were also about double the number of projects to buy equipment for than in the preceding three years. NZDF has made good progress in clearing the backlog of shortages.
- 6.4 The fast pace in starting projects, combined with the need to ensure that the right personnel were available to manage each project well, meant that some projects ran late.<sup>1</sup> NZDF took steps to ensure that new projects to buy minor capital equipment will not start unless there will be enough personnel available to manage them to completion within the relevant financial year/s.
- 6.5 NZDF had an effective and thorough method, using decision-modelling software, to help senior personnel decide which proposals for new minor capital equipment would get priority. Proposals for funding had to describe how the new equipment would help NZDF meet its strategic objectives.

1 The deployment rate was one factor that affected personnel availability.



## Part 7

# Restoring stock levels

- 7.1 In this Part, we discuss NZDF's progress in building up the quantity of supplies (known as stock) that it holds ready for potential new deployments.
- NZDF has increased the quantity of essential minor capital stock. NZDF worked to restore these stock levels ahead of increasing the quantity of major capital stock.**
- 7.2 Before forces can be deployed, NZDF needs to ensure that it has enough:
- personnel with the necessary skills and training; and
  - stock (such as fuel, ammunition, and equipment) for personnel to use when a new deployment is ordered.
- 7.3 The Defence Funding Package set aside funds for increasing stock levels. NZDF reviewed its planning assumptions and adjusted the quantity and type of stock that it needed, to match the pattern of deployments since 2002.
- 7.4 During the foundations phase, NZDF gave priority to increasing the quantity of essential minor capital stock, and restored quantities to acceptable levels to sustain current deployments. For example, NZDF bought equipment such as night-vision goggles. NZDF also restored the quantity of stock to levels that would enable it to conduct low-intensity<sup>1</sup> deployments of short duration in the south-west Pacific.
- 7.5 Because priority was given to the stock needed to sustain deployments, NZDF postponed work to restore major capital stock levels. Originally, work to restore major capital stock levels was supposed to start during the foundations phase but NZDF deferred the start date to 2009/10.

1 We discuss the intensity of deployments in Appendix 2.



## Part 8

# Safeguarding Project Protector's operating funds

8.1 In this Part, we discuss whether NZDF ensured that the Navy had enough funds to operate the new Protector Fleet when it arrived.

**NZDF set aside funds to operate the new Protector Fleet. Delivery of the fleet was delayed and NZDF allocated unused funds for other purposes. NZDF told us that it will give high priority to recruiting and preparing crews to operate the new vessels.**

8.2 Project Protector is a project to buy seven new patrol vessels and introduce them into service. NZDF was to set aside enough operating funds to recruit and prepare crews to operate the vessels when they arrived. Operating funds pay for personnel, maintenance, fuel, and depreciation.

8.3 The Protector Fleet was meant to arrive at intervals during the foundations phase. Therefore, NZDF set aside funds in increasing annual amounts to operate the fleet – from about \$5 million in the first year to about \$61 million in the third year (see Figure 1).

8.4 Some of the funds were used to recruit and prepare personnel to operate the first vessels that were due to arrive. However, production issues meant that the delivery of the fleet was delayed. As a result, some personnel left the Navy. This meant that the Navy needed only about 38% of the funding that it had originally planned to use for operating costs during the foundations phase (see Figure 1).

**Figure 1**  
Project Protector's planned and actual operating expenditure during the foundations phase

Financial year	Planned expenditure \$m	Operating expenditure as at 30 June \$m	Expenditure as % of budgeted amount
2005/06	5.1	5.9	115.69%
2006/07	31.0	5.4	17.42%
2007/08	60.5	25.8	42.64%
<b>Total</b>	<b>96.6</b>	<b>37.1</b>	<b>38.41%</b>

Source: NZDF.

8.5 The acquisition difficulties mean that NZDF will need to repeat the recruiting and training cycle to operate the Protector Fleet. NZDF told us that it will give priority to recruiting and preparing crews for the vessels.



## Part 9

# Funding distributed to the Air Force, Army, and Navy

9.1 In this Part, we discuss how much of the Defence Funding Package's extra operating funding NZDF distributed to the Air Force, Army, and Navy.

**NZDF distributed about \$169 million to the Air Force, about \$178 million to the Army, and about \$104 million to the Navy. The Army's share of the funding was less than Cabinet intended, mostly because some capital acquisitions were delayed.**

9.2 The Cabinet paper approving the Defence Funding Package listed some funding against individual output classes. Other increases were listed for individual items (such as pay increases) and this made it difficult to:

- calculate the exact share of the extra funding that Cabinet intended to distribute to the Air Force, Army, and Navy; and
- make a straightforward comparison between Cabinet's intentions and NZDF's actual expenditure for each output class.

9.3 However, after making the necessary detailed adjustments, NZDF calculated an estimated share of funding for the Air Force, Army, and Navy that reflected Cabinet's intentions for the foundations phase.

9.4 Figure 2 compares expenditure for the Air Force, Army, and Navy compared with the estimates of Cabinet's intentions. We excluded Project Protector's operating funds from our comparison because we deal with these funds in Part 8.

**Figure 2**

**Funding distributed to the Air Force, Army, and Navy during the foundations phase**

	Cabinet's intentions (estimated) \$m	Actual expenditure \$m	Over (under) \$m
Air Force	149.60	169.00	19.40
Army	242.41	178.12	(64.29)
Navy	66.75	104.30	37.55

Source: NZDF.

Note: We rounded amounts to two decimal places.

9.5 Before the Initiative, the Army experienced more under-investment and over-deployment than the Air Force and Navy. Therefore, we asked NZDF to explain why the Army got about \$64 million (about 27%) less funding than Cabinet intended.

- 9.6 The Army's share was less because some capital equipment acquisitions ran late, which meant that \$50 million in depreciation was not needed. Other reasons for lower-than-intended expenditure included:
- reduced training costs because of higher-than-planned deployments; and
  - the transfer of personnel and their associated operating budgets to the new centralised group providing corporate services for the Air Force, Army, and Navy (see paragraph 10.4).
- 9.7 NZDF approves funding proposals from the Air Force, Army, and Navy for the next financial year based on the contribution each proposal would make to achieve strategic priorities and operational commitments. This includes making progress towards the Initiative's goals. By this process, some of the funding the Army did not need during the foundations phase was distributed to the Air Force and Navy.

## Part 10

# Corporate services' consolidation and recruitment

10.1 In this Part, we discuss NZDF's progress in consolidating corporate services and increasing the numbers of corporate personnel.

### **NZDF centralised and consolidated its corporate services and increased the numbers of corporate personnel.**

10.2 Before the Initiative:

- Headquarters NZDF was critically short of personnel to provide services such as personnel, finance, and legal services, and to manage the Offices of the Chief and Vice Chief of Defence Force; and
- the Air Force, Army, and Navy each had their own corporate services personnel managing contracts, facilities, payroll, and travel.

10.3 In total, NZDF estimated that 1300–1400 personnel might be needed to provide corporate services. At 30 September 2008, there were 1200 corporate services personnel.

10.4 NZDF had plans to consolidate the corporate services that were part of the Air Force, Army, and Navy into a new Joint Logistics and Support Organisation (JLSO). These plans were brought into the Initiative. Establishing JLSO would release more military staff for military duties and this was achieved. At 30 September 2008, JLSO had about 320 personnel – about 700 personnel provided these services before consolidation occurred.

10.5 There was an understanding that Headquarters NZDF's personnel numbers should increase early in the Initiative, so there would be better corporate support for the Air Force, Army, and Navy. This was achieved. At 30 September 2008, Headquarters NZDF had about 880 personnel – it had about 640 personnel before the Initiative.

10.6 NZDF has a continuing programme to evaluate the effectiveness and efficiency of corporate services. Each review can increase or decrease the number of personnel as needed. For example, during our audit:

- a review of Headquarters NZDF's personnel structures was in progress; and
- plans were under way for a review of the structure and delivery of education and training.

10.7 NZDF recognises that the number of personnel at Headquarters NZDF needs to increase further, and capability still needs to improve in areas such as asset management, financial management, military information, and intelligence.



## Part 11

# Corporate capability projects

11.1 In this Part, we discuss NZDF's progress in completing 16 major projects to improve corporate capability.

**Although slower than planned, NZDF made good progress towards completing 16 major projects to improve military and corporate capability. The main reasons for delays were timetables that were too short, rising costs, and the effects of deployments.**

11.2 NZDF was expected to carry out 16 major projects to restore corporate capability, which had been severely depleted in the years before the Initiative. Appendix 1 sets out a list of the original 16 projects, a short description of each, and their status (open or closed) at December 2008.

11.3 The expected completion date for all 16 projects was 30 June 2006, which was only one year into the foundations phase. In our view, given the number, scale, and nature of the projects, this was an overly ambitious timetable.

11.4 Therefore, we considered it reasonable to expect, during the foundations phase, that NZDF would:

- make good progress with all 16 projects;
- record reasons for any delays; and
- tell stakeholders about any delays.

11.5 NZDF made good progress with nearly all the projects. By 30 June 2008, only six projects were not complete and these were being managed as business as usual (see paragraph 12.16). Of these six:

- four were in progress, and these were the:
  - risk management framework;
  - defence performance management system;
  - defence estate strategic plan, including the defence estate optimisation strategy; and
  - housing and accommodation assistance, due to be completed by 30 June 2010;
- one extra project (the Army transformation programme) was awaiting a Government decision before advancing;<sup>1</sup> and
- one project, the knowledge management framework, was postponed to give priority to other matters. However, one of this project's components (the information management and information exploitation project) was in progress.

1 Project 17 was the Army configuration review, which resulted in the Army transformation programme (project 19). NZDF considered that the Army transformation programme was part of the Initiative. (See Appendix 1 for the full list of projects.)

- 11.6 NZDF updated the timetables for the Initiative's major areas of focus, and documented them in its statement of intent for 2008–2011. Each change represented a delay in starting or ending work in the following areas:
- Increasing the quantity of major capital stock that NZDF holds was moved from the foundations phase to the construction phase (see Part 7).
  - Implementing the Army's future structure was moved from the construction phase to the consolidation phase.
  - The end-date for restoring the defence estate was moved from 2011 to 2015.
  - The date by when the Navy planned to reach its target personnel numbers was moved from 2011 to 2014.
- 11.7 As part of its routine reporting, NZDF explained the delays. There were broadly three reasons: optimistic planning, rising capital and operating costs, and higher-than-planned deployments.

### Optimistic early planning

- 11.8 The project briefs for the original 16 projects were prepared at the beginning of the Initiative, when NZDF's planning capability was inadequate. Therefore, it is not surprising that the timetables for many projects were overly optimistic.
- 11.9 The projects were not discrete or simple. As NZDF started to carry out the projects, it needed to take other actions or carry out other reviews to get more value from the original projects or to release funds for the projects. For example, NZDF carried out an internal baseline review with the aim of using savings in one area to meet the Initiative's priorities in another area. Some of the original projects were suspended while the baseline review was being carried out.
- 11.10 The timetables for the 16 projects did not necessarily consider the links and relationships between related projects. As well as links between the 16 corporate capability projects, there were also links between those projects and NZDF's other significant work programmes, such as the:
- defence capital asset management practice review;
  - defence transformation programme, which followed on from the baseline review;
  - long-term development plan;
  - resource allocation and management work programme; and
  - major capital acquisitions (with the Ministry of Defence).

- 11.11 The complex relationships between projects and programmes meant that sometimes one project needed to wait for another project to make progress before it could proceed.

### **Rising capital and operating costs**

- 11.12 NZDF has to manage within its budget. As we would expect, NZDF prioritised projects within its resources to make the best overall progress on the Initiative, even if this meant that projects would take longer than originally planned to complete.
- 11.13 Inflation eroded the value of the Defence Funding Package, which meant that the funding could not achieve as much as was originally planned unless efficiencies were achieved. Inflation affects NZDF more than many organisations. For example, the average rate of military inflation is 3% more than the economic average inflation. The inflation rate for military capital equipment is higher again – it is double the average rate of military inflation.
- 11.14 Operating costs also increased during the foundations phase. For example, the Navy paid \$600 for each tonne of fuel in 2004 compared with \$1900 for each tonne in October 2008.

### **The effects of deployments**

- 11.15 Deployments had widespread effects on NZDF, and even small deployments added to NZDF's difficulties in scheduling and achieving projects. Significant resources were needed to manage deployments, which meant that time and effort was directed towards meeting current needs and away from long-term rebuilding (see Appendix 2).



## Part 12

# Managing the Defence Sustainability Initiative

12.1 In this Part, we discuss NZDF's:

- ability to manage expectations of its performance, given its workload and capacity;
- responsibility to ensure that annual independent reviews of the Initiative's progress were conducted ; and
- arrangements for ensuring that it managed the Initiative effectively and reported its progress.

### Balancing expectations, workload, and capacity

**During the foundations phase, NZDF's deployment rate and rising costs meant that progress in some areas took longer than planned. NZDF now uses its new performance management system to model the level and mix of military capability that it can deliver within specific funding regimes.**

12.2 In general terms, there are four elements that any organisation can alter to balance expectations of its performance with workload and capacity. These elements are the:

- funding available to meet expectations;
- organisation's workload;
- expected results; and
- timetable for achieving those results.

12.3 We considered how these elements affected NZDF during the foundations phase. We note that NZDF had little ability to control rising costs, which needed to be absorbed within the Defence Funding Package.<sup>1</sup> For political and security reasons, it can be difficult for the Government to turn down some deployment requests. Only some of the Initiative's expected results were reviewed during the foundations phase.<sup>2</sup> Therefore, NZDF took longer than planned to achieve improvements in some areas.

12.4 During our audit, NZDF told us that it used its new performance management system to model the resources needed to achieve all the Initiative's goals.

12.5 NZDF expects that it will be able to:

- set out the level and mix of military capability it can deliver within specific funding regimes; and

1 The Defence Funding Package was based on 2004 costs. NZDF has had to absorb increased costs from inflation and currency changes. The Crown bore the risk of increased depreciation from asset revaluations for the Initiative's first five years, which was estimated at about \$230 million.

2 This was to have occurred during the mid-term review of the Initiative. The review has been superseded by the Defence Review and the Defence White Paper that will follow it.

- integrate capital and operating resource flows, which had not occurred before the Initiative was approved or during the foundations phase.
- 12.6 Although NZDF's modelling work was in its early stages, these actions met our expectations for sound planning and management accountability.
- 12.7 In our classified report (see paragraph 1.16), we considered that NZDF would not be able to achieve the Initiative's goals in the time available, given its deployment workload and available resources. Therefore, we suggested that NZDF adjust its performance targets for the Initiative to better reflect its workload and resources.
- 12.8 Since then, the Government's decisions effectively ended the Initiative as a distinct programme, which made our suggestion redundant. The Defence Review and resulting Defence White Paper will set the Government's defence policy. We expect NZDF to consider the intent of our earlier recommendation during this policy review and as it conducts its regular planning.
- 12.9 We reflected on the matters that affected the quality of NZDF's planning for the foundations phase. We discussed our assessment with some senior NZDF personnel and they agreed with our view. We consider that, at the outset, NZDF underestimated the:
- effect that many years of depleted corporate resources had on its ability to produce realistic timetables for projects; and
  - time that would be needed for the new and improved corporate systems to become established.
- 12.10 NZDF knew that completing the 16 corporate capability projects was a significant task. However, it did not necessarily understand what would be involved in ensuring that each project delivered the best results for NZDF, or how the Initiative would change NZDF's approach to management. For example, during the foundations phase, NZDF replaced its military management structure with an Executive Leadership Team. The changes to the methods for delivering corporate services were significant.
- 12.11 The size of the task facing NZDF in carrying out the Initiative was affected by NZDF's deployment rate during the foundations phase. It had been recommended that the deployment rate should be reduced in the first few years.<sup>3</sup> If this had been possible, more personnel would have been available to rebuild military and corporate capability more quickly. Instead, the deployment rate kept increasing, which eroded the capacity available to carry out the Initiative as planned. NZDF

<sup>3</sup> The review report that led to the Defence Funding Package and Initiative said the level of deployment was an important matter that needed to be considered while NZDF was rebuilding its capabilities. Significant resources are needed to manage deployments, which means time and effort is directed towards meeting current needs and away from long-term rebuilding. For this reason, the review report recommended that there be a reduced level of deployment during the Initiative's early years. The review report also said that a 10% deployment rate placed a considerable strain on NZDF.

responded to these constraints by setting priorities to guide decision-making (see paragraph 12.15) and adjusting timetables for some matters (see paragraph 11.6). These were sensible responses.

## Independent reviews of the Initiative's progress

**Compulsory annual reviews of the Initiative's implementation and progress have occurred. NZDF has dealt with, or is dealing with, matters arising from these reviews.**

- 12.12 NZDF needed to ensure that independent reviews of the Initiative's implementation and progress occurred each year, and it did.<sup>4</sup>
- 12.13 Matters raised by the reviews were responded to. The report from the third review made seven recommendations, and NZDF (with the Ministry of Defence) accepted six of them. One recommendation was not accepted because it sought to redefine the roles of both organisations, which Cabinet had decided in 2003.<sup>5</sup>
- 12.14 Progress on implementing the recommendations was reported to the regular meeting that NZDF and the Ministry of Defence have with staff from the Department of the Prime Minister and Cabinet, State Services Commission, and the Treasury (see paragraph 12.17). We agree that routine reporting should continue until the recommendations are implemented or until the organisations agree there is no further benefit from preparing the reports.

## Management and reporting arrangements

**NZDF had sound arrangements for managing the Initiative and reporting on its progress. Priorities were set to guide decision-making. Significant unmitigated risks to achieving the Initiative were identified and reported.**

- 12.15 NZDF set three main priorities for the Initiative and seven priorities for deciding how to use the Defence Funding Package. The combined priorities guided NZDF's decision-making. As part of the usual planning cycle common to state sector organisations, NZDF's strategic initiatives were reviewed each year. They were consistent with the improvements in military and corporate capability that were expected from the Initiative, which we discussed in earlier Parts of our report.
- 12.16 We expected NZDF to have clear accountability arrangements and management practices for carrying out the Initiative, and it did. For example, the 16 corporate capability projects (see Appendix 1) were managed using accepted project management practices during the first year of the foundations phase. From

<sup>4</sup> Our performance audit effectively formed the fourth annual review because NZDF decided not to commission a separate review covering the same period as our audit. We agreed with NZDF's rationale and decision.

<sup>5</sup> Cabinet's decisions were based on a 2002 report (Hunn, D, *Review of Accountabilities and Structural Arrangements between the Ministry of Defence and the New Zealand Defence Force*).

about June 2006, the uncompleted projects were transferred to the relevant line managers and became part of business as usual.

- 12.17 Even though the matters that were part of the Initiative were managed and reported as part of business as usual, NZDF had a system for bringing together and reporting information about the Initiative's progress as a total programme. For example, NZDF met regularly with the Ministry of Defence and staff from the Department of the Prime Minister and Cabinet, State Services Commission, and the Treasury to discuss the Initiative's progress and related matters. Separate written reports were produced for these meetings.
- 12.18 NZDF identified two significant unmitigated risks to the Initiative – higher-than-planned deployments, and rising capital and operating costs. We agree that these risks were significant and we have referred to their effects in the relevant Parts of our report.
- 12.19 We reviewed NZDF's reports about the Initiative and found that most of them met our expectations for good reporting because they:
- documented progress towards achieving the Initiative's goals;
  - highlighted any significant risks to achieving the goals; and
  - documented any changes to timetables or methods for achieving the goals.
- 12.20 Reports about the Initiative's progress brought together information extracted from an increasingly comprehensive performance management system. Information was brought together from systems such as those used for personnel, finance, and programme management, as well as NZDF's system to report preparedness for potential new deployments. NZDF improved or introduced these systems as part of carrying out the Initiative's corporate projects.
- 12.21 The routine consultation processes for the Government's annual budget round also provided year-by-year assurance on the Initiative's progress to the chief executives of the Ministry of Defence and the Treasury, and relevant Ministers.

# Appendix 1

## The Defence Sustainability Initiative's corporate capability projects

The table below lists all of NZDF's projects to rebuild corporate capability during the foundations phase of the Defence Sustainability Initiative (the Initiative).

Note that:

- Projects 10 and 11 belong to the Ministry of Defence but are included here (in italicised rows) for completeness.
- Project 19 resulted from project 17. NZDF considered that project 19 was part of the Initiative.

	<b>Project</b>	<b>Status at December 2008</b>	<b>Summary description</b>
1	Interim strategic plan	Closed	Prepare an interim strategic plan to provide the foundation for carrying out the Initiative, other existing NZDF projects, and future strategic plans.
2	Defence planning framework	Closed	Provide an integrated framework linking all NZDF planning. Provide structure and guidelines to monitor and report on performance against strategic plans.
3	Organisational structure review of Headquarters NZDF	Closed	Review Headquarters NZDF's organisational structure. Propose changes to achieve a high standard for governing and managing the Initiative.
4	Corporate Planning Branch	Closed	Establish a planning branch within Headquarters NZDF. Decide roles, responsibilities, position descriptions, and skill sets. This project became part of project 3.
5	Capability management framework	Closed	Amend the capability management framework to cover all aspects of capability (not only equipment purchases) to enable integrated approaches to capability management and extra capacity for long-term planning. Improve alignment between the framework and relevant decision-support systems within NZDF and the Ministry of Defence.
6	Knowledge management framework	Open	Devise and establish a useful and cost-beneficial framework identifying NZDF's approach to knowledge management. Prepare an interim plan directing phase one of project 18. Identify key knowledge assets and any gaps. Prepare a business case for a full programme of work to feed into the delivery of a knowledge management strategic plan.  At 30 June 2008, work on this project had stopped to provide resources for other priorities.

	Project	Status at December 2008	Summary description
7	Risk management framework	Open	Prepare a plan that prioritises the activities needed to move NZDF to an acceptable point on the risk management continuum.
8	Defence performance management system	Open	Create a system that gives information to senior management that is timely, readily understood, consistent, and comprehensive in covering strategic, operational, personnel, project, and business-as-usual activities.
9	Management of shared functions	Closed	Prepare a high-level strategy for joint functions and shared services. Review, standardise, and integrate support functions across NZDF to remove duplication. This project became part of NZDF's efficiency programme.
10	<i>Ministry of Defence project</i>	<i>Closed</i>	<i>Strengthen the Ministry of Defence's capability to provide policy advice.</i>
11	<i>Ministry of Defence project</i>	<i>Closed</i>	<i>Introduce a satisfactory process to provide high-quality first and second policy and purchase advice on defence-related issues, and monitor the defence departments' performance.</i>
12	Defence estate strategic plan	Open	<p>Produce an interim plan that covers the key estate needs for an initial 10-year period. This project was to be carried out with project 13. It was completed in late 2005. However, the plan addressed only part of NZDF's estate needs, was too narrowly focused, and the 10-year period was considered relatively short.</p> <p>A new project was set up to produce an expanded defence estate strategic plan taking a longer-term strategic approach to camp and base roles and location. It included project 13 and other estate projects, such as the Army "Footprint Study", which came out of project 17.</p>
13	Defence estate optimisation strategy	Closed	Provide a co-ordination point and an overarching framework for establishing and completing projects associated with redeveloping, acquiring, and disposing of property assets. This project became a part of an expanded project 12.

	Project	Status at December 2008	Summary description
14	Housing and accommodation assistance	Open	<p>Deliver a housing and accommodation assistance policy linked to NZDF's strategic goals, including goals about personnel recruitment and retention, and accommodation needs. The aim of the policy is to enable a programme of work to be prepared to meet the identified needs.</p> <p>The project is being carried out in phases and at 30 June 2008 was planned to take two more years to complete.</p>
15	Human resources capability – recruitment and retention	Closed	Prepare implementation plans for resolving current recruitment and retention issues within NZDF. This project became part of project 16.
16	Strategic human resources planning framework	Closed	Prepare a comprehensive strategic human resource planning framework that is consistent with the interim strategic plan (project 1) and other planning documents, aligns with the gap analysis that is the basis for the Defence Funding Package, and is based on sound external and internal environmental analysis.
17 19	Army configuration review	17: Closed 19: Open	Project 17 has been completed. Project 19 (the Army transformation programme) is to decide the best configuration of the Army. Options are with the Government for decision, and NZDF therefore regards this project as open.
18	Information management/ information exploitation	Open	Improve existing capabilities and practices so that corporate and military decision-makers have faster and more reliable access to the information they need. This project became part of project 6.



## Appendix 2

# The effect of deployments on being prepared and rebuilding capability

We consider that it is helpful to explain the effects of deployments on being prepared and rebuilding military and corporate capability.

Most of the time, more deployments mean less preparedness. During the Defence Sustainability Initiative's foundations phase, more deployments also meant slower than planned progress in rebuilding military and corporate capability.<sup>1</sup>

There is an inherent trade-off between deployments and being prepared because personnel cannot be in two places at once. For example, when an Army field engineer is serving in Afghanistan, they are not in New Zealand carrying out pre- or post-deployment work. Further, they cannot then be involved in being prepared for potential new deployments or other activities.<sup>2</sup>

Usually, for every land-based person deployed, another two personnel are committed to pre- and post-deployment tasks. These two personnel "sustain" the deployment. For example, a 10% deployment rate would mean that 20% of the Regular Force would be involved in pre- and post-deployment activities, and 70% would be available to prepare for potential new deployments and to carry out other activities.

The table below shows the estimated effects of NZDF's deployments during the foundations phase on the number of Regular Force personnel that were available to carry out other activities or prepare for potential new deployments.

	Deployed (%)	Involved in pre- and post-deployment activities (%)	Involved in other activities and preparing for potential new deployments (%)
February 2005	11.7	23.4	64.9
2004/05	12.9	25.8	61.3
2005/06	12.4	24.8	62.8
2006/07	15.8	31.6	47.4
2007/08	17.2	34.4	48.4

On their own, deployment rates do not give a full picture of the effect of deployments on NZDF. The reality is more complex.

- 1 The Defence Capability and Resourcing Review (February 2005) has more information about the effects of deployments on NZDF than the summary we have included in our report. Go to [www.defence.govt.nz](http://www.defence.govt.nz) for a copy of the Defence Capability and Resourcing Review's report.
- 2 "Other activities" means that personnel are either: performing defence work other than working in their regular trade; on leave; or carrying out formal technical or leadership training or non-trade work experience to prepare personnel for promotions.

NZDF's capacity to sustain deployments is also affected by the number, location, and intensity levels<sup>3</sup> of deployments. For example, most deployments need support from communications, engineering, supply, and medical specialist personnel. Frequent, small, distant, and widely dispersed deployments mean that more of these personnel are needed. These deployment patterns present different challenges from geographically concentrated deployments. Deployments were spread around the world during the foundations phase.

NZDF works in an uncertain environment and even small deployments have a "ripple" effect on Headquarters NZDF. Some deployments occur at short notice and can affect the rest of the organisation significantly because they remove personnel from other posts, and divert equipment and other resources. Deployments create extra work in planning and defence relationships, but because of the deployment there are fewer personnel available to do that work and keep up with business-as-usual tasks.

Personnel shortages in some trades can complicate scheduling. Shortages can also result in personnel being deployed more often than would otherwise occur and can result in increased attrition.

NZDF has found it difficult to quantify or forecast with any certainty the potential effect of individual deployments on retaining personnel. One reason for this is the lag between deployments and their effects. A single deployment might not affect, for example, a soldier's decision to leave the Army. However, the effect of frequent deployments, or repeated deployments to one location and prospects of more deployments to the same place or of the same nature, combined with the effects on family, could cause a soldier to resign.

3 Disaster relief work is an example of a low-intensity deployment. Reconstruction efforts in a recent war zone are an example of a medium-intensity deployment. A high-intensity deployment would involve sending combat troops to an active war zone to fight or act as peace-keepers.





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Office of the Auditor-General  
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500  
Facsimile: (04) 917 1549

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
[www.oag.govt.nz](http://www.oag.govt.nz)