

# Defence Capability and Resourcing Review

## Terms of Reference

### 1 Review Aims

- 1.1 To identify the current and optimum capability configuration and resource requirements for defence to undertake the roles and tasks prescribed by the Government.
- 1.2 To advise the Minister of Defence on how the optimum capability of defence can best be realised.
- 1.3 To draft output statements that advance the Government's defence policy.

### 2 Background

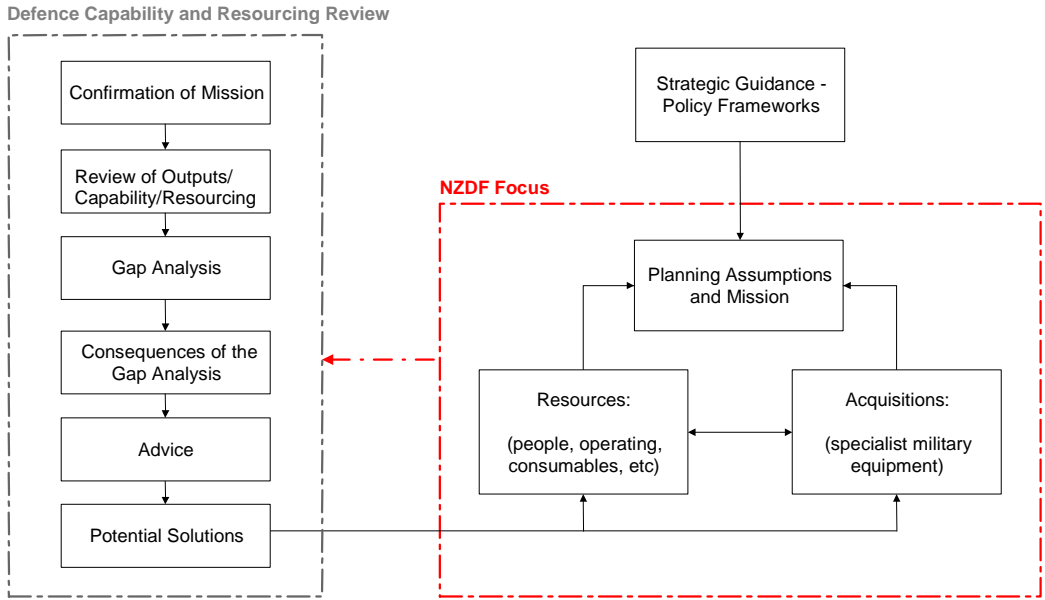
- 2.1 New Zealand Defence Force's (NZDF) current output statements stem from several reviews and assessments undertaken in the 1990's. There is now emerging evidence that suggests some of the assumptions and limitations behind the original output statements might not fully align with contemporary strategic direction and emerging trends. As Defence allocates and manages its resources by output, it follows that the basis for these allocations might not be the most effective or efficient in today's circumstances.
- 2.2 Present policy direction originates from a suite of statements and reviews endorsed by the Government over the last three to four years. Key developments are listed in the references to this document and illustrate the defence objectives, strategies and types of capabilities the Government has sought. In addition, the Defence Long-Term Development Plan sets out the Government's intentions for capital investment in defence capability. Underlying this plan is a series of military capability reviews and concept papers all of which serve to define what the Government expects of its Defence Force.
- 2.3 The next step in planning to meet the Government's requirements is to review the alignment of defence capability and resource allocations against government policy.
- 2.4 Other factors which contribute to the uncertainty over the current and future appropriateness of present capability and capacity include:
  - new acquisitions with concomitant resource implications (people, support systems, skills and operating expenditure);
  - an increase in operational tempo, which has implications for maintaining the performance of the NZDF;
  - the consequences of increased jointness, leading to changes in the way the NZDF needs to organise itself to deliver outputs; and
  - revised financial management requirements, which include revaluations policy, accounting standards and the need to prefund significant acquisition processes.

2.5 Cabinet has directed the Ministry of Defence (MoD) and the NZDF to work together in a more joint and integrated manner. The NZDF has also been directed to increase its level of internal jointness and eliminate any duplication of effort and function. An implementation project (as a result of the Review of Accountabilities and Structural Arrangements) has been established to bring about the necessary organisation, system and cultural change. This review will take into account the outcome of that project.

**3 Scope**

3.1 The review will provide advice on current capability and capacity and will describe the outputs that the NZDF will need to deliver over the next decade. An examination of the organisation’s current baseline to determine its capacity to absorb cost pressures will also be undertaken.

Chart 1: Process for Defence Capability and Resourcing Review



3.2 *The review will not examine the existing overarching strategy for Defence in New Zealand or provide alternative advice.* The Government has determined its overall strategy and has commissioned and approved a range of strategic projects designed to deliver the defence policy agreed by Cabinet. Source documents are at the annex to these terms of reference and are expected to inform the review’s thinking.

3.3 From the existing strategic guidance, the review will establish the likely future mission (tasking) that will be asked of the NZDF over the next decade. The review will also assess and provide advice on the resource requirements to deliver this mission.

3.4 The scope of the review includes both the NZDF and the MoD.

## **4 Task**

### 4.1 The review will:

- clarify the mission (tasking) of the NZDF over the next decade;
- assess the existing capability and capacity against Government's requirements;
- identify where organisational capability gaps may exist;
- analyse the nature and significance of these gaps;
- provide options that defence and the Government may wish to consider in addressing any emerging organisational capability issues;
- assess the capability of MoD to support the government policy process;
- advise on an appropriate schedule and grouping of outputs to accurately reflect the nature and scope of the services that NZDF will be expected to deliver over the next decade; and
- advise on the cost implications of sustainable delivery of the outputs.

### 4.2 The review will seek advice as required from appropriate professional military and civilian personnel where issues of military capability arise, and will indicate where priority tradeoffs will or may need to be taken.

## **5 Deliverables**

### 5.1 The key deliverable required is a resourcing plan for Ministers that identifies key capability, capacity and output issues and options on how defence and Ministers might wish to consider them.

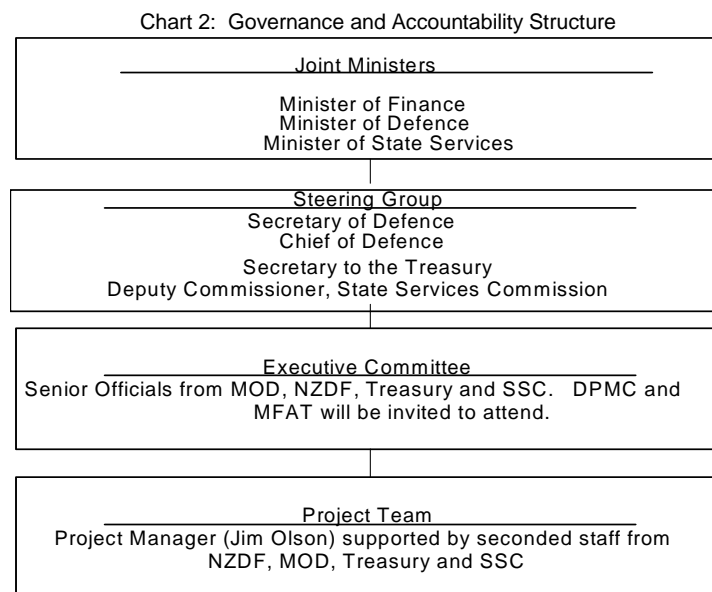
### 5.2 The review will also provide advice on:

- capability generation activities (raise, train and maintain) to ensure the NZDF can most efficiently use all its assets to meet the Government's defence needs;
- information requirements and system support for the development of sustainable strategic and operating plans for the NZDF as a whole;
- policy guidance for the NZDF to ensure that operating implications are fully captured in resource decision making;
- resource prioritisation processes;
- capital asset management policies and practices (for specialised military equipment and infrastructure);
- life cycle costing policies for assets;
- effective and well incentivised organisational processes to permit NZDF to assess trade-offs between acquisitions and capabilities in the delivery of outputs;
- a chart of performance and capability information that will:
  - provide Ministers with reliable information about the nature and quality of the services NZDF is currently supplying and about NZDF's capability to supply the same or other services in the future;
  - provide ministers with accurate and timely information about the real options for altering their purchase decisions as circumstances dictate;
  - have an internal logic to be a useful strategic planning and management tool for the NZDF.

## 6 Governance and Accountabilities

6.1 The following Governance structure is proposed:

- The Secretary of Defence and the Chief of Defence Force (CDF) as joint project leaders.
- A Steering Group comprising of (i) the Secretary of Defence and (ii) the Chief of Defence Force, (iii) the Secretary to the Treasury, and (iv) the Deputy Commissioner, State Services Commission (SSC).
- The Steering Group will report monthly or as required to the Minister of Finance, the Minister of Defence and the Minister of State Services.
- An Executive Committee of senior officials will support the Steering Group. The Committee will comprise (i) the Deputy Secretary (Policy and Planning) of the MoD, (ii) the Vice Chief of the Defence Force, (iii) the Chief Financial Officer of the NZDF, and (iv) the Manager, International and Defence, Treasury. The Deputy Secretary (Evaluation) of the MoD, the Assistant Chief (Resources) of the NZDF and CDF's Executive Project Manager for RASA will be in attendance as required. DPMC and MFAT will be advised and consulted where appropriate. The results of each stage will be synthesized for discussion at the Executive Committee before recommendations are offered to the Steering Group.
- A dedicated project team will undertake the project. The team will comprise a full-time project manager who will be supported by a team of full-time seconded staff from the MoD and NZDF, with part time seconded staff from Treasury and SSC.



6.2 Contractors may also be required through the year as the project work programme determines.

6.3 It is envisaged that the marginal costs of the review could be up to \$0.500m. A pro-rata allocation of costs of \$0.350m (NZDF); \$0.100m (MoD); and \$0.050m (Treasury) will be met from either within existing baselines or new one off funding. The costs of seconded staff will be met by the participating agencies.

## **7 Timetable**

- 7.1 The project will formally commence in January 2004. It is expected to have prepared a draft report to the Steering Group no later than 30 August 2004, with recommendations available for Ministerial consideration no later than 31 October 2004 (in order to inform the 2005/2006 budget round).
- 7.2 Progress updates will be provided to the Minister of Defence on the achievement of project milestones, as agreed by the Minister, and on occurrence as deemed necessary by the Steering Group. Recommended project milestones will be submitted to the Minister of Defence for consideration by the end of March 2004.
- 7.3 The Project Team will meet as required, but no less than bi-monthly with the Steering Group.

## **8 Protocols for the Access to Information**

- 8.1 The Secretary of Defence and the Chief of Defence Force will ensure that members of the Project Team will have access to such documents and information as the Project Manager considers necessary for the purposes of conducting the review, and will facilitate the collection and aggregation of information from disparate sources where this is considered necessary.
- 8.2 The Secretary of Defence and the Chief of Defence Force will ensure that members of the Project Team have reasonable access to the staff of the Ministry of Defence and to both the civilian staff and military personnel of the New Zealand Defence Force for the purposes of obtaining information or an explanation about any information.
- 8.3 If, in any case, the holder of some information considers that the information should not be disclosed to the project team for reasons of national security or personal privacy or any other reasonable grounds, the holder of the information shall refer the information request to the Secretary of Defence or the Chief of Defence Force or their delegates for a decision about whether the information should be disclosed.

## **9 Communications**

- 9.1 The Minister of Defence's Office will coordinate the release of any media statements on confirmation of the terms of reference. A Defence internal communications plan will be drafted by the Project Team and forwarded, through the Steering Group, to the Minister of Defence by the end of March 2004.

## **10 Consultation**

- 10.1 The Department of Prime Minister and Cabinet, the State Services Commission, the Ministry of Foreign Affairs and Trade and the Treasury have been consulted in the preparation of this Terms of Reference.

Hon Mark Burton  
**Minister of Defence**

## References

The following documents will be referred to (see paragraphs 2.2 and 3.3 above):

- The Government's Defence Policy Framework June 2000
- 8 May 2001 Government Defence Statement
- 2003 Defence Long-Term Development Plan
- NZDF Output Plan
- NZDF current and projected balance sheets
- Chief of Defence Force Vision Statement
- Decisions emanating from The Review of Accountabilities and Structural Arrangements and associated documents
- The Defence Capability Management Framework