



MINISTRY OF
DEFENCE

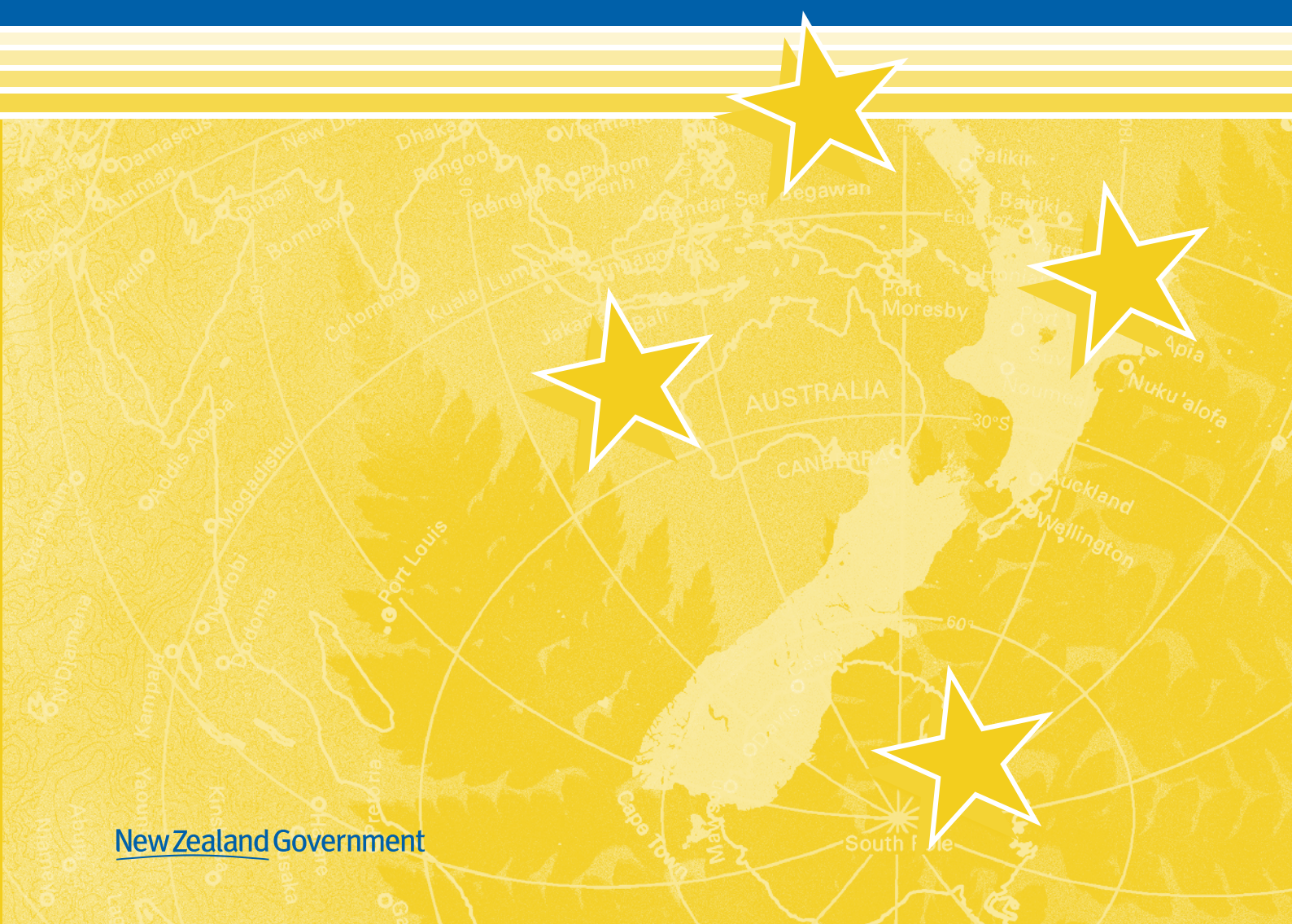
Manatū Kaupapa Waonga

Strategic Intentions

1 July 2014 – 30 June 2018

Presented to the House of Representatives

Pursuant to section 39 of the Public Finance Act 1989





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Ministerial foreword

The Government is committed to making sure New Zealand's defence and national security system is effective. The period covered by this *Strategic Intentions* document includes work that will deliver military capability affordably, make both the Ministry of Defence (the Ministry) and the New Zealand Defence Force (NZDF) more capable and sustainable organisations, and maintain the momentum we have built in key defence relationships.

This year the Government allocated an additional \$535.5 million operating funding to Defence over four years, as a result of the Defence Midpoint Rebalancing Review (DMRR). This commitment provides the basis for a capable defence force that can meet the policy objectives set out in the *Defence White Paper 2010* through to 2035. Providing this level of certainty is a major achievement, both in New Zealand and internationally.

Over the four years covered by this document, the Ministry will continue its work to implement the findings of the 2012 Performance Improvement Framework review, and support the NZDF to implement the new baseline that was agreed through the DMRR.

The 2014 Defence Assessment is being prepared and will update the Government on the strategic environment, including any implications for defence capability. If the Government agrees that a White Paper is needed, then one will be delivered in 2015.

The Ministry is leading work to deliver a number of major acquisitions of military equipment, including new pilot training capability, maritime helicopters, and medium/heavy operational vehicles. At the same time, the Ministry is improving its acquisition by taking an approach of using off-the-shelf solutions that deploy proven technology, and standardising project management methodologies and systems with the NZDF.

Evaluation work will continue a modern approach that provides improved understanding of the defence system, by delivering reports that are more strategic, provide a good indicator of system performance, and give coverage of the areas of greatest risk.

Over the coming four years, the Ministry will operate using its improved operating strategy – embedding a focus on people, teamwork and partnerships at all levels of the organisation and the way it works. This emphasises the Ministry as an effective civilian ministry that is strongly partnered with the NZDF and also part of an integrated defence and security sector.

In its management of international defence relationships, the Ministry will take a more visible role. Our defence relationship with Australia is a bedrock. A number of critical relationships, including those with the United States and China, have continued to grow. We are an active participant in the regional defence and security architecture and our defence relationships contribute directly to New Zealand's security. The Ministry will play an active role in ensuring New Zealand remains a trusted, credible partner.



Hon Dr Jonathan Coleman
Minister of Defence



Introduction from the Secretary of Defence

National security is important to the lives of all New Zealanders. Defence is one of the ways the Government can maintain national security, and contribute to security internationally and in our region. This directly contributes to the achievement of the Government's broader social and economic priorities. Important to this context is the role of the Ministry of Defence (the Ministry), to *give civilian advice on defence matters to enhance New Zealand's security*.

During 2013/14 the Ministry completed work on the Defence Midpoint Rebalancing Review (DMRR); progressed a number of capability business cases and acquisition projects; and delivered major change throughout the organisation as it implemented the findings of the 2012 Performance Improvement Framework review.

This work sets the basis for the Ministry's planned achievement over the next four years, which is expressed through our five strategic directions:

Defence decisions keep pace with the dynamic security environment; and New Zealand contributes to and benefits from successful defence relationships.

The Ministry has a central role in the way New Zealand approaches defence relationships, engages with and deploys abroad, and participates in the Asia-Pacific region defence architecture. We will continue to build and add value to these defence relationships to enhance New Zealand's national interests.

During the period covered by this document, New Zealand will continue its contribution to regional security. This includes hosting a number of talks and exercises, and taking on co-chair responsibility for the ADMM-Plus Expert Working Group on Maritime Security.¹

Capability advice balances policy, capability and cost, and establishes the true risk and cost of projects early.

The decisions taken by Government on the DMRR will drive a significant, multi-year programme of military acquisitions. The Ministry will advance 15 new capability projects and programmes in the period to June 2015, worth an estimated \$1.325 billion. These include projects on Littoral Operations Support Capability; New Zealand Light Armoured Vehicle Refresh; Underwater Intelligence, Surveillance and Reconnaissance; and Maritime Sustainment Capability.

We are working with the New Zealand Defence Force (NZDF) and Central Agencies to ensure that our advice on each project reflects the practical realities of delivering them, and that the Government has the advice it needs to understand the true risks and cost of each project early.

Major military equipment is acquired on time and delivers against the Government's intentions.

Over the four-year period, the Ministry will lead a number of major acquisitions of military equipment. This includes the HMNZS *Canterbury* remediation, pilot training capability and land combat weapons. Military technology is changing, and increasingly capability projects include complex software components and the requirement to integrate multiple components. We will build our capability to manage these issues, and continue to use off-the-shelf technologies wherever these can provide the capability our defence force personnel need.

¹ ADMM-Plus is a platform for ASEAN and its eight Dialogue Partners to strengthen security and defence cooperation for peace, stability and development in the region.

The defence agencies successfully manage a period of change and reform.

The DMRR has provided more certainty about the portfolio of capabilities required by the NZDF, and their affordability. It has also confirmed the need for the efficiency reforms that were originally part of the NZDF Savings and Redistribution Programme.

The Ministry will be a strong partner for the NZDF's delivery against these expectations. We will achieve this through: discharging shared responsibilities I have with the Chief of Defence Force and supporting joint governance arrangements; the work of the Ministry's Evaluation Division to deliver strategically focused reports that support learning and improvement; and the Ministry's work to advise on defence system performance and prepare business cases for individual capability projects.

The Ministry becomes sustainable and resilient.

The Ministry has made major organisational changes over the last year. These include to its operational model, and a new approach to defence evaluations. Our vision is to be a strong agency in the context of an integrated defence and security sector. We have committed to this through our focus on *people, teamwork and partnerships* within the Ministry, and also in a practical sense through new shared services arrangements with the agencies around us.

While important, the changes we have made are first steps. Over the four years, we aim to finish the job of delivering a sustainable and resilient organisation that is among the best in the State services, is influential in its international relations, and is a strong and trusted partner for the NZDF.



Helene Quilter
Secretary of Defence

Statements of responsibility

Ministerial statement of responsibility

I am satisfied that the information on strategic intentions prepared by the Ministry of Defence is consistent with the policies and performance expectations of the Government.



Hon Dr Jonathan Coleman
Minister of Defence

Chief executive statement of responsibility

In signing this statement, I acknowledge that I am responsible for the information on strategic intentions for the Ministry of Defence. This information has been prepared in accordance with section 38 and section 40 of the Public Finance Act 1989.



Helene Quilter
Secretary of Defence

About us

Our purpose

The Ministry of Defence (the Ministry) gives civilian advice on defence matters to enhance New Zealand's security. It is the Government's principal civilian advisor on the international strategic defence environment and on New Zealand's defence interests.

Our role

The Ministry is a small agency of 60-70 people managing a high tempo of demand for its activities.² It has the following roles:

- it looks out to the strategic environment and ahead to what New Zealand will need from its military;
- it defines, with the New Zealand Defence Force (NZDF), what defence capability is needed, acquires that capability, and assess its effectiveness;
- it helps shape the international environment in the interests of New Zealand's security, through its part in the management of New Zealand's international defence engagements;
- its evaluation functions deliver a work programme agreed with the Minister of Defence, to provide advice on the effectiveness of New Zealand's military capability and the performance of the NZDF.

The Ministry's roles were agreed by the Government following the *Defence White Paper 2010*, which set these out in terms of management of defence capability and defence relationships.³ This is supported by the statutory functions and arrangements in the Defence Act 1990. In addition, the *2012 Performance Improvement Framework Review of the Ministry of Defence* (the 2012 PIF Review) presented a four-year excellence horizon for the Ministry that set expectations for significant organisational reform.⁴

In its defence assessment and advice role the Ministry assists Government to set long-term priorities for New Zealand's defence and security. This includes preparing periodic Defence Assessments. Given the evolving nature of the external environment, providing this advice needs to be an ongoing, dynamic activity.

The assessments shape the Ministry's advice on what military capability New Zealand needs; determine priorities for New Zealand's international defence relationships and engagements, and what it needs to do to maintain them; and its advice on where the NZDF should be deployed.

The Secretary of Defence and Chief of Defence Force are jointly responsible for the Defence Capability Management Framework: the total process through which military capability is defined, purchased, introduced, upgraded while in service, and disposed of. In this context, capability is the combination of equipment, support systems and appropriately trained and deployed service men and women. The Secretary of Defence ordinarily has primary responsibility for capability development and for the acquisition of major defence equipment.

² Staff members associated with individual Acquisition projects are funded from project capital funding rather than departmental funding. Seventy-three FTEs were funded from departmental spend at the end of June 2014.

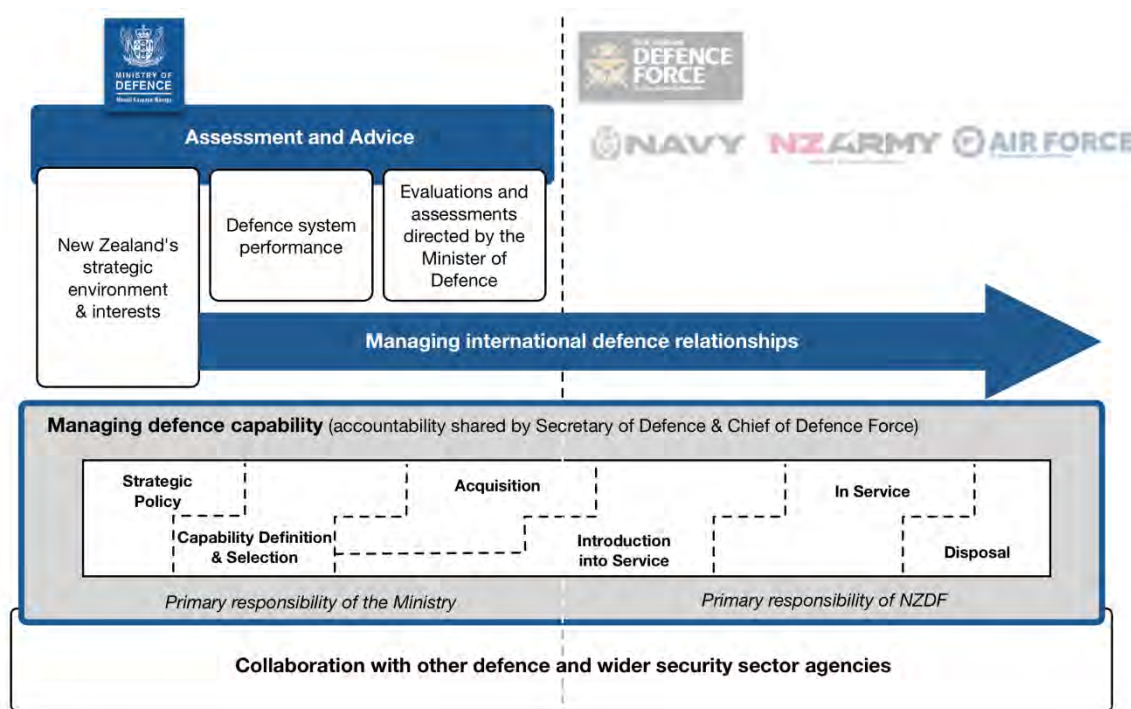
³ The *Defence White Paper 2010* is available from the Ministry's website at: <http://defence.govt.nz/defence-review.html>

⁴ The 2012 PIF Review of the Ministry is available from the State Services Commission website at: <http://www.ssc.govt.nz/sites/all/files/pif-mod-review-sept12.pdf>

The capability needed to deliver on the Government's defence policy is described in the *Defence Capability Plan*.⁵ This articulates the key investment themes that will characterise the next 10 years – signalling the Government's capability intent to industry, security partners and the public.

Over the four years covered by this document the Ministry will be responsible for projects resulting in capital expenditure of up to \$3.7 billion, to enhance the ability of our armed forces to keep New Zealand secure. The NZDF contributes to this in a variety of ways, from helping to protect New Zealand's borders and Exclusive Economic Zone, to engaging in work to promote the stability of the Asia-Pacific region and the international environment.

Figure 1: The Ministry of Defence's responsibilities



The Ministry's civilian role is based on Westminster constitutional arrangements, whereby civilian advice is provided to Government to assist it in directing the activities of the military, and ensure the NZDF is able to deliver on all of the Government's relevant priorities. All the Ministry's activities support this function of Government, which is exercised through the Minister of Defence.

⁵ The *Defence Capability Plan* is available from the Ministry's website at <http://defence.govt.nz/reports-publications.html>

Our operating environment

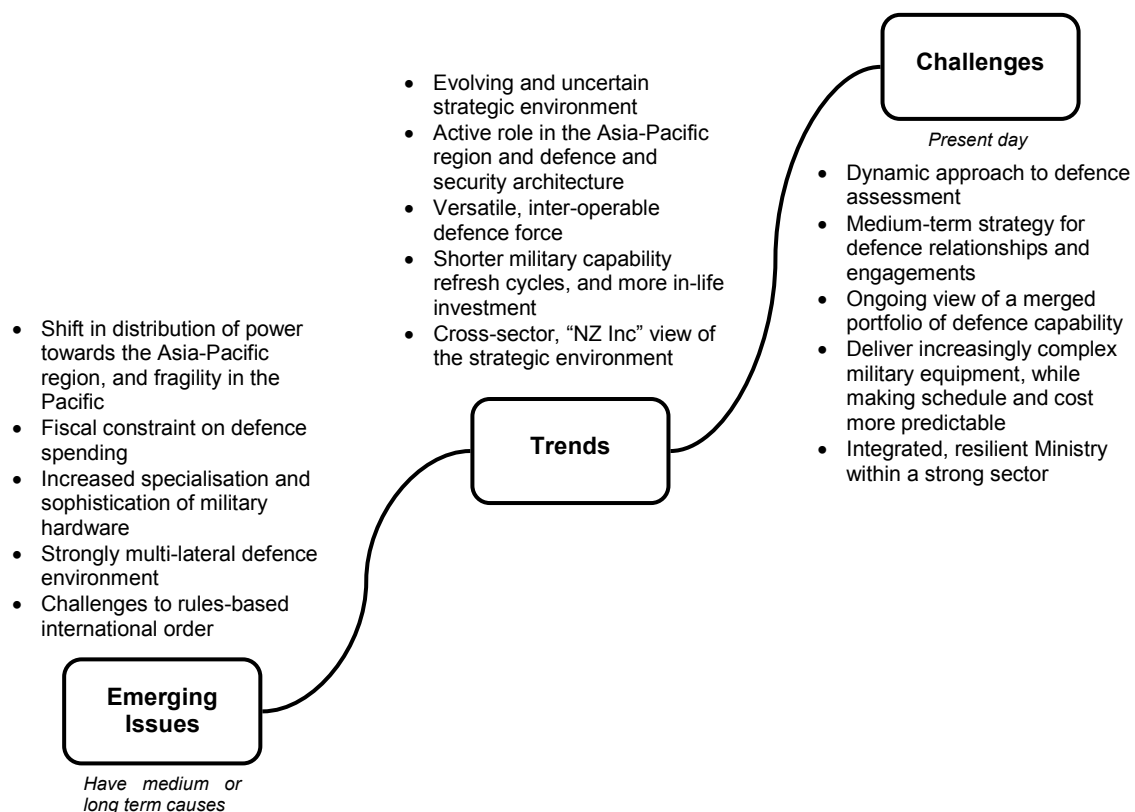
The Ministry operates in three connected contexts:

- it advises on and engages with the strategic defence environment;
- it advises the Government on capability choices and procures equipment; and
- it is part of the Government's defence and security sector.

Over the four-year horizon of this document the Ministry expects increased demands on its activities in respect of each of these elements of its environment. These reflect the demands of a much more sophisticated approach to planning and governing defence capability purchases (arising in part from the *Defence White Paper 2010*); increased expectations to participate in regional defence and security relationships and architecture; and the improved investment certainty arising from the Defence Midpoint Rebalancing Review (DMRR) work – balancing the policy intent of the *Defence White Paper 2010*, the capabilities required to deliver that policy and funding.

The *Defence White Paper 2010* reflects a thorough analysis of likely impacts on New Zealand's defence requirements. It presents the Government's view of the strategic environment. The Ministry will continue to monitor developments that might alter this view.

Figure 2: The Ministry of Defence's operating environment



The strategic defence environment

The strategic defence environment is the international setting of issues, threats and relationships in which New Zealand seeks to be secure. New Zealand's medium term defence interests will be shaped by challenges to the rules-based international order; the shift in the distribution of global economic power towards the Asia-Pacific region and a maturing of the region's defence and security architecture; and fragility in the South Pacific.

The Ministry will be expected to give advice that can assist the Government to develop its view in real time. The 2012 PIF Review sets an expectation that it will 'mainstream' its defence assessment activities, and deliver advice on system performance and capability projects contemporaneously rather than after the fact. The Ministry's ability to do this will be a valuable part of implementation of the DMRR decisions.

Because strong international links are central to New Zealand's security, the NZDF will be expected to maintain capability that enables New Zealand to remain a credible contributor to international security. Alongside the NZDF, the Ministry will be expected to maintain the momentum in advancing our relationships with key security partners, and continue to play an active role in the maturing Asia-Pacific region defence and security architecture.

There are increasing demands on the defence system and the Minister to participate in these. To support a strategic approach in this area, the Ministry and NZDF have established joint governance so that choices can be taken about how to maintain New Zealand's international defence engagements, and how to get the greatest value from these.

The defence industry environment

The Ministry purchases major defence equipment predominantly from international suppliers. The trend for this equipment to become more specialised and sophisticated is continuing. A greater proportion of the costs of this capability, for example through software and modular equipment upgrades, will need to be met through its lifetime. As a result of these changes the Ministry will need to broaden the skills in its capability functions.

The DMRR reinforces the urgency for the Ministry to improve the certainty of its assessments of the risk and cost to acquire capability. There will be an expectation that the Ministry and NZDF will make the best use of off-the-shelf configurations where these are available, establish approaches that enable the Crown to get value from its spending, and that the true cost and risk of capability projects is established early.

This is driving the priority to have Acquisition experts involved in projects early, and to invest more in the early stages (up to and including completion of business cases) of the capability management process.

The defence and security sector

The Ministry is a lead policy agency in the defence and security sector. The sector is changing to meet shifts in the nature of security threats. This reflects the rise of new threats that diminish the importance of New Zealand's geographic isolation and have the potential to impact a variety of national interests.

Because of the connected nature of defence, security and economic interests there is an expectation that the sector will provide consistent, integrated advice, working closely with all NZ-Inc players, and that it will be sustainable and resilient as a whole sector.

The Ministry will be expected to make a meaningful contribution beyond the defence system on how New Zealand's armed forces, the wider security sector, and New Zealand's international partners can work more effectively together.

This is leading the Ministry to move away from providing "second opinion" advice, and instead produce advice in conjunction with partners that can inform the work of the Officials Committee for Domestic and External Security Coordination (ODESC) and other inter-agency groups.

Our strategic direction

Defence outcomes⁶

The Government aims for a state of security – a safe domestic and international environment that protects New Zealand interests. Although security is an increasingly broad concept, in the defence context it means being free from actions by other states or organised groups that entail:

- intentional or threatened use of destructive or deadly force;
- hostile incursions into our sovereign territory.

It also means the capability to deter and, where necessary, neutralise such threats. In doing so, New Zealand may act alone or with others. Thus, New Zealand's partnerships and defence capabilities improve its security and that of other countries.

Security matters not only because it ensures countries remain free from harm, but also because it offers the confidence essential for investing, growing and prospering. Security partnerships are also part of the fabric of rules-based international relationships, including trade relationships, which benefit everyone.

NZDF capabilities can be usefully applied to more than military interventions. They also include search and rescue, border protection and disaster relief.

The Ministry's high-level outcomes are:

- **Outcome one: New Zealand is secure.**
- **Outcome two: New Zealand's efforts enhance the security of other nations.**

Our strategic objectives

The wider strategic environment sometimes changes fast – witness recent events in the Middle East and in Africa. More often, though, it evolves over years. To achieve shorter-term objectives, the Ministry has established five strategic objectives that make up its medium-term strategy:

- 1. Defence decisions keep pace with the dynamic security environment; and New Zealand contributes to and benefits from successful defence relationships.**

The Ministry will play a central role in the way New Zealand approaches defence relationships, engages with and deploys abroad, and its participation in the Asia-Pacific region defence architecture.

- 2. Capability advice balances policy, capability and cost, and establishes the true risk and cost of projects early.**

Working with NZDF, the Ministry will advise the Government on how best to maintain an ongoing balance between policy, capability and funding. The Ministry's assessments will realistically reflect the practical realities of delivery.

⁶ 'Outcome' is defined as a state or condition of society, the economy or the environment, and includes any change in that state or condition.

3. Major military equipment is acquired on time and delivers against the Government's intentions.

Over the four-year period the Ministry will have lead responsibility for a number of major acquisitions of military equipment. This includes new pilot training capability, maritime helicopters, and medium/heavy operational vehicles.

4. The defence agencies successfully manage a period of change and reform.

The DMRR has provided more certainty about the portfolio of capabilities required by the NZDF and their affordability. It is also expected that the efficiency reforms originally driven by the NZDF Savings and Redistribution Programme will continue.

5. The Ministry becomes sustainable and resilient.

The Ministry will deliver through a period of sustained organisational renewal and major change to its operational model, and establish itself as a dynamic organisation that can self-start change when change is necessary to lift performance.

Our operating intentions

The Ministry has nine core business activities (taken from the *Defence White Paper 2010* and the 2012 PIF Review) that manage fiscal and strategic risks for the Government and contribute to its strategic direction.

Assessing and giving advice on the strategic defence environment

The Ministry is responsible for undertaking Defence Assessments and providing advice on defence policy, engagements, and strategic policy advice on defence capability.

Over the next four years this will involve the Ministry:

- undertaking a Defence Assessment in 2014, and potentially completing a White Paper in 2015 or as directed by the Government;
- providing advice between formal assessments, focused on the capability / material, infrastructure and people needed to respond to changes in the security environment.

This activity contributes to strategic objectives 1 and 5:

- The assessment process ensures defence decisions are subject to regular, first principles review.
- Greater sector contribution and alignment will deliver aligned, well contested advice across the defence and security agencies.
- Advice between formal defence assessments will place capability decisions within an account of the defence environment that develops in real time.
- This work ensures New Zealand is ready for emerging threats and vectors of threat.
- Aligned goals and integrated work will support mobility of talent across agencies.

Contributing to regional and international defence engagements

The Ministry manages New Zealand's international defence engagement in conjunction with NZDF and in support of the Ministry of Foreign Affairs and Trade. It provides the direction for the development of international defence partnerships to maximise the benefit to New Zealand security and foreign policy interests. This includes leading bilateral policy

talks, supporting high level defence diplomacy activities, and representing New Zealand in the regional and international defence architecture.

Over the next four years this will involve the Ministry:

- implementing a strategic approach with NZDF to international defence engagements in pursuit of medium and long-term security and foreign policy objectives;
- managing greater intensity of the highest priority defence relationships and commitments to the Asia-Pacific regional defence architecture;
- responding, as required, to any new security developments in the Asia-Pacific region and beyond.

This activity contributes to strategic objective 1:

- International defence engagements should be based on an assessment of which activity contributes most to New Zealand's security and other national interests.
- Strong defence relationships and effective defence engagements with key partners will shape the environment to make New Zealand more secure.
- New Zealand benefits from ongoing re-validation of, and value-add to defence relationships.

Undertaking evaluations and assessments directed by the Minister of Defence

The Ministry's Evaluation Division undertakes evaluations, assessments and audits as directed by the Minister of Defence to assess the capability of the defence system.

Over the next four years this will involve the Ministry:

- implementing a strategic risk framework that systemically profiles defence system risk;
- redesigning and implementing a new set of evaluation and assessment products;
- introducing systemic, data-driven reporting on the defence system;
- sustaining, over the four years, a programme of in-depth assessment of areas of particular Government priority and risk, including DMRR implementation.

This activity contributes to strategic objectives 1 to 3:

- Overall assessments of defence system performance and risks will identify areas where in-depth assessment can improve risk management and results.
- Evaluations and assessments will be based on the areas of greatest government priority and greatest risk.
- Evaluations and assessments will provide assurance that the defence system delivers high quality capability advice and systemic measurement of system performance.

Supporting NZDF deployments

The Ministry provides advice to Government on the deployment of New Zealand defence forces.

Over the next four years this will involve the Ministry providing advice:

- as determined by developments in the strategic environment, and in individual theatres where defence personnel are deployed;
- on potential new NZDF deployments.

This activity contributes to strategic objective 1. The Ministry's advice contributes to the selection and success of deployments that support New Zealand's national interests.

Defining and selecting military capability

The Ministry leads the process, which it undertakes with NZDF, of defining what military capability is needed to meet the Government's priorities, and selecting which should be acquired.

Over the next four years this will involve the Ministry:

- delivering business cases for projects totalling \$3.7 billion (identified in the DMRR and reflected in the Defence Capability Plan), and capital and capability plans that reflect the 2014 Defence Assessment and potentially a 2015 Defence White Paper;
- exercising leadership and influence early in the capability process to ensure issues are identified early and all options (including 'do nothing') are considered;
- engaging Acquisitions project directors from early on in each capability project to provide practical expertise and consistency of personnel.

This activity contributes to strategic objectives 2 and 3:

- Robust and rigorous advice on defence capability, and predictable advice on delivery and cost, ensures the defence system is able to deliver the Government's intentions.
- Maximising the use of proven, off-the-shelf solutions will ensure some capability requirements are proven prior to purchase, and lessen the likelihood of over-runs.
- Greater early investment in capability projects will ensure they understand risks and costs early, and plans are made early to manage the risks in each phase.

Assessing the benefits of capability and readiness of the defence system

The Ministry provides contestable advice on whether the defence system is efficient and capable, and can deliver on Government's priorities.

Over the next four years this will involve the Ministry providing:

- assurance on individual capability projects and issues, and episodic assessments of NZDF's whole-of-organisation performance;
- contemporaneous, whole-of-system advice on performance.

This activity contributes to strategic objectives 2 and 4:

- Advice provides assurance that individual capability projects will achieve the results intended and episodic assurance in respect of NZDF's performance.
- Advice provides ongoing assurance that DMRR implementation risks are being managed and that, overall, NZDF is striking the best achievable balance between capability and efficiency.

Acquiring and upgrading military capability

The Ministry has primary responsibility, working closely with NZDF, to procure major military capability. It is also responsible for major upgrades, and is undertaking itself an upgrade of C-130 Hercules aircraft.

Over the next four years this will involve the Ministry:

- completing major upgrades to New Zealand's C-130 Hercules and P-3 Orion fleets at Woodbourne Air Base in Blenheim. The work on the Hercules is led by Ministry staff and is the largest work ever undertaken on any aircraft in New Zealand;
- acquiring major military equipment as approved by the Government, and in conjunction with the NZDF;
- ensuring all Acquisitions projects have the right expertise and support, including in project management, risk and scheduling.

This activity contributes to strategic objectives 2 and 3:

- The C-130 Hercules will deliver on the government's airlift needs through this decade, and the Orions will potentially meet government's needs through to 2025.
- The Ministry's acquisitions activities ensure that decisions taken in respect of capability, cost and schedule are achieved, and military equipment is delivered as needed.
- Acquisition projects are delivered to the required timeliness, cost and specification, and are responsive to new types of military capability and approaches to purchasing it.

Administering the joint Ministry/NZDF Capability Management System

The Ministry administers with NZDF the capability management governance arrangements that are the shared responsibility of the Chief of Defence Force and Secretary of Defence.

Over the next four years this will involve the Ministry and NZDF developing improved shared datasets and approaches. The Ministry will apply these to taking an ongoing portfolio view of defence capability, to build on the DMRR and Defence Assessment processes.

This activity contributes to strategic objectives 2 to 4:

- Strong joint governance between the Ministry and NZDF ensures that projects progress smoothly through the capability cycle, and that where issues do arise these are identified and addressed early.
- NZDF and the Ministry are able to manage the interdependencies and connected pressures created by a large number of capability projects.

- An effective capability system will be able to manage choices about marginal trade-offs between cost and capability specifications early.

Contributing to a sustainable, resilient defence and security sector workforce

The Ministry works as part of a wider defence and security sector to ensure it has the workforce needed to make the sector work well as whole.

Over the next four years this will involve the Ministry working as part of a wider defence and security sector to develop people and talent.

This activity contributes to strategic objective 5.

- Aligned goals and integrated work will provide advice that takes a whole of sector perspective and a resilient workforce that can deliver advice with a common view of the big picture and to a consistently high standard.
- The Ministry will be more effective and resilient at responding to crisis events because it does so in the context of an effective, well integrated sector.

The Ministry's outputs

These core business activities and our strategic objectives will be achieved by delivering three outputs:

- management of equipment procurement;
- policy advice; and
- evaluation, audit and assessment of performance.

The cost of these outputs, along with the associated output performance measures and standards, are publicly available in *The Estimates of Appropriations*.⁷

1. Procuring military equipment

The Ministry purchases major items of military equipment needed to implement the Government's defence policy. It aims to ensure equipment meets contract specifications and is delivered on time and to budget. The Ministry strives for a seamless procurement process and effective stakeholder management.

Procurement occurs in the context of a Defence Capability Management Framework shared by the Ministry and NZDF. Through the Framework, the two agencies collaborate to meet the Government's requirements to deliver programmes and projects involving personnel, equipment, platforms and other material that affect NZDF's capability to undertake military operations.

Purchasing military equipment achieves strategic objective 3 and the two high-level outcomes.

⁷ Refer to Vote Defence information in *The Estimates of Appropriations – External Sector* (B.5 Vol.4), available as part of annual Budget information releases on the Treasury website: <http://www.treasury.govt.nz/budget>.

2. Policy advice

The Ministry advises the Government on:

- **changes in the strategic environment:** The Ministry works with the NZDF and other organisations to identify emerging trends and issues by maintaining an overview of New Zealand's strategic environment.
- **defence and security policies:** Security environment changes may require policy responses, although not necessarily military ones. Some changes, however, might suggest a need for the NZDF to undertake tasks different from those for which it is currently equipped.
- **military capabilities and outputs:** The NZDF administers a portfolio of around \$5 billion in assets, and spends around \$2.3 billion a year on outputs and capabilities. The Ministry advises on managing military capabilities across their life cycle. In particular, it ensures business cases are robust whenever the Government considers buying or upgrading major platforms and items of military equipment. This involves looking at how well spending proposals align with defence policy, as well as at broad resource implications, and the merits and risks of various options, including technical advice and analysis. This ensures the Government has sound information and capital expenditure delivers value for money.
- **bilateral and multilateral defence relations:** The collective effort of security partnerships enhances each partner's individual security. The Ministry helps maintain and improve New Zealand's security by giving policy advice on security partnerships and by participating in international defence relations.

The Ministry's policy advice contributes to all five strategic objectives and the two high-level outcomes.

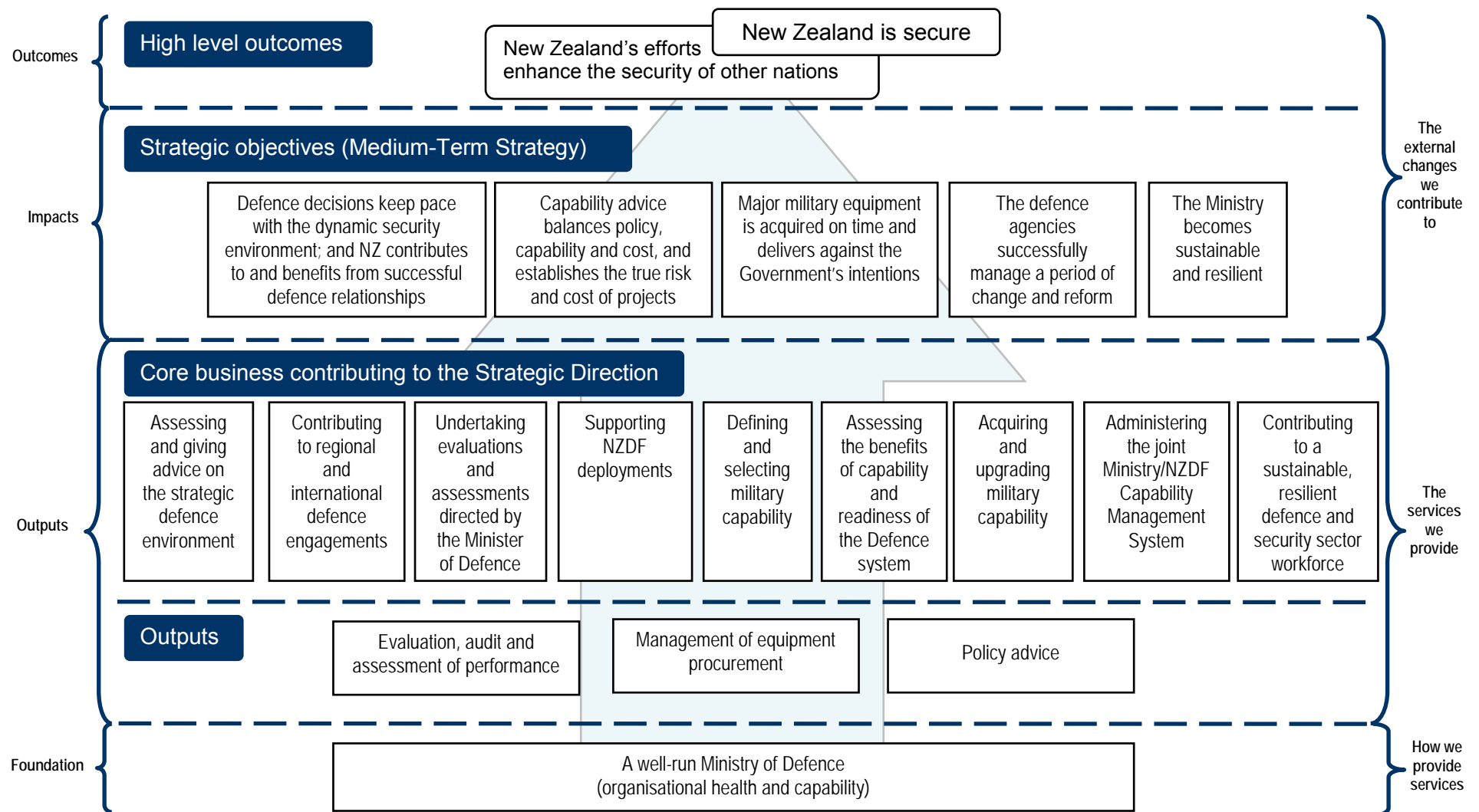
3. Evaluation, audit and assessment of performance

The Ministry undertakes independent evaluations, audits and assessments of performance, for the Minister of Defence, of NZDF functions, duties or projects, and Ministry procurement activities. It also audits, for the Minister for the Environment and the Minister of Defence, controls on hazardous substances that are under the control of the Minister of Defence.

This work will focus on strategic risks in the defence system, and provide reports that are data-driven and support learning and continuous improvement. The strategic risk focus will include aligning strategic risks across NZDF and the Ministry, as well as identifying any gaps, incorporating Government priorities, assessing the current state, and identifying comparable military risks elsewhere in the world.

The Ministry's evaluations, audits and assessments help achieve strategic objective 3 and the two high-level outcomes.

Figure 3: The Ministry of Defence outcomes framework



Measuring against our strategic objectives

Assessing current security and likely changes

Assessing the state of a security environment is a complex operation since many factors are at work. In considering the Ministry's high-level outcomes, it bases its review on a combination of information sources.

The Ministry constantly monitors the security environment and will summarise the developments in its annual report. This ongoing monitoring is part of achieving its strategic objective that Defence decisions keep pace with the dynamic security environment; and New Zealand contributes to and benefits from successful defence relationships.

The Ministry's high-level assessment of the state of a security environment will relate to five areas of interest:

- New Zealand;
- Australia;
- South Pacific;
- Asia-Pacific;
- global.

It will consider two aspects of security:

- the 'current security outlook status' – the likelihood that a significant compromise of security will occur through the use of destructive or deadly force, or by hostile incursion. An assessment will be made according to the set of classifications *Very Low, Low, Moderate, Mixed, High* and *Conflict*;
- the apparent 'direction of change' – whether the evidence suggests the security environment is getting better or worse. An assessment will be made according to the classifications *Improving, Stable, Deteriorating* and *Unclear*.

The conclusions on the security outlook in the *Defence White Paper 2010* remain the basis for considering developments.

How the Ministry adds value

In the coming period the Ministry will measure our cost effectiveness by:

- using the common policy advice performance indicators, covering: technical quality, ministerial satisfaction and total cost per output hour;
- comparing the quality and cost of our current performance with our performance in previous years.

Work that is underway within the Ministry to improve the use of data about the defence system will assist its *post facto* understanding of whether Defence capability choices have delivered the benefits intended. The Ministry will continue to look at how this might be used to inform assessments of its performance over time.

Milestones

The Ministry has a series of medium-term milestones against its strategic objectives. Over the four years, these milestones are made up of:

- sustaining a high tempo of business as usual delivery, including significant evaluation reports and defence relationships;
- a Defence Assessment in 2014, a potential Defence White Paper in 2015, and significant reviews of airlift and frigate capabilities;
- developing at least 23 new capability projects worth up to \$3.7 billion in new capital expenditure; and
- advancing the delivery of 11 current major capability projects with a total capital spend of \$2 billion, and new projects that move to the Acquisitions phase over the four years.

Reporting

The Ministry assesses its performance against its strategic objectives on an ongoing basis, using rolling 100-day plans to identify key actions that will deliver against the Ministry's priorities, measure progress and recognise achievement. In addition, it reports to the Minister of Defence on a quarterly basis against the Government's priorities, from which its strategic objectives are derived. The Ministry's annual reports summarise its efforts to achieve these objectives.

The Government's priorities

The *Defence White Paper 2010* established defence priorities for 2010 through to 2035. The Ministry will continue to undertake roles and deliver outputs described in the previous section. The Minister has also outlined the Government's priorities through to 2016. The table below illustrates these alongside corresponding Ministry activities.

Government priority	Ministry support
<i>Deployments</i> The Government is committed to New Zealand making a contribution to international security and peace support initiatives.	The Ministry will advise on developing whole-of- government strategies to ensure New Zealand makes a credible contribution to international efforts to support peace and security.
<i>Capability plan</i> The Government's 2014 <i>Defence Capability Plan</i> sets out major areas of development through to 2024. The NZDF intends having a joint amphibious taskforce at the core of its force structure by 2015.	The Ministry will advise on major acquisition decisions that Cabinet will consider over the next four years. In particular, it will work to ensure proposals are affordable, aligned with the Government's policies and priorities, and scrutinised under Defence's revised capability management arrangements.
<i>Shifting resources</i> To achieve best use of available funding, the Government has directed the NZDF to make specific savings up to 2015 and redirect resources to align them to Government priorities.	The Ministry will support the NZDF to work within the baseline changes arising from the DMRR, and to deliver on the Government's operating intentions. The Ministry will continue to contain its own costs.
<i>Legislative change</i> Some policy changes in the <i>Defence White Paper</i> require amendments to the Defence Act 1990. A Defence Amendment Bill has been considered by select committee.	The Ministry will work with the NZDF to progress the Bill.
<i>International relations</i> The Government intends maintaining and building on strategic relationships, particularly with Australia and other partners in the Asia-Pacific region.	The Ministry will continue playing a leading role in strengthening New Zealand's international defence relationships. It will support the Five Power Defence Arrangements and the ASEAN Defence Ministers Meeting Plus, including through bilateral engagement in the region.

Acquisitions

Several projects for acquiring and upgrading key platforms and items of equipment are well advanced. They include upgrading the C130 Hercules tactical air transport aircraft and the P3 Orion surveillance aircraft, and bringing into service the NH90 medium utility helicopter. Any further major acquisitions approved by the Government will also be progressed.

The Ministry will continue to work on these and any new acquisitions and upgrades the Government approves, and bring them to a successful conclusion on time, on budget and in scope.

Contribution to specific Government programmes

The Ministry contributes to the management of the Government's finances through advice on how to balance capability, policy and funding in respect of the armed forces.

The Ministry contributes to a productive and competitive economy through its contribution to defence and security arrangements that contribute to making the Asia-Pacific region a stable, secure environment for New Zealand businesses.

Both of these are core functions of the Ministry.

How the Ministry will measure progress

The Ministry's internal work plans will set out tasks and milestones associated with supporting the Government priorities outlined above. It will monitor progress on these milestones and report regularly to the Minister.

How we provide services

The Ministry's operating model

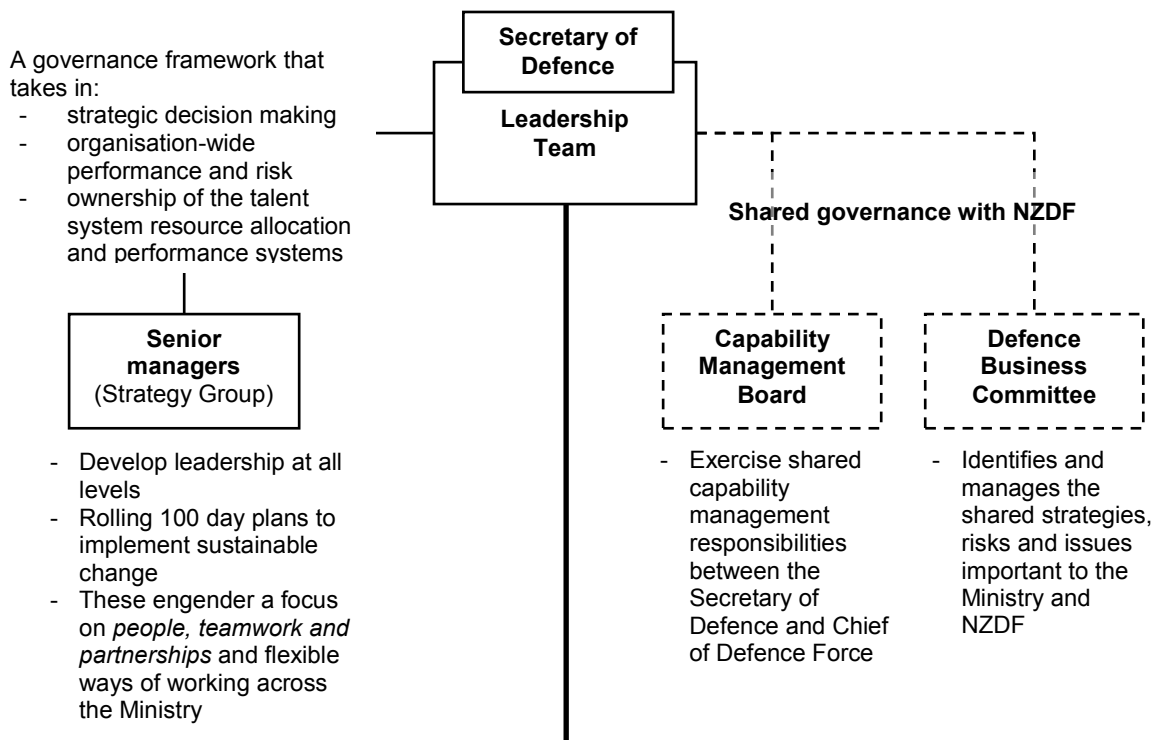
The Ministry's operating model has the following key features:

- a clear purpose:
We give civilian advice on defence matters to enhance New Zealand's security
and focus to:
Shape the environment and deliver results
- a focus on people, teamwork and partnerships, embedded at all levels in the organisation and the way it works;
- arrangements for supporting functions, systems and platforms that are right for a civilian but military-partnered agency;
- implementation of change, iteratively by Ministry staff, that will over time make the organisation able to self start change where this is needed to lift performance.

The Ministry's operating model is to be an effective civilian ministry, strongly partnered with NZDF and part of an integrated defence and security sector. The "held separately but leveraged together" model for Ministry-NZDF partnership, arising from our Westminster traditions, seeks to make the most of the tension between the agencies, provide well-tested choices and advice, and ensure the costs of holding NZDF and the Ministry separate are negligible.⁸

The Ministry's ongoing operating challenge is that it achieves results through partnerships, and often through one-to-many relationships with partners. A core concern for the Ministry's leadership and operating arrangements is having the right people; supporting them to make partnered work effective; ensuring they carry a clear sense of the organisation's purpose, priorities and values; and having aligned priorities with the other sector agencies.

⁸ NZDF provides communications services to the Ministry, as well as property and facilities management services. These are at no cost. Under new arrangements from March 2014, NZDF also provides IT, property and some security services to the Ministry.

Figure 4: The Ministry of Defence's operating model (leadership layer)

Leadership layer of our operating model

The Ministry has introduced a collective approach by the Leadership Team of governance, performance management, talent development, and change.

Joint governance arrangements have been established with NZDF. The Capability Management Board was established following the *Defence White Paper 2010* to support joint governance by the Ministry of Defence and NZDF of major military procurement projects.

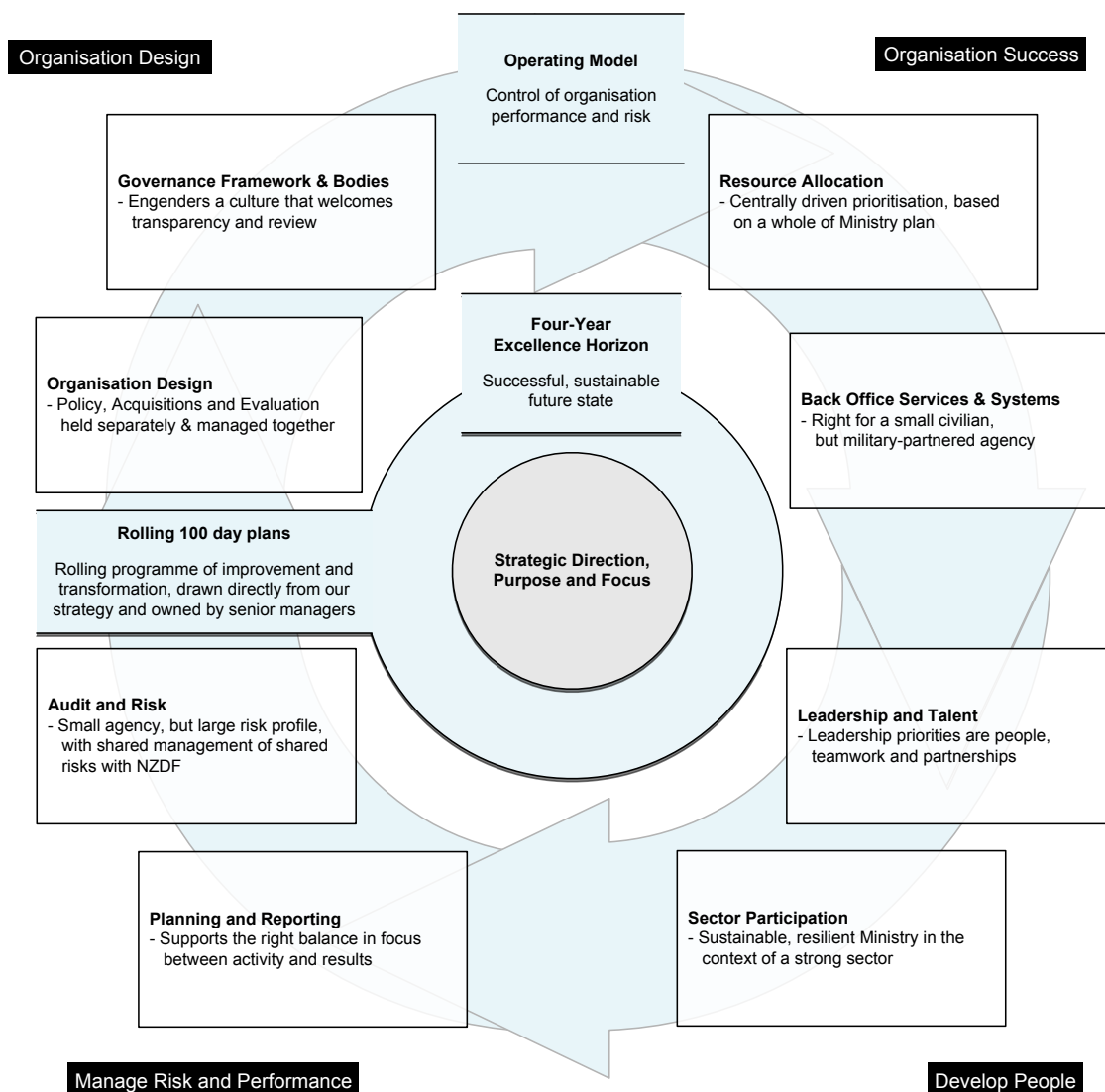
A Defence Business Committee was also established in 2013 to support work between the agencies on organisational and policy priorities, and govern work programmes in respect of evaluation and international defence engagements. In 2014 this will also take on responsibility for shared services arrangements between the two agencies.

How work gets done in the Ministry of Defence

The Ministry has implemented a way to balance its intensive work programmes with making change an ongoing process, managed within baselines and led by staff. This comprises:

- major defence acquisition projects, which are jointly led by the Secretary of Defence and Chief of Defence Force;
- work programmes for major deliverables, including those that are demand-driven like deployments, defence visits and capability project business cases;
- rolling 100 day plans to deliver ongoing change and cross-organisational initiatives, which are led by managers and staff, in part to build organisational capacity to get work done through lightweight, flexible processes;
- organisational change projects that are led from the centre.

Figure 5: The Ministry of Defence's operating model (organisational layer)



Organisation design

The Ministry has skills clustered in the areas of Policy, Acquisitions and Evaluation. Its structure keeps these functionally separate to focus on building strengths in each. These functions are then managed together to deliver the Ministry's business strategy.

Leadership and talent

Most Ministry work is produced through partnerships, and this requires its staff to manage highly asymmetrical relationships with a number of larger organisations. The Ministry has made it a priority to invest in this capability, and has established three top-level leadership priorities of *people*, *teamwork* and *partnerships*. In 2014 these will be formally embedded into the Ministry's performance management systems.

A new talent management system was introduced in 2013 and is owned directly by the Leadership Team.

Audit and risk

The Ministry is a small agency with a significant risk profile in its procurement functions; potential requirement to scale up in response to external events and crises; and the frequency and extent of its international engagements.

The Ministry has measures in place to manage its risk. These include:

- a strategic framework (introduced in 2013) to identify and mitigate risks to the Ministry's ability to achieve its strategy and do business, which is owned by the Leadership Team and considered every four months;
- independent quality assurance of capability risks, including through the use of international experts where appropriate.

The Ministry has established an arrangement with NZDF to provide organisational internal audit services and assurance advice, and it has identified audit and risk as one of eight core areas of its operating model to receive ongoing focus.

The Ministry has also established a joint governance body with the NZDF (the Defence Business Committee) that provides a forum for the Ministry and NZDF to identify and mitigate the risks they share.

Organisational health and capability

The Ministry's most critical asset is its people. The Ministry's mission has attracted and helped to keep a hugely skilled, experienced workforce. Ministry people have been diplomats, service men and women, and some have worked in challenging overseas environments. Some staff members bring valuable backgrounds from other areas too.

Providing this workforce with the support it needs is a key priority for the Ministry. Its Workforce Strategy seeks to deliver on five objectives:

- **The Ministry of Defence is a dynamic, influencing organisation.**

The Ministry's people are clear about their role, and when and how to be assertive about these. Stakeholders seek out the involvement of Ministry people, and NZDF values the Ministry's civilian perspective. The Ministry's stakeholders say its people are committed to the whole sector's achievement.

- **The Ministry of Defence has successfully managed change, including generational change, to its workforce.**

The Ministry plans for succession systematically, and is systematically managing its pipeline of talent. It understands how to attract the people it needs, and is able to fill vacancies when they arise.

- **The Ministry can offer its people a career in the defence and security sector.**

Staff members say the offer of a career in the defence and security sector is a realistic choice. They can describe the opportunities for them, and the value of making a difference across sector agencies. This is steadily improving the ease with which sector agencies work together overall, and reducing the level of unplanned turnover. The Ministry can provide succession options itself and from (and to) the sector.

- **Greater diversity has made the Ministry better at its work.**

The Ministry is recruiting greater diversity into the organisation, beyond its traditional pool of talent. Thirty percent of hires to its Acquisitions Division are from the private sector, with project and civil engineering experience and backgrounds. More hires are women.

- **The Ministry is good at change, and can self start change when that will improve performance.**

Change has been led and managed well, and the results have consistently improved staff and stakeholders' experience of the Ministry. The Ministry meets or exceeds State sector benchmarks for employee engagement. Over time the organisation has demonstrated it can initiate change when change is needed to improve performance.

The compact nature of the Ministry ensures it considers staff views. Exit and post-appointment staff interviews run alongside informal communication channels. These allow staff to give confidential feedback and suggest improvements to processes and practices. The Ministry monitors indicators such as turnover, absence and performance to identify any trends.

The Ministry collects comprehensive information on key indicators of organisational health and capability, and reports on them monthly to senior management.

It also participates in the State Services Commission's annual Human Resource Capability Survey of government departments. This gives the Ministry additional information on human resource capabilities in the public service and allows it to compare itself with other departments.

The Ministry promotes employee health and well-being by:

- operating a health and safety committee that meets regularly;
- recording and investigating all accidents;
- addressing the work environment of all new staff;
- offering and paying for all staff flu vaccinations;
- meeting all first aid training costs, including regularly updating first aid certificates when required; and
- promoting amongst staff the employee assistance programme through the Ministry's referral advisors.

The Ministry recognises that employee/Ministry engagement correlates strongly with performance. It surveys employee engagement to discover and act on opportunities to enhance this engagement.

The Ministry consults staff when developing HR policies, processes and staff development plans. It monitors plans to ensure capability development is making the most efficient and effective use of budget and resources.

Continuous improvement

The Ministry's credibility is critical to how its advice is received. It monitors this continuously through stakeholder feedback and peer review. The Ministry uses this information to guide continuous improvement, so it can deliver better quality advice and thus further improve its credibility.

Environmental impact

The Ministry will continue to reduce its impact on the environment where it makes economic sense to do so. This includes: taking a whole-of-life approach to procuring goods and services; minimising waste sent to landfill; using resources, including energy and water, more efficiently; improving planning, design and construction when commissioning and operating buildings; and adopting transport policies that minimise environmental impact.

Equality and diversity

The Ministry is committed to the State Services Commission's *Equality and Diversity Policy*, which means it:

- treats people fairly and respectfully, ensuring equality of access to opportunities (equality);
- understands, appreciates and realises the benefits of individual differences (diversity).

How the Ministry will work with other agencies

The Ministry is a defence and security sector agency. It assesses influences on the security environment by working with other security agencies, mainly the NZDF, the Ministry of Foreign Affairs and Trade (MFAT), and the Department of the Prime Minister and Cabinet (DPMC), all of whom have a high level of input into its final policy advice.

The Ministry's core contribution to the security sector is to lead the debate, from a civilian perspective, on the defence aspects of national security and its implications for military capability.

It routinely liaises with staff from MFAT, the Treasury and DPMC. The Ministry participates in central government security and crisis management arrangements.

The challenge of supporting a whole-of-government approach to security management is aligning defence policies, capabilities and operations to foreign policy and wider government objectives. Thus the Ministry works towards a sector approach to outcome achievement and reporting.

The Ministry has a close relationship with NZDF Headquarters. This is formalised through various committees, and shared management of capability development and other defence business. It is complemented by routine informal collaboration.

Figure 6: Agencies that the Ministry of Defence and New Zealand Defence Force work with

* External Sector agencies for the *Estimates of Appropriations*



MINISTRY OF
DEFENCE

Manatū Kaupapa Waonga