

Review of Accountabilities  
and Structural Arrangements  
between the Ministry of Defence and  
the New Zealand Defence Force

D.K Hunn CNZM

30 September 2002

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## EXECUTIVE SUMMARY

### Synthesis

ES.1 This review confirms the Select Committee's conclusion that the current defence management system, set up under the Defence Act 1990, has not worked as well in practice as was hoped when it was first designed. Further, one of the key premises on which that Act was based has proved to be untenable and the system has been labouring under severe difficulties since its inception.

ES.2 The essential purpose of the New Zealand Defence Force (NZDF) and Ministry of Defence (MoD) is to work together to ensure Government policy is realised through the deployment on operations, as and when required and within the limits of national resources, of adequately trained and equipped armed forces. Fundamental change is needed to reverse the policy of separation of civilian and military responsibility. The Secretary of Defence and the Chief of the Defence Force (CDF) should be given shared responsibility to manage an integrated defence process. This should be underpinned by a redefinition of the roles, responsibilities and relationships of all the agencies involved in New Zealand's national security.

ES.3 The question of whether there should be two defence organisations or one, will depend both on the degree of integration required by Ministers and on whether they will be prepared to revise the Defence Act 1990. Since the problem is cultural and attitudinal as well as organisational and systemic, considerable progress towards the goal of an integrated system that encourages jointness and co-operation could be made without legislative change. It is the contention of the review, however, that the outcomes inferred by the TOR require the establishment of a single organisation.

ES.4 In addition to structural deficiencies, there are other major organisational weaknesses in both the MoD and the NZDF that must be corrected.

ES.5 At the strategic level, there needs to be:

- permanent machinery to provide direction for national security, of which defence is only a part;
- greater Ministerial involvement in providing oversight and direction, including regular meetings between the Minister, the Secretary of Defence, the CDF, the Joint Forces Commander, and the three Service Chiefs; and
- integrated and shared partnership roles and responsibilities to provide the framework for jointness and co-operation.

## Background and Terms of Reference

ES.6 This review was initiated in August/September 2001, the final terms of reference being approved on 19 October 2001. An interim report was presented to the Minister of Defence on 22 December 2001, a working draft of the final report on 28 March 2002 and a draft Executive Summary in May 2002. The review was first envisaged in the 1999 interim report of the Foreign Affairs, Defence and Trade Select Committee of Parliament, then developed further in the Select Committee's 2000 final report and the Government's Defence Policy Framework of June 2000. The August 2001 report of the Controller and Auditor General on the acquisition of Army vehicles endorsed the need for such a review. All of these documents were to be taken into account.

ES.7 Simultaneous with this review, two other inquiries were initiated – the first by the Judge Advocate General into an alleged inappropriate letter and e-mail, and the second, by the State Services Commissioner, into NZDF's standards of behaviour (the second is referred to as the Ansell/White Report). My TOR stipulated that both of these were also to be taken into account. The relevant issues from the second inquiry, which was completed in December 2001, have been addressed. When it became apparent that the first inquiry had been delayed to the point that its findings could not be considered, the Minister instructed by letter of 11 March 2002, that it should be removed from the TOR.

## Scope of Review

ES.8 This review is an investigation of structures, systems, processes, accountabilities, roles and relationships. It is concerned with the organisations responsible for the defence of New Zealand, not with the policies that drive them or with the performance of individual officials. The Minister has also directed that it should be forward-looking, not preoccupied with past sins of omission or commission. Consequently, this review does not address the question of accountability for failures in the current system whether these have arisen from system weakness or individual action (or inaction).

ES.9 Being an organisational assessment, this is essentially a document internal to Government in the sense that there has been no public consultation and the evidence for the findings has been drawn from a limited number of sources. In addition to the published material available, the review has drawn on official documents together with interviews of the Minister, some members of Parliament, and senior officials in the NZDF, the MoD, the Department of Prime Minister and Cabinet, the State Services Commission, the Treasury and the Ministry of Foreign Affairs and Trade. Written submissions were requested (and received) from all of the above officials.

ES.10 The reviewer commissioned a number of papers that were written either within the NZDF and the MoD or by external individuals expert in their field. The reviewer also had the opportunity to discuss the Australian experience with the Secretary of Defence and CDF in Canberra. While all of this material has contributed immeasurably to this review, the findings are those of the reviewer.

ES.11 The review has produced a considerable body of fact and comment, all of which should be considered by those responsible for advising the Government on any follow-up to this report. This summary merely records the main findings. Before doing so, the point should be made that the problems of dysfunction which are the subject of the two inquiries referred to above and which have given rise to some of the issues traversed in this review, are essentially confined to the Wellington-based defence system. Undoubtedly if these problems are not fixed they will affect morale and, ultimately, performance on operations. However, there has been no evidence to this review that our servicemen and women who are posted abroad, are any less capable, dedicated and courageous than their predecessors.

## Organisational Issues

ES.12 The principal thesis presented in this document is that key components of the defence arrangements established in 1990 have not worked as they were originally intended and should be radically redesigned. (This confirms the Select Committee's findings of 1999 and 2000). The reasons for this failure are complex and partly inherent in the profound differences between the military and civilian cultures that are responsible for our defence system. Any changes to the current system should be based on a reconsideration of all the factors impinging on defence policy and implementation and should incorporate much more than a single set of managerial concepts – as tended to be the case in 1989/90.

ES.13 The legal and constitutional foundations of our defence system must be the starting point in considering future organisational arrangements. The principle that there should be civilian control of the military is deeply embedded in our Constitution. It is important to understand this means political, not bureaucratic, control, but there is little in the Constitution to suggest the manner in which this control is to be exercised other than the requirement that Parliamentary approval is needed for there to be a standing armed force in peace time. Nor does the military relationship with the Governor General as Commander-in-Chief of New Zealand differentiate them in any way from other servants of the Crown as owing loyalty to the Government of the day. In this respect, military and civilian obligations are identical (and in the course of this review there has been nothing to suggest that senior military officers think otherwise).

ES.14 The current system is established in law by the Defence Act 1990. The review recommends that consideration be given to revising the

Act. Some of the Government's senior advisers do not agree – they consider it is not necessary, perhaps not desirable, and that it is preferable to take immediate action to remedy the deficiencies and dysfunctionality which have become apparent in recent years. While agreeing that action is required (and indeed positive steps are already being taken), this review contends that the concepts underlying the existing legislation are so at odds with the effective defence system sought by the Executive and Parliament, it would be desirable to signal the break with current arrangements by passing a new Defence Act. At the same time it has to be conceded – paradoxically as it may seem – much of the change considered necessary could be achieved without revising the Act: while its underlying purpose was almost the opposite of what is suggested in this review, on the face of it the Act would not stand in the way of many of the suggested directions (although full integration, the review's preferred option, would not be possible). In fact, the problem may not be so much with the Defence Act which does not prevent separate responsibilities being exercised jointly, but the State Sector and Public Finance Acts that might.

ES.14 The “two separate organisations” concept on which the current system is based, comprises an “independent” NZDF, responsible for its own finances and management, providing the operational defence arm. Alongside it, there is a “supervisory” Ministry of Defence responsible for advising Government on defence policy (on which it does not have a monopoly); for acquiring defence materiel after the decision to purchase has been made; and for assessing NZDF performance. Neither of these organisations has been working effectively. The NZDF has been riven with internal dissension, the result of continuing inter-service rivalry, while the single Services have not yet adjusted fully to the new demands of Joint Operations – the concept has been well launched and substantial progress made, but a great deal of work remains to be done. There is no overall NZDF strategic vision to pull the strands together and although there has been significant improvement in financial management, internal management systems at HQ have been weakest in the areas where strength is vital to obtain cohesion – they have also reinforced, through separation and duplication, the single Service mentality.

ES.15 The idea of controlling expenditure on major capital items, obtaining value for money, and achieving a better match between resources and commitments through the separation of policy and operations has not worked in practice. It is clear that the Ministry has struggled from the outset to fulfil its designated role. The inequalities in size, resources and span of responsibility between the two organisations; the difficulties over communications and information flows; the setting in concrete of the cultural divide; the Ministry's inability to recruit and retain high quality policy making and performance evaluation skills as well as its exclusion from key deployment and resource allocation decisions, have all contributed to this.

ES.16 From the outset, also, there has been political discomfort with the tension and confrontation inherent in the contestability model adopted in 1989/1990. The model required Ministers to act as adjudicators, a role they appear to have found distasteful. The result has been two-fold – a whittling away of those Ministry functions which set it in judgement over the NZDF and attempts by Secretaries and CDFs to counteract the organisational separation through various procedural devices.

ES.17 It is the contention of this review that the fundamental premise is wrong. The objective in contemplating a defence structure should be to meld the military and civilian contributions into a single stream of advice and operations, not to keep them in separate boxes. Whatever justification there may have been at the time, the situation has changed in the 12 years since the current system was introduced – responses to international security issues have developed, there is a growing emphasis on “jointness” and governance models have been reconsidered.

ES.18 Contestability of advice/comment/analysis and healthy competition as between options is essential to produce good outcomes over the medium to long term but this should not be pursued at the expense of internal cohesion. Robust and relevant advice, effective and appropriate operations, value for the substantial amounts of money spent on defence and performance assessment of both outputs and operations which leads to continuous improvement, should all be seen as the product of the national security system as a whole. The organisational and procedural frameworks should be redesigned on this basis and not limited to a simple re-jigging of the NZDF and the Ministry of Defence.

ES.19 To illustrate this point the review has attempted, by analysing the processes which contribute to the over-riding objective of the whole defence system i.e., the conversion of Government policy into successful operations in the field, to show the indivisibility and interdependence of the components – political and professional, military and civilian. Among other things it is considered this analysis demonstrates the:

- necessity for close and constant Ministerial involvement;
- importance of co-operative leadership and good information throughout the structure;
- connection between policy and resource allocation;
- essential linkage between the designers, purchasers and users of defence materiel;
- need for all principal parties to be involved in decision-making;
- requirement for an overall vision and system-wide planning mechanism; and
- importance of output and outcome assessment in learning lessons for future decisions.

## Need for Structural and Procedural Transformation

ES.20 A number of structural options have been considered, e.g., models offered by the NZ Police Force, the NZ Fire Service, Crown Agencies, the Ministry of Health/District Health Board relationships, the Ministry of Foreign Affairs and Trade, and the defence establishments of Canada, the United States and the United Kingdom and Australia. While in the opinion of the reviewer, the last of these comes closest to what is required, the differences in size and resources argues for a tailor-made approach for New Zealand's defence organisation.

ES.21 For this reason the text does not examine these other options, preferring to concentrate on "transformational" reforms which include the following features:

- emphasis on clear processes and explicit outcomes to achieve the Government's defence objectives and in order to implement them, on the establishment of an integrated Defence Organisation working to a single vision and a common set of values. While these are of the greatest importance, structural change would be needed to enable them to be achieved;
- a national security governance structure to co-ordinate the formulation of Government policies and planning as well as the activities of all agencies concerned with the development of New Zealand's national security capability.
- new governance processes emphasising jointness and cooperation, centring on a Strategy Committee that brings together within a framework of Ministerial control, both senior military and civilian advisers and decision-makers. In support of this would be four subordinate committees (the Defence Policy Committee, the Defence Acquisition Management Board, the Defence Capabilities Committee, and the Chiefs of Staff Committee) responsible for managing co-ordinated inputs from across the organisation.
- increased Ministerial involvement through the chairmanship of the Strategy Committee (at least once a quarter), supplemented by the appointment to the Minister's Office of two advisers from the Defence Organisation – one military, one civilian.
- new concepts of shared, prime and sole accountability and responsibility for the Secretary and CDF based on equal partnership and participation in the strategic policy and management processes of an integrated Defence Organisation
- new management and governance roles and responsibilities for the Chiefs of Staff and their current HQ NZDF-based staffs;
- a new organisational structure – the New Zealand Defence Organisation – with an integrated strategic staff at its centre, supported by a Joint Logistics Organisation, and re-focused acquisition and evaluation functions, which would:

- (i) bring together both civilian and military contributions to improve advice formulation and management decision-making;
- (ii) model standards of behaviour based on partnership, participation and professionalism;
- (iii) provide information access for the over-lapping and shared responsibilities and accountabilities of the Secretary and CDF;
- (iv) reduce negative effects of vertical boundaries by integrating fragmented staffs into integrated and joint work structures;
- (v) develop an effective strategic joint culture and capability in the NZDF through the incorporation of single Service staffs into a joint-oriented Defence Strategic Staff, a joint Military Evaluations unit, and a Joint Logistics Organisation;
- (vi) bring about, over time, a shift from an information-denial culture to an information-sharing/learning organisation culture; and
- (vii) achieve resource savings in removing the requirement for duplicated overhead support activities, personnel and facilities, particularly in information technology, financial management and administrative support systems.

## Authority of CDF and Roles of Chiefs of Staff

ES.22 It would appear from the Ansell/White Inquiry that the balance of authority between the CDF and the Chiefs of Staff needs to be reconsidered to ensure the paramountcy of the CDF is not open to question. Ministers will need to consider whether in their view an amendment to the legislation is warranted. An alternative would be the use of the Ministerial directive power to eliminate any doubt as to both the authority of the CDF and the accepted procedure by which individual Chiefs of Staff have direct access to the Minister. The directive could also establish a procedure by means of which both the CDF and the Secretary of Defence are consulted prior to the appointment or removal of a Chief of Staff.

ES.23 The conclusion reached in this review is that the establishment of the Joint Command and the move to joint organisations and ways of operating is not yet sufficiently reflected in new roles and responsibilities for the three Chiefs of Staff. The description of their roles as being to “raise, train and sustain” (or “maintain” in some versions) is more of a slogan than a clear definition of accountabilities and responsibilities. Further consideration needs to be given to the responsibilities and functions of the professional head of service role and the changed nature of the command roles of the Chiefs of Staff with the introduction of the Joint Forces Commander and responsibilities.

ES.24 There needs to be a re-examination of whether Chiefs of Staff should still have delegated resource management responsibilities for NZDF outputs of front-line force elements maintained at states of readiness for operations as their “raise, train and sustain” roles are essentially concerned

with the delivery of internal outputs. An expedient compromise was achieved when the Joint Force Headquarters was set up, the practical effect of which is that the component commanders under the Joint Force Commander are responsible and accountable to two masters for resource management – the Service Chiefs for force elements ready for operations, and the Joint Force Commander for force elements deployed on operations. The problems of aligning resource accountability and responsibility for outputs that are created by this approach, are a disincentive to evolving joint outputs. Equally, it reinforces the partition into single Service agencies, rather than fully joint agencies and adds another layer of management between the CDF and those actually responsible for delivering most of the external NZDF outputs.

ES.25 The Defence Act requires CDF to *command* (i.e. issue lawful orders to) the NZDF *through* the Chiefs of Staff. The Act is quite specific in its reference to command, rather than to all functions. For example, the Act does not obligate CDF to delegate resource management responsibilities through the Chiefs of Staff. Yet, the chain of command passing through the Chiefs of Staff has been used as the reason why NZDF outputs (and their resources) must be attributed in effect by Service. It is not evident to the reviewer that the legal exercise of command through the Chiefs of Staff requires the Chiefs to have resource responsibility for external NZDF outputs – for example, the Joint Forces Commander is already responsible for one class of outputs. A more detailed legal analysis would need to be undertaken as part of any legislative revision.

ES.26 Whatever adjustments are made to the roles and responsibilities at this second level, all three Chiefs of Staff and the Joint Commander should be closely involved both with the processes of policy formulation and capability development and the overall management of the armed forces. The Ansell/White suggestion concerning the appointment of the three Chiefs of Staff has already been anticipated by Government.

## Integration, Responsibility, Accountability

ES.27 If integration were the agreed option, a decision would be needed as to whether the objective would be achieved by the existing organisations acting in most respects as one (as is largely the case in Australia), or whether it would be preferable to entrench integration in law as well as in practice – the reviewer’s preference is the latter. The issue is not merely one of revising the Defence Act. There is some question whether the single line accountability of the State Sector and Public Finance Acts would permit shared responsibility of a unified organisation even if the separate accountabilities of the two CE’s were clearly defined, for example by means of output definition in two parts of a single vote. While the possibility of establishing one defence agency has been raised in the course of the review (and is favoured by the Select Committee), there are differences of opinion between those that consider a way could be found and those who

consider the public sector legislation is clear as to what is, and is not, permissible and desirable.

ES.28 A related issue is that of responsibility for resource allocation and resource management. While the Secretary has a role in advice to Ministers on capital purchases, his authority in the financial management area overall is not as extensive as that of his colleagues in other similar jurisdictions overseas. It is generally considered that improvements in resource management since the introduction of the 1990 legislation (and the 1989 Public Finance and 1993 Fiscal Responsibility Acts) have been such that it would be counterproductive (and at odds with the intention and letter of the Acts mentioned) to disturb the current arrangements.

ES.29 In the view of the Select Committee, the “rebalancing” of status and authority between the CDF and the Secretary would involve designating the latter as responsible for resource management and long term resource planning, i.e., removing these functions from the CDF. It is suggested that in the light of the success of the current approach in providing incentives to achieve efficiencies, this would be a retrograde step. Nevertheless, the close linkage between effective policy advice and resource decisions should be recognised. The problem would not arise if the proposed integrated process model were adopted, since both the Secretary and the CDF (and their key staff officers) would participate in all major resource allocation and management decisions.

ES.30 In the event that this is not agreed or is not possible within the current legislation, other measures could be considered such as arrangements whereby the Secretary and the CDF are directed by the Minister to consult on each other’s output proposals before they are formalised each year, in consultation with the Treasury. In any event, it is the view of the reviewer that the current interpretation of the policy advice role of the Secretary should be expanded, so that he or she assesses and provides advice to the Minister (and to CDF) on the extent to which NZDF output proposals will deliver defence policy objectives. Given that such outputs also have a cumulative effect, and that increasingly, multi-year budgets for purchasing are being set, the Secretary should also review the effectiveness of these purchases in terms of their impact upon longer-term outcomes for New Zealand’s national security.

## Wider National Security Issues

ES.31 The setting in which national and international security matters are considered, has been transformed since New Zealand set up its existing defence arrangements – a process which began with the ending of the Cold War and impacted on the public’s consciousness with tragic intensity as a result of the events of 11 September 2001 and subsequently. The shift in New Zealand’s defence policies since the Select Committee’s Report is a manifestation of this process. But it is the contention of this review that we do not yet reflect fully in our machinery of government, the globalisation of security that has taken place. Terrorism, in all its forms; climatological,

biological and health dangers; widespread economic and financial loss; racial and ethnic violence; and massive computer failures – none of these respect national boundaries, and all must be dealt with in an international framework that continues to evolve.

ES.32 In the new environment, conflicts or potential conflicts fit less easily into the regional classifications of defence alliances and are more likely either to be localised at one end of the security spectrum or global at the other. This does not mean there is no longer a need for a conventional and professional armed force trained and prepared for combat – quite the contrary. But it does indicate the NZDF and the MoD should now be seen as part of a wider national security system and that this, in turn, should be a permanent feature of our institutional arrangements.

ES.33 Consequently, the review recommends that consideration might be given to the development of our existing, largely ad hoc and informal national security framework into something more formal and permanent. Whether this takes the form of a National Security Council of Ministers with a permanent secretariat of officials seconded from relevant agencies, or some other form, the logical place for it would be – as it is now – in the Department of Prime Minister and Cabinet. The overall security of the nation is the Prime Minister's chief responsibility. The Minister of Defence has a more specific brief. It is suggested that the aim might be to provide a permanent forum within which defence issues could be considered continuously at a more strategic level and decisions made which ensure our defence capabilities are viewed in a wider context.

## Parliament

ES.34 The review was asked to consider the relationship between the Executive and Parliament in respect of defence issues. While there is no suggestion that the Executive is seeking any change to its decision-making authority in this area, there is concern in some quarters that information flows to Parliament could be improved. While the review has found there is some basis for this view, it is clear that it is essentially a political matter. Parliament will settle its own procedure and the Select Committee will determine the issues it wishes to consider. The nature of MMP politics, and the declared positions of some MPs that they would decline to be bound by any confidentiality understandings, would rule out the possibility of sharing classified information. Whatever scope there may be for improvement in the provision of information and exchange of viewpoints between Parliamentarians, Ministers and officials the matter is best pursued through the political channel.

## External Sources of Advice and Comment

ES.35 Finally the review was asked to consider whether there would be merit in more formal provision for external sources of advice. The review supports the Select Committee view that seeking contestability through the internal separation of civilian and military defence executives has proved to

be unworkable in practice. The logic of integration is that contestability of ideas and advice, which is important for balanced policy development, should be a function both of honest and transparent information and discussion processes within the defence organisation itself, together with encouragement of debate within the wider community. The review questions whether a new institution should be set up as the sponsor of this debate, preferring a path of additional support for existing bodies.

## Future Action

ES.36 In accordance with the Minister's request, the emphasis of the review has been on drawing on lessons learned over the past decade, defining the questions that must now be decided and concentrating on possible approaches to a future defence management system and structure that will produce better results than, in the view of Ministers and Parliament, has been the case in recent years. It is suggested that this report, and its accompanying material should be referred to the Government's advisers for comment, to be followed by the development of a Cabinet paper or series of papers, to provide the basis for substantial change to the current system and structure.

ES.37 I am aware that a series of improvements have already been initiated, following the appointment of the new CDF, and the appointments of his subordinate staff. These steps seem to be in the right direction, but in the opinion of the review, they have not yet addressed the major issues. The goal of this review has been to indicate that there is scope for agreement on a range of matters that will achieve the Government's objectives as implied in the TOR, regardless of whether or not Ministers decide it is desirable to review the Defence Act. It will be essential to ensure, however, that there is externally driven machinery to bring about the necessary change. The most effective means of delivering the desired results would be to establish a Ministerial Oversight Group, supported by a steering group of senior officials, specifically tasked with implementing Cabinet's decisions. The State Services Commissioner should review progress on a six-monthly basis.

ES.38 The review accepts that the extent of change suggested could take time to agree and implement. It is essential that some actions be taken immediately. Accordingly, the review lists a range of practical measures which could be considered in advance of, but not as a substitute for, the suggestions for fundamental revision of the current structures and procedures.

## CHAPTER 1

### INTRODUCTION

#### Purpose And Conduct Of Review

1.1 This review had its origins in the August 1999 report of Parliament's Foreign Affairs, Defence and Trade Committee - "Inquiry into Defence Beyond 2000" (q.v: recommendation 9, page 109). It was envisaged as a machinery of government review concerned principally with "the accountability arrangements for the Secretary of Defence and the Chief of Defence Force and the present balance of responsibilities and authorities between the two." It also recommended an assessment of "the effectiveness of the structural changes implemented in 1989/90 including the split into two organizations." In its interim report nine months earlier, the Select Committee had already recommended that "options for recombining the NZDF and MoD into one organization be investigated on the basis that an alternative stream of policy advice is available to the Government."

1.2 The proposal to review accountabilities and structural arrangements between the Ministry of Defence (MoD) and the New Zealand Defence Force (NZDF) was picked up again in the Government's major public document on defence issues - *the Defence Policy Framework* June 2000. It was repeated and strongly endorsed by the Controller and Auditor-General in his August 2001 report on the *Ministry of Defence: Acquisition of Light Armoured Vehicles and Light Operational Vehicles*. The Controller and Auditor-General recommended that the review should include an examination of the relationships between the single Services and the NZDF and MoD.

1.3 The review itself was initiated immediately after the publication of the Controller and Auditor-General's report, the Terms of Reference (TOR) being drawn from all three sources. It was announced by the Minister of Defence on 10 September simultaneously with two other reviews, both of which this review was to take into account (see Annex A). The finalisation of the TOR was held up until I had returned from abroad and were cleared by Cabinet on 17 October. (See Annex B). It will be noted that in their final form the TOR go beyond the earlier suggestions and include, among other additions, the most important of the defence relationships - that between the Minister of Defence on the one hand, and the Secretary of Defence (hereafter, the Secretary) and the Chief of Defence Force (CDF) on the other.

1.4 It is important to note at the outset that this is an organization review commissioned by the Minister on behalf of his Cabinet colleagues, to investigate roles, relationships, responsibilities, accountabilities, - how these are reflected in the law and current structures, systems, processes and practices and what changes may be desirable. It is not concerned with

individuals although the collective behaviour of individuals within the system, particularly those at the top, has a profound effect on its vision, values, standards and cultures all of which have a bearing on organization success or failure. Nor is it a review of either defence policy or operations although, again, the quality of the system which produces both and thus the quality of defence policy and operations themselves will be determined by these organizational matters. Finally, it is not a review of all the agencies involved with the defence of New Zealand. However, since the TOR specifically included the relationship between the Executive and Parliament and stipulate one of the outcomes should be to assist the Minister to develop defence policies and operational advice which meet New Zealand's national security requirements, the review has, to that limited extent, ranged beyond the Ministry of Defence and the New Zealand Defence Force.

1.5 Because of its essentially internal nature, the material for the review has been drawn in large measure from within the two organizations principally concerned. All of the most senior officers, both military and civilian, were interviewed and/or made submissions. A few submissions were received from other members of the two organizations on a personal basis. Four Members of Parliament were interviewed (including the Chairman of the Foreign Affairs, Defence and Trade Committee) as were the Chief Executives of three departments (State Services Commission, Prime Minister and Cabinet, Foreign Affairs and Trade) and the Deputy Secretary of Treasury - these latter four also provided written submissions. To ensure a range of perceptions was brought to bear on the TOR I also commissioned a series of papers from individuals, expert within their fields, as well as from those who were made available by MoD and NZDF to work with the review. In addition to all of these sources the review has drawn on a wealth of material, both historical and topical, made available to it. It has been a major task to bring all of this information and comment together so that the TOR can be fulfilled and I am especially grateful to Dr Cathy Downes of NZDF, Mr Tim Griffiths of MoD and Dr Lance Beath, formerly of MoD and presently a private consultant. Without their help and that of all the organizations mentioned above, together with the authors of the commissioned papers, it would have been impossible to complete this task. As it is we are all conscious that much work remains to be done.

## Review Assumptions

1.6 The Minister asked that this review should be forward-looking rather than an analysis of past failings, which is why the outcomes have been given such prominence in the TOR. Accordingly, while work was done in the course of the review on the development of New Zealand's defence institutions and processes, the intention in this report is to concentrate on next steps. The TOR indicate that the starting point for this forward-looking stance is a suite of three documents produced over the past four years together with the relevant experience and lessons learned from the structural arrangements and accountabilities of the higher defence organizations of New Zealand's key strategic partners.

1.7 The documents and their relevance to this review are summarised below:

*Parliamentary Inquiry August 1999*

1.8 The report of the Foreign Affairs, Defence and Trade Committee of the House of Representatives - "Inquiry into Defence Beyond 2000" - is regarded by the Government as the genesis of much of current defence policy as well as the basis for considering the most appropriate arrangements for managing the New Zealand defence system. This present review is not concerned with the policy directions of the Parliamentary report but rather the organizational implications that flow from them. The emphasis was on "a dramatic run-down" in the country's defence capability and the need to look at new approaches which took into account peace-keeping and other coalition activities; the role New Zealand should play as a credible partner which could respond quickly to international crises; a defence force structured "round a niche market capability"; "achieving affordable excellence", bearing in mind opportunity cost considerations; and greater cost effectiveness.

1.9 In organizational terms the Select Committee found that systems established over the previous decade had negated the intention of the Defence Act 1990 to introduce contestability of advice from the Secretary and the CDF and that in any case that Act had not given effect to the original proposal which had sparked the changes - the implication being that the MoD introduced by the 1990 Act was flawed from the outset. The result of setting up two separate organizations and depriving the Secretary of certain key functions had weakened the defence policy advice role: this had been compounded by the marginalizing in 1991 of the Secretary's statutory audit responsibility.

1.10 In order to overcome the evident weakness in the system the Select Committee recommended in its interim report that:

- a. options for recombining the NZDF and the MoD into one organization be investigated;
- b. that contestability of policy advice should be sought elsewhere by setting up an independent Advisory Committee on National Security and;
- c. that the assessment and audit of the NZDF in relation to any function, duty or project should be carried out externally by the Controller and Auditor General.

1.11 In its final report, the Select Committee again voiced its concern over the relative roles and strengths of the Ministry of Defence and the NZDF. In order to redress the balance to what it thought was a more appropriate distribution of functions, it suggested "all Defence staff working on defence and strategic policy, personnel policy planning, force structure development, resource management and Defence corporate affairs might be

made responsible to the Secretary; but this proposition needs to be further developed in the course of a machinery of government study. The CDF should have a Deputy Chief of Defence Staff (DCDS) in his Wellington HQ responsible for staff interfacing with the MoD and other relevant government agencies.”

1.12 In the same vein it is interesting that the Select Committee, having taken account of comment on its interim report, amended its earlier recommendation to read: *“We recommend that the Government direct that responsibility for arranging the assessment and audit of the NZDF in relation to any function, duty or project, including the measurement of the operational preparedness and performance of the NZDF, be reallocated to the Secretary in terms of the Defence Act 1990.”* There was no explanation as to how this recommendation was to fit with the Committee’s inclination in its interim report to recombine the NZDF and MoD, but it was consistent with the Committee’s view that the relationship between the Secretary and the CDF could not work unless they were on an equal footing in terms of their responsibilities and accountabilities.

*The Government’s Defence Policy Framework, June 2000*

1.13 In releasing this framework ten months after the Parliamentary Report, the Government said it had been substantially guided by, and had built on, that report. The greater part of the framework set out the Government’s intended policy approach to defence matters but it picked up Parliament’s suggestion concerning the need for organizational revision and indicated the Government’s intention to review “accountabilities and structural arrangements” between the Ministry of Defence and NZDF. It was also clear that the Government’s statement of its core requirement (as being for “well-equipped, combat trained land forces which are also able to act as effective peace-keepers, supported by the Navy and Air Force”) and its emphasis on joint operations, would lead to new organizational systems and processes.

1.14 In view of its importance in pointing the way to the future it is worth quoting a passage from the framework:

*“With very few exceptions, the NZDF will be involved in joint operations, that is, operations that involve more than one service. It is accepted that maintaining three services is the most effective way of developing expertise peculiar to land, sea and air operations. While the single services are the basic building blocks of military capabilities, they must be structured to operate in a joint environment. For local, low level tasks, this involves the New Zealand Navy, Army and Air Force working together. For most other operations the NZDF would likely be part of a larger multinational force. In these circumstances, the NZDF force elements may be combined with single service elements of other nations.”*

*Report of the Controller and Auditor-General, August 2001*

1.15 The public eye was caught principally by the Controller and Auditor-General’s reference to the “dysfunctional” relationship between the

parties involved in the two procurement projects examined by the OAG. But there were other indicators of shortcomings in terms of governance structures, lack of clarity in respect of accountability and an ineffective planning system. In his introduction to the report the Controller and Auditor-General said, “In theory, the bilateral approach between the MoD and the NZDF could have worked. Instead, we observed an acquisition process based around a tripartite relationship between the MoD, the NZDF and Army. This gave rise to an environment of poor communication, confusion over roles, and dysfunctional relationships. The acquisition projects have slowed, costs have increased, and relationships have been damaged.....”

1.16 The Controller and Auditor General went on to say:

*“We believe that a number of things need to happen:*

*The Defence Planning System needs to be made operational and produce credible outputs. It underpins the future of the NZDF and the required capital and operational budgets. We are skeptical that the current system will provide the answers.*

*A more pragmatic approach needs to be taken to the acquisition method - one model does not necessarily fit all purchase decisions.*

*The dysfunctional relationships need to be made functional - and be underpinned by clear accountabilities, a more trusting environment, and more face-to-face communication. For example: there needs to be strong project governance to help resolve or avoid the type of disputes that have plagued both of these acquisitions; and there need to be open discussions and transparent decisions that are properly documented.”*

## Overseas Experience

1.17 To comply with this direction in the TOR I have had notes prepared on experience in Australia, Canada, the United Kingdom and the United States. These have been summarized, with a commentary, at Annex D. I also had the opportunity of visiting Canberra where I had meetings with both the Secretary and the CDF - they were most helpful in explaining the manner in which the Australian system has evolved over recent years and continues to do so. (It is of some interest that the Australian Defence Act dates from 1903. Because of its general nature and the flexibility that affords, it remains relevant one hundred years on.)

1.18 The main impression one has from this overseas material is the massive difference in size between our defence system and those of our partners, so that it is difficult to draw lessons directly from the experience of others. Yet, there are many points of commonality. Best practice can be identified. The significance of differences, and the prospects for adapting and integrating them to suit New Zealand’s circumstances, can be assessed. International trends of relevance to the current situation in New Zealand are clear. Even in those systems where there has been a degree of integration in the past or where the system has been managed by a diarchy, the

emphasis is on taking integration to the point where there is a blurring of the difference between civilian and military – both are essential and both need to work closely together. The difference in skill sets, backgrounds and attitudes are recognized but a great deal of effort, especially in Australia and the UK, is going into governance systems and cooperative processes which will produce the best combined result in terms of both policy and operations. The conclusion is that successful joint operations demand the closest possible integration of the defence system at all points.

## CHAPTER 2

### OTHER MATTERS TO BE TAKEN INTO ACCOUNT

2.1 There are a number of other matters which the TOR direct should be taken into account or which could have a significant impact on the outcome of this review.

*State Services Commissioner's Review, December 2001 and Inquiry by Judge Advocate General, March 2002*

2.2 Simultaneously with the review of accountabilities and structures, the Government announced the undertaking of two other reviews concerned with specific matters (see Annex A). The first of these, referred to as the "Ansell/White Review", dealt with the performance of the NZDF in relation to expected standards of behaviour and was released in December 2001.

2.3 As in the case of the Controller and Auditor-General's report this review also found that the context in which it was carried out required more broadly based comment either to explain why certain things had happened or to suggest how they might be avoided in future. Following discussion with me it was agreed that Mr Ansell and Mr White would identify in their conclusions any organisational matters that might be taken into account in this review.

2.4 In view of the importance of the comments they have made I have reproduced relevant extracts from the Ansell/White document at Annex C. All of these issues are relevant to the scope of this review and I have attempted to address them in making my own suggestions for the future.

2.5 When it became apparent that the inquiry by the Judge Advocate General had been delayed to the point where its findings could not be reasonably considered, the Minister instructed by letter of 11 March 2002, that consideration of its findings should be removed from the TOR for this review.

#### *Constitutional and Legal Setting*

2.6 While I have not been asked specifically either to look at the constitutional provisions relating to defence or to suggest a revision of the Defence Act 1990, it is impossible to consider the issues which are the subject of this review without reference to both. In the event it has not been necessary to comment at length because the Government now has

available to it two excellent legal opinions arising from these inquiries. The first, by the Crown Law Office, has been reproduced as an appendix to the Ansell/White report and the second, a paper I commissioned from the New Zealand Centre for Public Law, is attached to this report at Annex F. Other relevant contemporary judgements are those of the late Mr Justice Heron and the Court of Appeal concerning the disbandment of the Air Combat Force. A summary of these decisions is provided at Annex G.

2.7 As far as the Constitution is concerned there is no room for doubt that both the military and civilian members of the defence system are responsible and accountable to the Government of the day through the Minister of Defence. While the differences between the two are recognized in a number of ways there is no question that for all practical purposes the manner in which they should relate to the Minister is identical. The military profession has its own distinct traditions and values which are crucial in recruitment, in training and in the field, but it cannot claim a “higher loyalty” which distinguishes it from other servants of the Crown. Equally, while the NZDF is not a government department and the Ministry is, the ethos which determines their relationship with the Government is the same and Ministers should have the same expectations of both in respect of service and support. It follows, therefore, that the same conventions which apply elsewhere in dealings between Ministers and their senior professional advisers should apply to the defence system also.

2.8 One aspect of the Constitution to which I should refer is the precept that there should be “civilian control of the military.” This is a principle deeply embedded in our constitutional arrangements but it is interesting how it has been interpreted at different times. The interpretation of the Strategos Report that led to the 1990 Act (and thus to the separation of civilian and military activities into two organisations) would imply that civilian public servants are the instrument of this constitutional principle, as the agents of the Minister. This interpretation has been widely rejected but most particularly has been rejected by the Armed Forces, both in this country, and in New Zealand’s strategic partners. Interposing a civilian official, as an agent between political control and the Armed Forces, could create significant legal problems. It potentially diffuses both direct political accountability for control of armed forces, and the legal command of armed forces, which must be exercised by a military commander who is accountable for the actions of combatant subordinates under the Geneva Conventions. This is particularly emphasized in terms of the CDF’s command responsibility.

2.9 For my own part, while I fully agree that the constitutional principle of civilian control is an essential and permanent component of our defence system, I see it as being exercised by the Minister, Cabinet and Parliament and not by public servants. Both civilian and military defence officials enjoy equal status as servants of the Minister - one does not control the other, one should not predominate over the other. Their skills are complementary and should be fused in a partnership.

2.10 The importance of this debate becomes apparent when one examines the 1990 Act. If the mainspring of that Act was the idea that the Constitution required a separation of civilian and military functions, then in my opinion the premise was false. If one accepts that “civilian control” means “political control,” there is no constitutional barrier to the integration of these functions so as to attain the Government’s objectives of cooperation and jointness.

2.11 The point then becomes one as to whether it is necessary to revise the Act to achieve the outcomes of this review. A decision on that can only be taken after Ministers have considered all the material presented in this report together with advice they will receive subsequently. In response to my request the New Zealand Centre for Public Law has enumerated the steps that could be taken within the existing legislation. I have also set out a possible programme of practical measures in Chapter 8 of this review. It will be seen that these steps, alongside the many other governmental and organizational decisions that could be made without having to amend the 1990 Act, could add up to considerable progress towards the Government’s goal. That is certainly the strong view of several of the Government’s senior advisers: they would be particularly concerned if a fundamental revision of the Act would delay progress which is urgently needed. The counterpoint to that is the Select Committee’s majority view that the Ministry of Defence and NZDF should be combined into one organization. That cannot be done without revising the legislation. An alternative might be to take the integration option as far as possible within the current legislation and make whatever specific amendments may be needed to avoid the more obvious anomalies. If this were done as a first step, the assessment could be made in the medium term whether a process of integration that stopped short of structural unity, enshrined in legislation, was sufficient for the Government’s purposes.

2.12 As far as specific legislative amendments are concerned, I note the Government’s Defence Policy Framework has taken up the Select Committee’s suggestion and envisages a review of the Defence Act to cover the deployment of NZDF personnel overseas on warlike operations. The New Zealand Centre for Public Law has pointed to other issues e.g. the lack of powers for the Secretary to obtain the information required to meet the responsibilities of the position, (the CDF has reported to me that the NZDF has similar information access problems.), the ability of each Chief of Staff to report directly and separately to the Minister rather than through the CDF, where I think amendments might be desirable.

2.13 The point of law that has had the strongest emphasis in the course of this review is the requirement of the CDF to command each of the three Services “through” its Chief. (This is also reflected at the next level up with the power of the Minister to control the NZDF “through” the CDF.). It has been put to me that this requirement can undermine the authority of the CDF when a Service Chief “goes round” him to the Minister or to another

member of the Government, or when a Service Chief is reluctant to accept the CDF's direction. The CDF's inability to hire and fire his subordinates when he deems this necessary to enable him to fulfil his responsibilities, is not in accordance with current management practice. The restriction on the CDF's command powers is also at odds with management accountability. But as Professor Palmer has pointed out in his opinion, "the seriously coercive power of the military suggests that there are possible dangers in concentrating the power of military command in one professional position alone, no matter how well chosen and qualified the individual." It should be noted that among New Zealand's strategic partners, military command has been concentrated in one professional position alone. Some of these countries, including the United States have equal concern for the "seriously coercive power of the military being concentrated in one person", but have nonetheless preferred the high trust that comes from this approach rather than what they might see as the "divide and conquer" stratagem of playing Chiefs of Staff off against a CDF. This is a question which only Parliament is able to answer definitively.

2.14 Perhaps the point could be met not by seeking to amend this part of the Act but by ensuring all parties observe meticulously the procedures in the current legislation which provides that in most instances communication up or down the chain of command should be "through" the CDF. Where exceptional circumstances apply and a Chief of Staff wants to speak to the Minister this should be with the knowledge of the CDF and, I would suggest, in the CDF's presence. Greater use might also be made of the Minister's power to issue directives and the CDF's power to issue Defence Force Orders, to reinforce their authority.

*National Security Requirements and the Roles of other Departments.*

2.15 One of the desired outcomes of this review is "defence policy and operational advice that meets New Zealand's national security requirements, interests and obligations." I have attempted to suggest ways in which the Ministry of Defence and NZDF could improve their performance in this respect - the principal one being the integration of all the processes which contribute to the coordination of defence policy and planning. However, the two organizations cannot on their own achieve this outcome, they must work closely with others to produce the optimum result for the Government.

2.16 I have spoken to the Chief Executives of two of the other departments with defence-related responsibilities and to the Deputy Secretary of the third. The emphasis in our conversations and in their submissions was on their relationship with the Ministry and NZDF rather than on their own organizations. I would suggest that any future work on the defence system should also include the roles and responsibilities of these other agencies (e.g. it will be recalled the Controller and Auditor-General has commented in his report on the role of the Treasury).

2.17 The most urgent concerns I have encountered in this area are those stemming from the growing awareness of the globalisation of security

and the expansion of its scope into areas which touch the ordinary citizen ever more closely. It is suggested that we lack machinery to deal with this phenomenon and that we should be thinking about processes which ensure the coordination of all government agencies whatever the type of threat to our security. This has been coupled with an argument that unlike our strategic partners we do not have permanent policy and strategy systems in place to bring together the Government and its principal advisers both in respect of national security overall and defence specifically. I will be making suggestions in both areas later in this review but much more work needs to be done on them. Material has been prepared in the course of this review that will be available to those who will be following up the question of our future national security requirements.

## CHAPTER 3

### THE CURRENT DEFENCE ORGANISATION

3.1 The 1990 Defence Act disestablished the former Ministry of Defence and established two new Defence organizations as separate entities: a new Ministry of Defence with responsibilities for providing advice on defence policy, defence procurement and audit and assessment, and the New Zealand Defence Force, comprising the Armed Forces of New Zealand and associated civil staff, and with responsibilities for all operational matters.

3.2 This chapter provides a very brief outline of the structure and functions of the Ministry of Defence and the New Zealand Defence Force. It concludes with a note setting out a number of mechanisms that have been devised in recent years to facilitate cooperation and consultation between the two organizations.

#### Ministry Of Defence

3.3 The Ministry of Defence (MoD) has three main roles, to:

- to provide advice on defence policy, international defence relations and the military capabilities required to meet the government's defence policy objectives;
- to manage the procurement of major capital equipment contributing to the future capabilities of the NZDF; and,
- to evaluate and report on NZDF military activities, including output delivery, management systems and processes and, efficiency and effectiveness of resource utilization.

3.4 The Secretary has the following responsibilities (in addition to those applying to all state sector Chief Executives):

- be the principal civilian adviser to the Minister and other Ministers of the Government;
- formulate advice on defence policy in consultation with the CDF;
- prepare periodic defence assessments for the Minister, in consultation with the Chief of Defence Force. The assessments are to include different options capable of meeting the Government's defence policy objectives;
- procure, replace or repair equipment representing significant military capability for the NZDF; and,

- arrange for the assessment and audit of the NZDF in relation to any function, duty, or project, and of the Ministry in relation to any major capital equipment procurement project.

3.5 To carry out its functions the Ministry is comprised of four divisions. These divisions are: Policy and Planning; Acquisitions; Evaluation; Corporate and Finance.

3.6 The Ministry's Policy and Planning Division forms part of the Defence Policy and Planning Unit (DPPU), an integrated defence policy organisation that reports to both the Secretary and the CDF. The other element of the DPPU is the joint MoD-NZDF International Defence Relations Branch (IDR).

3.7 The DPPU has four main functions:

- advice on meeting current defence needs and interests;
- advice on New Zealand's international defence relations, and participation with the NZDF and MFAT in the management of those relationships;
- advice on policies and military capabilities to meet future security needs; and,
- co-management with the NZDF of a strategic planning system.

3.8 Acquisition Division is responsible for the procurement, replacement and repair of equipment of 'major significance'. Major equipment purchases are defined as those whose value exceeds \$7 million. The Division is also responsible for the provision of advice on New Zealand industry and its capability to carry out defence work.

3.9 Evaluation Division currently has four main functions. As defined in the Ministry's Strategic Business Plan these are to conduct:

- independent evaluations of the NZDF;
- independent reviews of efficiency and effectiveness of NZDF management systems and resource utilization;
- internal audits and review of MoD's acquisition, policy and corporate activities; and,
- audits of the control of any hazardous substances under the control of the MoD.

3.10 Corporate Division provides support services and policy advice in the areas of legal, human resources, finance, communications, administration and information technology and management. Corporate Division also acts as the main conduit for communication with the Minister's office, and manages all ministerial correspondence, Official

Information Act requests, parliamentary questions and responses to select committees.

3.11 The total strength of the Ministry at any time fluctuates around 65 employees, almost all of whom are civilian.

### New Zealand Defence Force

3.12 The New Zealand Defence Force (NZDF) consists of the three single Services (Navy, Army and Air Force), the Joint Force Headquarters (JF HQ) and Headquarters, New Zealand Defence Force (HQ NZDF). HQ NZDF is the strategic level command and management organisation for the NZDF, consisting of an Office of the Chief of Defence Force, which are his principal advisors and their staffs, and Navy, Army and Air Force staffs, and the Office of Veterans' Affairs. The structure and functions of HQ NZDF reflect the responsibilities and relationships between the Chief of Defence Force (CDF) and single Service Chiefs as detailed in the 1990 Defence Act.

3.13 The New Zealand Defence Force (NZDF) mission is to secure New Zealand against external threat, to protect New Zealand sovereign interests, including in the exclusive economic zone (EEZ), and be able to take actions to meet likely contingencies in New Zealand's strategic area of interest.

3.14 The Chief of Defence Force (CDF) is:

- the principal military advisor to the Minister and other Ministers of the Government; and
- responsible to the Minister of Defence for:
  - the carrying out of the functions and duties of the Defence Force (including those imposed by any enactment or by the policies of the Government); and
  - the general conduct of the Defence Force; and
  - the efficient, effective and economical management of the activities and resources of the Defence Force; and
- the commander of the NZDF through the single Service Chiefs of Staff.

3.15 To carry out these functions, HQ NZDF includes eight branches that report to the CDF, for: Personnel, Force Development, Intelligence and Strategic Plans, Finance and Resources, Information and Communications, International Defence Relations (which is an integrated Branch, reporting to CDF and the Secretary of Defence), Legal and Corporate Services. In addition, CDF is supported by two other principal staff officers: a Deputy Chief of Defence Staff who acts as a Chief of Staff and the Inspector-General, who evaluates the preparedness and readiness of NZDF force elements.

3.16 These functional staffs are primarily responsible for policy issues relating to their function. For example, Personnel Branch is responsible for the development of military and civilian personnel

employment, remuneration and welfare policies. Development Branch provides guidance, policy and advice on aspects of the NZDF's force structure and operational capabilities, supported by a logistics cell and a technology agency that provide technical and scientific advice. Finance and Resources Branch develop, maintain and verify the financial profiles of the NZDF Capital and Operating Plans, develop policy and planning advice on the management of NZDF's financial resources and implement best practice policies to meet compliance and governance requirements.

3.17 Information and Communications is responsible for the implementation and management of NZDF information management architecture to meet organisational requirements. International Defence Relations is responsible for providing advice on international and regional developments of strategic relevance and prepares submissions on security issues. Legal Services provides legal advice and services to the NZDF, including constitutional, command and issues relating to domestic and international law, pertaining to NZDF operations and activities, as well as overseeing the administration of Service law. Corporate Services provides the administrative support to HQ NZDF.

3.18 Within the HQ NZDF, separate staffs support the single Service Chiefs. They provide functional support broadly similar to that provided to CDF, with an emphasis on the professional development and maintenance of their respective Service and the implementation of defence policy through delivery of specified NZDF outputs.

3.19 Headquarters, Joint Force New Zealand (HQ JFNZ) is a separate operational level headquarters designed to undertake operations on behalf of the CDF. Established at Trentham in July 2001, it drew together the staffs and functions from single Service operational-level headquarters. The Commander Joint Forces New Zealand is responsible for the command and control of HQ JFNZ and operational command of all assigned force elements on operations and during joint and combined training.

3.20 The NZDF has 13,800 personnel including the Armed Forces (Regular Force, Territorial and Reserve Force members) and the Civil Staff. There are 8,800 regular military personnel and 2,030 civil staff members. The total military and civil staff strength of the HQ NZDF is currently 906; this includes:

- 244 personnel in administrative or support positions many of whom provide services for all occupants of relevant buildings (including MoD and SIS) - for example security guards.
- 102 personnel included in HQ NZDF cost centres for accounting purposes that are associated with NZDF output delivery. These include New Zealand Defence Advisers/Attaches overseas, and foreign personnel attached to the NZDF, Operation Antarctica personnel, liaison staffs seconded to external agencies.

- 128 personnel employed in management and implementation positions in the functional branches and the three single Service staffs; this total also includes personnel associated with some single Service support functions re-assigned out of the creation of the JF HQ. and
- 432 personnel who perform NZDF management policy functions or are in direct support of such functions.

## Cooperation Between The Two Defence Organisations

3.21 Since their formation in 1990, the two Defence organizations have devised a number of mechanisms to help break down the policy/operations divide mandated by the Act. The most important of these are summarized below:

### *Office of the Chief Executives*

3.22 An Office of the Chief Executives (OCE) has been established to facilitate consultation between the Secretary and the CDF on matters of defence policy, military capability, defence planning and so on. The OCE was initially intended to meet on a weekly basis but in practice it meets less frequently and on an 'as required' basis. The OCE provides policy guidance and direction, receives briefings and updates on upcoming projects, and discusses other related defence matters of mutual interest.

### *Conduct of Defence Assessments and Force Structure Reviews*

3.23 To ensure that Defence Assessments and Force Structure Reviews reflect the views and input of both Defence organisations, the practice since 1991 has been to form MoD/NZDF project teams to carry out such reviews, with the conclusions being reported to a steering committee or the OCE, depending on the subject matter.

### *Co-Location of HQ NZDF Force Development Branch and MoD Defence Policy Division*

3.24 In 1995, the then Secretary and CDF took the initiative to co-locate the HQ NZDF Force Development Branch with the MoD Policy Division. By all accounts, this arrangement worked effectively, particularly in integrating all relevant inputs for the capability-focused 1996-97 Defence Assessment. For reasons which are not clear, the arrangement was terminated in 1999, with the Force Development Branch being relocated back into the HQ NZDF.

### *Formation of the Defence Policy and Planning Unit (DPPU)*

3.25 The Defence Policy and Planning Unit (DPPU) was formed in early 2000 by bringing together staffs of the MoD Policy Division and the International Defence Relations Branch of HQ NZDF, integrating them into a combined staff reporting to both the Secretary and the CDF. The DPPU consists of three work areas: Strategic Policy and Planning; Strategic Analysis; and International Defence Relations.

3.26 In addition to those listed above, a number of other initiatives have been introduced to facilitate cooperation and communication. These include: secondments mainly of NZDF personnel to the MoD; an integrated public relations and communications staff; use of project teams drawn from both MoD and NZDF staffs; and consultation arrangements for answers to ministerial correspondence, parliamentary questions, official information requests and requests for assistance and information from the Foreign Affairs and Defence Select Committee.

3.27 Also, since this review commenced, it should be noted that both CEs have continued to seek ways of improving the working relationships and arrangements between the two agencies. In this regard, I am aware that a MoD/NZDF review of structures, management and organisation for public communications has been launched to be headed by an external consultant; new personnel have been brought into key positions in both organisations; new governance arrangements have been established for acquisition projects; and an integrated NZDF/MoD project team has worked through the production of an agreed long-term development plan that has been accepted by Government.

## CHAPTER 4

### SUMMARY OF SUBMISSIONS MADE TO THE REVIEW

4.1 In both written and oral submissions made to the review, there was a wide area of agreement both in terms of the nature of the problems confronting the Defence Organisation, and the possible solutions. For example, there was a broad consensus that current structures in defence are not working, and that separation has failed to deliver the key objectives sought in the 1990 reforms. There is also agreement that the most practical solution to current problems lies in structural reform. Views differ on how far structural reform, including integration of civilian and military staffs, can be pressed within the current legislative framework. While it appears that most of what needs to be done in the short term can be initiated without running into conflict with the legislation, the advice of some is that legislative reform would be desirable if the Government wishes to make its intentions clear, and bring the legislation governing the defence organisations into line with its policy and practice intentions.

#### Areas Of Agreement

4.2 The main issues around which there was a convergence of view are summarised below.

##### *Nature Of The Problem*

4.3 There is a general view, echoing that of the Select Committee, that current structural and accountability arrangements are not working well. Organisational separation, and its associated separation of responsibilities and accountabilities while contributing to some key objectives of the 1990s reforms, has failed particularly to deliver on the provision of contestable defence policy advice. The arrangements have reinforced existing organisational “stovepipes” and created artificial new ones that have handicapped effective management of the defence function and reduced responsiveness to Government’s needs and expectations.

4.4 The Defence Act 1990 is seen by most observers as a key part of the problem. The Act fragments into two parts an organisation that needs to be responsible for one set of outcomes. Structures are at odds with the processes required to deliver high quality defence policy, purchase and operational decisions. The Act also reinforces pre-existing structural divisions between the three Services that, even in 1990, were being

recognized by partner defence establishments as impediments to trust and effectiveness<sup>1</sup>.

4.5 There is a consensus that to address the structural problem, strategic level change is required in accountability and structural arrangements between the MoD and the NZDF, and within the NZDF itself.

#### *Governance Arrangements*

4.6 A number of submissions considered that current governance arrangements and structures need to be comprehensively overhauled. The case for creating a Cabinet-level National Security Committee to provide comprehensive national security policy guidance and direction is overdue. It is anomalous that of all the countries examined, New Zealand does not have a senior standing or permanent committee of Ministers to address security, defence and foreign policy issues from a whole of government perspective. Current structures are seen as unduly limited and crisis-oriented. There is a need for national security governance structures at both Ministerial and senior officials' level that can manage New Zealand's external interests more proactively on a continuous basis.

#### *Structural Requirements*

4.7 There is broad agreement that at the departmental level the requirement is for integrated, high quality, independent advice from a single civilian and military staff working to whole of Government outcomes rather than segregated advice from two staffs (or five, on some issues) with different visions and, potentially, divergent leadership goals.

4.8 At the heart of any such arrangement there needs to be a strong, highly competent, strategic-level civilian/military staff agency responsible for long range strategic, capability and resource planning as well as for support services.

#### *Underlying Attributes*

4.9 There is also wide agreement that making relationships work at the top of Defence is critically dependent upon a clear defence strategy, agreed common purposes, mutual respect and trust between military and civilian staffs and clear role definitions. Transparency of information across the Defence-wide organisation was also identified as a key requirement, both as between the MoD and the NZDF and between the NZDF and the single Services. The need to continue fostering a joint and shared approach wherever possible was also identified as a key ingredient.

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<sup>1</sup> It is noteworthy that in a 1997 Canadian study of authority and accountability arrangements in the defence establishments of Australia, the United Kingdom, New Zealand, the then Federal Republic of Germany, Norway and the Netherlands, the authors concluded that in all cases studied (except New Zealand) the benefits of close interaction, and even organizational integration, between military and civilian staffs were seen to have 'outweighed any potential difficulties with who is accountable for what.'

*Need To Remove The Distinction Between Civilian And Military Advice*

4.10 The need to move towards a joint, fully integrated, organisational structure at the highest level, implies a requirement to develop a more sophisticated view of the nature of policy making in defence. There is a need to draw clearer distinctions between what makes up defence policy and strategy on the one hand, and defence management and operational policies on the other. It was widely agreed at the same time, that no clear or useful distinction should be made between the terms “civilian” and “military” advice. The attempt to draw such distinctions should be dropped. Because of the different professional competencies that each brings, it is not inappropriate to continue to refer to CDF as the Minister’s Principal Military Adviser (because this distinguishes him from other military advisers), and the Secretary as the Principal Civilian Adviser (because this distinguishes him from other Public Service advisers). Their advice, however, should not be circumscribed by labels that defy definition and lead to constant boundary riding.

*Supporting processes*

4.11 Submissions recognised an urgent need for a defence planning system that reflects agreed processes. These processes need to be facilitated by appropriate management and organizational structures. Structures should reflect these processes. In process-oriented organisations, rigid divisions between ‘policy’ and ‘implementation’ are unsuitable.

*The Role Of Information Flows Within The Current Organizational Structure*

4.12 The importance of encouraging better information flows throughout the Defence Organisation was stressed. A number of observers<sup>2</sup> noted that the policy work of the Ministry could only be as good as the information from which it is drawn and there are difficulties in accessing information from the NZDF that is critical to effective defence policy advice. However, this information block is not seen as being one way or even simply as an external problem. Other observers drew attention to the NZDF’s difficulty on occasions of accessing critical information from the Ministry, while the CDF commented on the reluctance of the single Services to provide information he needs. Each organisation must take responsibility for developing and maintaining, to a high standard, their particular corpus of information. Many submissions noted that each organisation is not an island, both requiring access to critical pieces of information from each other in order to deliver their respective outputs.

4.13 A number of submissions were of the view that as long as they continue as separate organizations, the MoD and NZDF need equivalent

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<sup>2</sup> See Annex F. Professor Matthew Palmer, Director, New Zealand Centre for Public Law, observes that it is particularly noticeable that in the current Act, the Ministry exercising policy and purchase responsibilities has ‘few powers to extract information from the operational military organisation of the New Zealand Defence Force’.

institutional powers to access information essential to the performance of their functions. This is not the case in current legislation, a fact that is remarked on as a key issue in Annex F. It was also noted by submissions that information flows are constrained by the size and scale of information technology requirements of each organisation that have impeded the development of effective technical support.

#### *Reform Of Committee Structures*

4.14 Within Defence, existing committee structures need to be overhauled. There was general agreement that the role and functioning of the Office of the Chief Executives needs to be rethought, as does the role and composition of the Chiefs of Staff Committee. (Over the past few years, the latter has been virtually dysfunctional – a situation which is now being rectified).

#### *Incentive structures within Defence*

4.15 A number of submissions to the review have drawn attention to the need to rethink incentive structures. Performance evaluation should be aligned to integrated civilian and military structures, and driven from the centre rather than from the Single Services. Officers serving in the joint environment need to be assessed and evaluated against joint requirements. The underlying requirement is to design incentive structures that lead to *goal congruence* between the various staffs in defence. There was widespread agreement that senior level appointments (i.e. in both the MoD and the NZDF) need to be consulted on and agreed more widely.

#### *Recognising And Fostering Key Inter-Relationships*

4.16 There was wide agreement that there needs to be closer, more symbiotic, relationships between policy, development, resource planning and acquisition staffs. The case for bringing together and fully integrating defence policy, planning and resource management staffs, force development (including war-gaming and operational analysis research staffs) and acquisition staffs, needs to be examined and acted upon.

#### *Quality Advice to Ministers*

4.17 A number of submissions drew attention to issues that affect the ability of the Minister to make sound decisions. The Minister's practical exercise of his functions depends on his knowing what the key issues are, especially in the policy and purchase area. There must also be a balance of well informed opinions available to the Minister when he makes recommendations to his colleagues concerning the deployment of New Zealand forces overseas, defence diplomacy initiatives or capital investment in defence capabilities. Submissions recognised that weaknesses particularly in MoD staff experience and knowledge, fragmented advice, and shortcomings in the MoD's ability to access required information would be reflected in the Minister's ability to perform effectively. Other issues identified as impacting on the Minister's ability were: a need by the Government to demonstrate greater trust and confidence in its key advisors;

and, the need for the Minister to satisfy himself that he has been able to traverse all policy options before Government decisions are made.

#### *Strategic Capacity Issues*

4.18 A number of submissions raised matters that concerned the shortcomings and difficulties in maintaining and enhancing the overall strategic capacity of both organisations (size of staffs to handle workloads, and depth of staff expertise, experience, qualifications, knowledge and competencies for their duties). These included: high rates of staff turnover in both organisations, difficulties in building up specialist policy, analytical and management competencies in the MoD, and the provision of effective and appropriate educational experiences and career development opportunities for staffs.

#### *Need for Greater Jointness in the Defence Force*

4.19 A number of submissions, and other papers such as the Controller and Auditor General's Report and the Ansell-White Inquiry identified a range of dysfunctional relationships within the Defence Force. There was a high level of agreement that such relationships could be significantly improved by greater emphasis on jointness (i.e., the integrated results that can be achieved by combinations of personnel and forces from maritime, air and land force backgrounds) at the strategic as well as the operational level of the Defence Force. In this regard, submissions recommended: a greater joint emphasis in training; strengthening promotion criteria for senior staff to include joint experience as a prerequisite; a joint approach to senior officer career planning and promotion; the amalgamation of the existing single Service Colleges and Institutes into a Joint Defence College with a joint professional military education scheme; development of joint doctrine and giving the Chiefs of Staff joint duties in addition to their single Service responsibilities.

#### *The Role Of Core Values And Attitudes*

4.20 Supporting all of the above, many submissions saw a need to redefine and embed a new set of core values and attitudes within Defence. In effect, what is sought is a comprehensive shift in the existing culture and attitudes within Defence towards those required in a joint and fully integrated civilian and military organisation.

### Areas Of Disagreement

4.21 Areas where views diverged were more restricted in number. They included a current organizational capacity issue; CDF's command arrangements vis-à-vis the Service Chiefs, including their right of access to the Minister; a range of structural and governance issues; and, how best to make progress on design and implementation of the Defence Planning System.

### *Capacity Issues*

4.22 The core issue is that external observers do not support the Ministry's view of its performance. The MoD believes that its policy work is carried out to a good standard. This assessment is not supported in submissions to the review, either by external stakeholders (e.g. the State Services Commission) or from senior stakeholders within the Defence Organisation itself. A range of reasons has been identified for the difficulties the Ministry has experienced (some of them by the Ministry itself). These include problems experienced with accessing the full range of operational information needed to inform policy development; retaining and building greater expertise and experience amongst the relevant staffs; and, building appropriate levels of trust and confidence amongst key stakeholders, including at the political level.

### *Command Arrangements*

4.23 CDF's command arrangements vis-a-vis the single Service Chiefs were raised by a number of submissions. While the great majority drew attention to what they saw as an anomalous arrangement whereby the CDF, in terms of the 1990 Defence Act, is required to command the NZDF *through* the Chiefs rather than directly, one or two submissions thought that there might be advantage (e.g. in terms of greater contestability) in continuing to dilute the authority of the CDF in this way. Most observers however saw this arrangement as one of the chief contributing causes to the dysfunctionality in Defence, characterised by lack of trust; confusion over who is in charge; uncertainty about what the overall vision for Defence is; and, difficulty in deciding who can be held accountable for what.

4.24 A related issue is the question of the retention, or not, of separate access to the Minister by the Service Chiefs. Some submissions saw the existing right of separate access as an outdated provision in the Act, being both unnecessary in practice and harmful to the authority of the CDF.

### *Structural And Governance Issues*

4.25 Some submissions saw strong advantage in recombining the two Defence Organisations into a single Department of Defence while others favoured retention of two separate entities, but with new structural, governance and incentive mechanisms. A difficulty with the single Department of Defence model is the issue of who should head such an organisation: the Secretary or the CDF? Most submissions felt that the time had not yet arrived for an organizational model based on a single chief executive. The focus therefore was on improvements that might be made to current structures along the lines of greater staff integration, revised committee structures and new incentive mechanisms. The logic of the position of those who saw the need for a single organisation but not a single Chief Executive, was that some form of joint leadership would be required (bearing in mind that only the CDF can have the operational command responsibilities).

4.26 One governance issue that received some support was the proposal that the current Office of the Chief Executives (OCE) and the Chiefs of Staff Committee (COSC) should be overhauled and augmented by a Defence Board modelled along private sector lines. The suggestion was that the Minister could chair such a board, with membership made up of the Secretary and the CDF plus directors chosen from the private sector to provide some assurance that NZDF/MoD management practices followed best practice. Chiefs of Staff and the Chief Financial Officer could be ex officio members, and the Secretaries of Foreign Affairs and Trade, the Treasury and PM&C invited to attend the Board for discussions on policy issues.

4.27 Others thought that unless accountability issues were carefully addressed, and the roles and responsibilities of Board members carefully defined, there might be a risk that such a board could end up blurring the accountability of the Secretary and the CDF.

#### *Defence Planning System*

4.28 While there was a wide level of agreement that two Defence Chief Executives need the support of an effective defence Planning System, there was disagreement on what such a system should look like. One submission argued that the defence planning system should have simple, easy to understand processes and be capable of being written down in one diagram on a single piece of paper. Others noted that as Defence was an intrinsically complicated business it was natural to expect that any planning system that accurately mirrored it would also be complex.

### Summary Of Submissions

4.32 The conclusions, which emerge from my overall analysis of the submissions, are as follows:

- important aspects of the separation of the defence agencies into defence policy (civilian) and operations (military) on which the 1990 Act is based, have not worked; key functions that require both civilian and military inputs were artificially separated;
- strategic level change is needed in accountability and structural arrangements between the MoD and the NZDF, and within the NZDF;
- overhaul of the 1990 Defence Act is not essential to make substantive progress but would be desirable, both as a means of clarifying the Government's intentions and to confirm the overall direction of reform;
- pending either amendment to or revision of the Act, structural reforms could proceed on the basis of Ministerial direction (the strongly held consensus is that action is required urgently);
- governance arrangements and structures need to be comprehensively overhauled;

- there is a need for a Cabinet-level National Security Committee to be established to provide national security policy guidance and direction – this Cabinet Committee should be serviced by a broadly based Committee of Senior Officials;
- there is a need to create within Defence a fully integrated, civilian and military staff agency to take responsibility for strategic-level policy,, strategy, commitments, capability and resource issues;
- clearer distinctions are needed between what makes up defence policy, on the one hand, and defence management and operational policy; at the same time, unhelpful and artificial distinctions between “civilian” and “military” policy advice should be dropped;
- a change in culture and attitudes within the defence organizations is required: civilian and military staffs are not interchangeable; each bring distinctive skills and experiences to the Defence function, which need to be respected and recognized; at the same time structures and incentives must be designed to ensure both professional streams work closely and harmoniously together;
- transparency of information is a key attribute of all high performing organisations: in order to facilitate good working relationships between the MoD and the NZDF, and between the NZDF and the single Services, Defence needs to address urgently the requirement to build a fully integrated, seamless, management information system throughout the entire Defence Organisation;
- senior level committee structures within the defence organisation need to be overhauled: there is a need for a new senior level committee or management board to bring together and act on advice from an integrated, joint, staff agency;
- current moves towards increasing jointness need to be encouraged: issues identified as needing attention include the development of joint doctrine; the integration of force development, war gaming and operational research staffs to encourage a joint approach to capability development; and, the integration of existing single Service military educational training institutions into a Joint Defence College;
- incentive structures need to be reworked to reflect the move towards a joint and integrated approach; senior level appointments in the MoD, the NZDF and the single Services need to be made in consultation between the Secretary, the Chief of Defence Force and the Service Chiefs;
- CDF’s command authority over the Service Chiefs needs to be strengthened; and,
- disagreements between the MoD and the NZDF over architecture and design issues in respect of the defence planning system need to be resolved and action taken to implement fully an upgraded system.

## CHAPTER 5

### GOVERNMENT EXPECTATIONS OF DEFENCE

5.1 Government expectations of the defence organizations are set out in three main documents. These are the Government's Defence Policy Framework (June 2000); New Zealand's Foreign and Security Policy Challenges (Ministry of Foreign Affairs and Trade, June 2000); and the 8 May 2001 Government Defence Statement *A Modern Sustainable Defence Force*. In producing these three documents the Government drew extensively on the August 1999 Parliamentary Select Committee Report *Inquiry into Defence Beyond 2000*: this report continues to inform the Government's broad approach to Defence issues.

5.2 The Defence Policy Framework describes New Zealand's strategic setting, defines New Zealand's security interests, and sets out key elements of the Government's approach to defence. The Framework also defines the Government's defence policy objectives, the roles and tasks of the NZDF and the Government's broad priorities for force structure and capability matters. The core requirement is described as being well-equipped, combat trained land forces that are also able to act as effective peacekeepers, supported by the Navy and Air Force.

5.3 In the Defence Policy Framework the following elements are stressed as being important to shaping and rebuilding the NZDF:

- to meet the Government's defence policy objectives the NZDF must be able to offer an adequate range of capabilities that are realistically attainable;
- priority will be given to investing in force elements that are trained, equipped and maintained at appropriate levels of combat viability and readiness;
- available resources will be concentrated in areas where they are most needed. This will mean a shift towards a range of military capabilities which are sustainable, safe and effective in combat and in peacekeeping, and structured for maximum operational and political impact;
- the three armed Services work most effectively when they work together and;
- the NZDF must be appropriately equipped and trained for both combat and peacekeeping.

5.4 The Government believes that with very few exceptions, the NZDF will be involved in joint operations (operations involving more than

one Service in land air, and sea operating environments). While the single Services are the basic building blocks of military capability, they must be structured to operate in a joint environment. This places a premium on the ability of the three Services to work closely and cooperatively together. The Government also believes in the need to be able to work collaboratively with like-minded partners, in particular Australia. This requires the NZDF to be able to work safely and effectively with the Australian Defence Force.

5.5 In its 1999 Report, the Parliamentary Select Committee described its first priority, in force development terms, as the identification of a useful range of combat and combat support options to allow New Zealand to contribute well equipped, highly trained, sustainable force elements at short notice to credible crisis-management and peace-building tasks. The basis of the Select Committee's approach was the recognition that 'a greater degree of combat-readiness is required for New Zealand to maximize its value to Defence partners as a contributor to international peace and security'. The Select Committee defined the desired Defence Force as having the ability to achieve a self-sufficient, quickly deployable, hard-hitting force, small, but fully equipped and highly trained: this meant a joint force with its combat capability enhanced by combining mutually supporting elements that were frequently training and exercising together.

5.6 The stress is on jointness within the NZDF's constituent parts, and effective interoperability with the forces of our strategic partners. These two objectives reinforce the importance of achieving an outcome from the present review, in organisational terms, that helps the MoD/NZDF and the single Services to work effectively and efficiently together across the full range of defence policy, resource planning and operational tasks.

5.7 The broader links between defence, foreign and security policy are spelt out in the MFAT document *New Zealand's Foreign and Security Policy Challenges*. Defence capability is described as 'only one element in a broader approach to international security'. A comprehensive approach is called for in promoting New Zealand's external interests. The South Pacific and Australia receive particular attention. South Pacific capabilities are seen as a core requirement for the NZDF, with the ability to perform core military tasks acting as a 'primary point of reference for future NZDF capability development'. Defence links with Australia are seen as important if New Zealand 'wants to maximize the effectiveness of the New Zealand defence effort on a limited resource base'. Particularly in the South Pacific, but further afield as well, interoperability and close operational links with the Australian Defence Force, along with complementary capabilities, 'will remain essential'.

5.8 As outlined above, these documents spell out the Government's broad expectations of Defence at a strategic level. In addition, its requirements are operationalised and updated annually in purchase agreements signed between the Minister of Defence, the CDF and the Secretary. These agreements, which set out the immediate priorities for the

year, are supplemented from time to time by public statements issued by the Prime Minister and the Minister of Defence. The Minister's statement announcing the present review and associated inquiries (Annex A); and the Terms of Reference for the review itself (Annex B), offer guidance on the Government's expectations in the field of defence. The immediate points are summarized below.

5.9 In the Minister of Defence's statement of 10 September 2001, the Government confirmed that it was *'intent on building a highly professional, well equipped modern defence force;...to put the most appropriate structures in place; and, to ensure that any past problems are identified and eliminated'*. To this end, it directed that the review *'consider issues such as the effectiveness of the 1990 decision that created the NZDF and MoD; the balance of responsibilities and accountabilities between the Secretary and the Chief of Defence Force, and between CDF and the single Service Chiefs; options for better coordination of policy advice and implementation; the issues raised in the Controller and Auditor General's Report; and, options for greater transparency in capital planning and acquisition processes'*.

5.10 In the Terms of Reference for this review, the Minister of Defence noted the key outcomes desired by Government:

- defence policy and operational advice that meets New Zealand's national security requirements, interests and obligations;
- defence policy advice that is well-informed, meets state sector standards and combines the expertise of military personnel with that of civilian advisers to serve the collective interest of Government;
- effective and efficient performance direction, planning and management of Defence assets, resources, outputs and outcomes;
- transparent and robust defence planning and capital acquisition processes, including the setting of capital acquisition priorities, tendering and decision-making and advice to Ministers; and
- a New Zealand Defence Force and Ministry of Defence that is committed to jointness at inter-agency and all levels of the Defence Organisation.

5.11 Taking these references together, what the Government expects of Defence can be summed up very simply. The Government wants a Defence Force that is well-equipped, well-trained and well-motivated; capable of undertaking a basic range of tasks independently or in combination with others; and, capable of contributing to the attainment of New Zealand's larger foreign policy and security objectives. The Government also wants a defence policy, planning, programming and management structure in Defence that supports New Zealand's security requirements, and provides effective and efficient direction and management of Defence assets, resources, outputs and outcomes.

5.12 In more detail, these expectations include the ability to:

- generate on demand mission-capable, prepared military forces to carry out specified military and national support missions that contribute to New Zealand's national security objectives;
- provide clear and timely strategic direction on, and launch, sustain and complete military missions with minimum risk;
- bring together fully capable maritime, air and land force components into coherent, interoperable, joint or combined forces under unified command;
- provide high quality professional advice to government;
- provide effective and efficient performance direction, planning, management and accounting for Defence's resources, through transparent and robust planning and management processes;
- be a good employer of New Zealanders with high standards of personnel management and fairness; and
- sustain high standards of integrity, prudence, professional capability, and communication.

5.13 The defence organisation must not only meet the Government's performance expectations in today's operating environment, but also in that of the future. I have had prepared a note (see Annex E) highlighting some of the key challenges and features that are likely to characterise New Zealand's medium-term defence and security environment and the implications that such an environment has for future defence structures and management future. The main features are:

- an increasingly complex international security situation typified by complex security emergencies as states undergo crises or transnational groups use violence and illegal activities to create instability;
- threats of international conflict including conflicts over resource and environmental issues, the use of nuclear, biological and chemical weapons of mass destruction and the evolution of cyberspace threats;
- the growing influence of non-state actors, both as protagonists, and as contributors in responding to security crises;
- the continued trend towards intra-state conflicts, raising issues over the rights of peoples versus the rights of states, the legalities and legitimacy of intervention and the degree to which the international community can organise ad hoc coalitions to respond rapidly and effectively within current international security frameworks;
- the uneven distribution of economic, information and technology effects of globalisation across the world's regions and the challenges posed to cultural and ethnic diversity;
- growing risk of potential security threats and breakdowns spreading well beyond the area generating them due to expanding interdependencies between states and regions;

- a consistent trend amongst comparator defence organisations (Australia, Canada, the United Kingdom and the United States) towards greater jointness within military structures;
- extending jointness from the military environment into the broader security and inter-agency environment at the national and international levels, where the principles of improved co-ordination, communication, and interoperability offer the same potential synergies in responding to increasingly complex security emergencies;
- accelerating technological development, and innovation that is producing shortening cycles of technology advances and reduced life of equipments before they are made redundant or obsolete;
- research and development cost growth and a change in focus away from manufacturing specialist military equipment to more commercially-oriented products (off-road vehicles rather than tanks) that increases or sustains the high costs of the former;
- new or substantially reconfigured weapons and military equipment, that will change the risks for personnel and the capabilities needed by future defence forces; and
- greater risk of commercial technologies being harnessed by illegal transnational groups, including terrorists and terror organisations.

5.14 In the current security environment in which our Defence Forces are required to work, the premium is on the ability to respond quickly and effectively. In the aftermath of the terrorist attacks in New York, New Zealand forces at work in Afghanistan, East Timor and other sensitive areas around the world are a constant reminder that the only place where defence capability ultimately counts is doing the difficult, dangerous, uncomfortable work of military operations.

5.15 Carrying out such operations is, of course, the end result of a great deal of preparation of our armed forces. Equipping them, training them, deploying them into areas of operation, supporting and sustaining them there and getting them home is only the most visible part of a long policy and operational process, and of the structures that support those processes.

5.16 This review springs from the Government's concern over accountabilities and responsibilities within Defence. These are first and foremost organizational matters but they can and do impact on both policy and operations. In the findings that follow, and in the discussion and analysis that translates the broad findings into proposals for change, I have been conscious that the Government's ultimate concern goes well beyond issues of organizational effectiveness and efficiency. It is concerned to ensure the ability of New Zealand's military personnel to get the job done safely, to the success or failure of which a well functioning defence organisation can and does make a critical difference.

## CHAPTER 6

### REVIEW FINDINGS

#### Introduction

6.1 It will be apparent from the foregoing chapters that in the course of this review a very wide range of views have been canvassed on a complex set of issues. There is broad agreement on some of these issues and disagreement on others. The findings reached here represent my best effort to build on the areas of agreement that have emerged, while working to accommodate those areas where views differ. Because of the complexity of some of the issues discussed, this review cannot pretend to be the last word. But I believe that the reforms pointed to in this chapter, and discussed in greater detail in following chapters and in the Annexes, have the potential to improve significantly the performance of the New Zealand defence organisation.

6.2 This section of the report is confined to principal findings. Those responsible for implementing Cabinet decisions flowing from this review will also need to examine the information provided in the submissions and the accompanying papers for more detailed change suggestions for improving the effectiveness and efficiency of the defence organisation.

#### Overview

6.3 Twelve years after the implementation of the reforms set out in the 1990 Defence Act there is a broad consensus that some parts of the organisational model on which it is based, have worked (such as achieving key benefits in efficient and informed resource management within the Defence Force). At the same time, the benefits that were expected to flow from drawing a clear separation between policy formulation by civilians and the management of operational delivery by the military have not materialised.

6.4 A number of reasons account for this failure. Low-trust expectations were embedded into structural arrangements that set one organisation to check on the other. Distinctive organisational cultures grew up around, and reinforced, these structural boundaries. Roles and responsibilities were split in inappropriate ways that hamstrung both organisations. Little attention was paid to the difficulties of recruiting and sustaining the strategic capacity of a civilian defence policy organisation in a small country which did not (and arguably still does not) have available a professional, specialist and experienced cadre of civilian defence policy advisers or effective educational schemes for generating them.

6.5 Structures and role separation were designed to minimise co-operative tendencies, when the reality was (and still is) that both needed to work together for each to achieve effective results. Structures which set out to deepen the differences between civilian and military cultures by placing them in permanent opposition to each other are bound to result in dysfunctionality and, ultimately, poor quality advice.

6.6 Earlier in this review (qv. Constitutional and Legal Setting Chapter 2), I have made the point that in respect of the relationship between the Government and senior officials, whether military or civilian, there is (and should be) no distinction in terms of the conventions and standards which apply to them. That is not to say that there are not significant differences in traditions, cultures and values that must be recognised as being deep-seated and to a large extent, justifiable, from the standpoint of the professional strengths each must bring to the common task.

6.7 An essential difference arises from the obvious fact that it is the role of Armed Forces personnel to serve their country in the expectation that at some point in their career they may face death or serious injury. The public servant is similarly dedicated to a concept of service to the public but apart from a few exceptions is not confronted with the constant possibility of personal risk. Like the Police and Fire Service, the uniforms and badges of rank, strict discipline, hierarchical command environment, and the value placed on personal bravery, the emphasis on team work and highly developed skills (and, it must be said in the case of the military, the ultimate acceptance of the need to injure or kill one's enemy) are essential for both the effectiveness and the safety of the group in dangerous situations.

6.8 It is understandable that the close attachment to one's group is a vital element in successful operations. The problem is that as admirable and necessary as these qualities are on operations, they are not equally effective in the bureaucratic, management and process-driven world of Government and high policy and politics. It is important for the health and good order of our defence system as a whole that military officials should not only be able to adjust to the exigencies of working in Wellington, but also to see it as having an essential purpose and place in their careers.

6.9 I am told that at present many officers regard a Wellington posting as a sentence rather than an opportunity. Admittedly, not all officers are suited to the Headquarters environment – perhaps they should not be expected to serve there. Those who are, however, (and that should include all of those aspiring to the highest appointments), must be given the chance to learn the skills and processes of performing effectively within the Governmental and broader multi-agency and international political systems. The ability to operate effectively in Wellington should not be regarded as having “sold out”, but as essential to making a valuable and critical contribution to the strategic capacity and efficiency of the defence system.

6.10 At the same time, cultural divides always have two sides. It is clear that a culture has developed among some Defence public servants that sees military experience as irrelevant to high policy work, which applies its own forms of information control and seeks to exclude other contributors from work seen as the preserve of the Ministry. This exclusivity culture was fostered by the objective of creating a separate, hard-nosed civilian organisation. Despite individual attempts at co-operation and consultation, the underlying environment in many areas remains one of suspicion and contention. Inclusive collaboration must be worked at, rather than being assumed to be a natural aspect of work behaviour.

6.11 These attitudes and values, which have been central to the dysfunctionality noted by the Auditor General, need to be replaced by new cultural values within an integrated defence system. These values emphasise:

- *Respect for Value-Adding.* Each professional community – whether from the Public Service or the Defence Force – contributes complementary skills, experience and knowledge that temper the other with the qualities most needed to make each fully effective.
- *Commitment to Individual and Team Learning.* New and updated knowledge is a critical resource of the Defence Organisation, and there needs to be value placed on husbanding, disseminating and expanding knowledge;
- *Information Sharing.* A negative, information-denial culture needs to be replaced with a positive, energetic knowledge culture that sees information sharing as a normal way of doing business; and
- *Mutual Support.* A culture where personnel, because they all share common goals, naturally seek to assist others in their work by sharing relevant ideas, information, and experience; in turn, this encourages those assisted to see what they can do to return the favour.

6.12 It has also been recognised that over the last 15 years, there have been significant advances in the ways in which strategic direction of military operations is best achieved and in the ways in which military forces work effectively together. To a considerable degree, these advances have not been incorporated in the NZDF. In contrast to the direction taken by relevant overseas military forces, particularly at the strategic and top-level management levels, (where most benefit can be gained) the NZDF's internally fragmented structures have been reinforced rather than made more permeable. Where effective results have been achieved, it has often been in spite of, rather than because of, the multiple structures, duplicated and dissimilar work processes and behaviours.

6.13 The history of warfare is characterised by rivalry between the different components of Armed Forces, as each new Service or branch has fought to be recognised as an instrument of battle, campaign or even war success – for example, the emergence of air forces, from their naval and

ground force parent organisations or within one Service, as between armoured, infantry and special forces. On one level, some rivalry is a catalyst for new ideas, new ways of achieving battlefield success. But on another level, inter-Service rivalry is debilitating and wasteful of people and resources.

6.14 It is evident that over the last years, the NZDF has experienced an unhealthy episode of intense inter-service rivalry. Through a period of constrained and contracting budgets, high operational demands, and escalating costs of maintaining aging equipments, and acquiring capability upgrades, it would seem that some personnel believed that gains for one Service could only be achieved if another Service lost out.

6.15 It must be noted here that in other defence establishments studied by this review, the exclusiveness and single-minded focus on Service professionalism that feeds inter-Service rivalry has, to varying degrees, been counter-acted by initiatives supporting jointness. These include efforts to embed joint cultures, structures and careers; institute joint concepts for defence organisations and capabilities; and set up joint education and training schemes to develop shared experiences and knowledge. A significant start on addressing the NZDF's delayed development of joint structures, which will in part also address some of these inter-Service deficiencies, has been made through setting up the Joint Forces Headquarters. However, much still needs to be done, particularly at the strategic level of the Defence Organisation.

6.16 To address these issues and those of the structural arrangements between the MoD and NZDF, it is the finding of this review that there is a clear need for wide ranging reform designed to facilitate, rather than frustrate, the ability of civilians and military professionals to work with one another in delivering the Government's defence outcomes.

6.17 The main findings of the review are summarised below against the review's Terms of Reference.

## Roles and Responsibilities of the Minister of Defence

6.18 The Minister of Defence has two broad sets of roles and responsibilities – one of contributing to political direction in respect of national security, and one of political decision-making on defence matters, securing resources to meet defence requirements and of providing political direction to the defence organisations.

### *Contributions to Political Direction for National Security*

6.19 As outlined in Annex E on the future security environment, New Zealand must protect its interests, as an open, trading-dependent democracy and an international citizen, in an environment that is changing unpredictably. While the globalisation of security has been a gradual process, following the end of the Cold War, the September 2001 terrorist

attacks in New York and Washington DC were a watershed. Governments and their citizens everywhere have realised the need for co-ordinated multi-national action to address common threats to their security. It is now more readily accepted that technological developments, and globalised knowledge and people movement, could lead to such other transnational challenges as the collapse of computer systems, the use of both nuclear and non-nuclear weapons of mass destruction by rogue states and stateless rogues, major failures of environmental management and so on.

6.20 At the same time, states will continue to maintain their independence in formulating security policies and strategies that they see to be in their national interest. In this context, it is increasingly accepted that many agencies of government contribute to our national security – Foreign Affairs and Trade, Defence, border controls with the Customs, Immigration and Quarantine Services, New Zealand Police, Civil Defence, Emergency Services, for example. The Government recognised this changing circumstance in its June 2000 Defence Policy Framework statement, when it reflected that the defence function needed to be part of a much more comprehensive approach to New Zealand's security (as did the Select Committee report which preceded it).

6.21 The defence function is being drawn more regularly into a wider range of responses to different security challenges – for example, more recently the use of Defence's maritime surveillance to detect people smugglers and if required, intercept them at sea; or dealing with improvised chemical and explosive devices. It is also recognised that defence units and personnel can be used proactively to shape positively New Zealand's broader security environment – for example in helping to improve the professionalism of regional defence forces, peacekeeping or assist in governmental infrastructure projects in the South Pacific.

6.22 As national security becomes more multi-faceted, it has been recognised that effective responses to security emergencies depend upon co-ordinated strategies for action by a wide range of governmental agencies and departments. As noted by the Select Committee, defence forces can be used in concert with other arms of Government for many other security tasks than protecting New Zealand from remote threats of military invasion.

6.23 At present, some functions of national security management structure exist in an External Relations and Defence sub-committee of Cabinet and an Officials Defence and External Security Committee (ODESC) in the Department of the Prime Minister and Cabinet. These arrangements have been focused on responding to security crises as they occur. They do not provide a forum for setting overall long-term policy and strategy for New Zealand's national security.

6.24 Other countries examined by the review, (see Annex D) have evolved standing political and bureaucratic structures for directing the co-ordination of departments and agencies that contribute to national security. In these countries, Ministers of Defence, (or their equivalents) have

permanent roles to play in contributing to the co-ordination of political direction for national security priorities and long-term response strategies. These responsibilities are usually carried out within a standing political decision-making body supported by groups of professional advisers.

#### *Ministerial Roles and Responsibilities in respect of the Defence Organisation*

6.25 Political responsibility for defence matters lies with the Cabinet as a collective, and the Minister of Defence individually. The Minister of Defence has ministerial responsibility to Cabinet and the Parliament for defence matters, including:

- formulation and implementation of defence policy, including presenting major defence proposals – such as changes in defence policy and strategy, new operational commitments or major capital investments - to the Cabinet for consideration and decision.
- representing to Cabinet colleagues the financial requirements of the MoD and the NZDF, to maintain the strategic capacities and military capabilities needed to deliver defence results in both short and long terms.
- being the Government’s principal advocate for defence matters, both within the Cabinet and obtaining support for Cabinet-agreed defence priorities, positions and policies.
- exercising the power of control over the NZDF, through the Chief of the Defence Force.<sup>1</sup>
- determining whether the Armed Forces shall be used in industrial disputes or to assist the police in an emergency,
- setting the maximum number of military personnel in the Armed Forces; and
- providing political direction to the Secretary and the CDF in respect of results required from their respective agencies, or on any other matter.<sup>2</sup>

6.26 These responsibilities make defence a demanding and complex portfolio. They involve significant ownership issues of capital investment decisions, and purchasing issues involving a significant diversity of outputs and results. They require an appreciation of the risks and limitations on military action, and knowledge of the impacts of the broader international security environment on defence and national security policy and strategy choices.

6.27 In the countries studied, Ministerial decision-making, control and over-sight, is usually carried out by Ministers of Defence who do not

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1 For further detail, see Annex F: Legal Analysis of New Zealand’s Defence Legislation.

2 Under the Defence Act, the Minister issues CDF with “Terms of Reference”. As a CE of a Public Service department, the Secretary negotiates a Performance Agreement with the Minister of Defence.

hold other portfolios. These Ministers are also often supported by subordinate Ministers with specialised responsibilities for defence equipment acquisition, or defence personnel for example. They are also supported directly by small staffs of experienced and qualified policy and operational advisers.

6.28 By comparison, the New Zealand arrangements do not support Ministers of Defence to the degree desirable. New Zealand Defence Ministers are usually assigned multiple portfolios, some of which can be as demanding upon their time as Defence. To carry out these roles and responsibilities effectively, the Minister must be supported by high quality advice requiring relationships of high trust with his or her professional advisers. Such trust can only evolve from regular communication and interaction over time: when the defence responsibility is competing with other portfolios, the level of exchange needed may not be possible. Regular professional exchange can give the Minister greater assurance that departmental advisers are committed to carrying out the Government's policies to the best of their ability. In turn, departmental advisers receive assurance that the Minister will respect and encourage advice that covers all the available options, including those that may challenge established preferences.

6.29 It is not only the nature but also the span of the defence responsibility that requires the Minister's time. In other instances Ministers with multiple portfolios may limit their formal relationships to the single Heads of each of their departments. In the case of defence, however, they have formal relationships with five senior officials and informal contacts with many others, together with a range of ceremonial obligations. The nature of the principal actors is a not inconsiderable factor. Senior military officers are the product of a command system that places emphasis both on disciplined hierarchical structures and on the personal mana of the commander. Strong personalities, who are accustomed to command, themselves need strong, consistent leadership.

6.30 The Minister's practical exercise of his responsibilities is also affected by the fact that the current defence legislation and the structures which it established, are designed to provide contesting advice from the Secretary and the CDF. Lacking specialist advisory support, the Minister must in effect adjudicate between the two sources of advice – to take the advice of one over the other, or to seek a middle path, rejecting part of the advice of both.

6.31 The Minister's exercise of his responsibilities depends upon knowledge of the issues, and the key aspects of critical decisions especially for defence policy ownership and purchasing issues. Good advice is critical. However, on the evidence gathered by this review, it would not appear that the Minister has always received comprehensive, high quality advice. As indicated previously, this has been due, in part, to limitations on the Secretary and the Ministry of Defence on the one hand, and the CDF and

the NZDF on the other, to access from each other, information required to prepare advice that meets this standard.

6.32 That said, weaknesses in policy advice to the Minister stem from more than information access problems. These include: poor quality of the information itself; lack of analytical rigor; defence structures which are designed to set civilian and military advisers against each other, and military against military; and, incentive structures which reward single Service rather than joint loyalties. These factors, if not corrected, will continue to impact significantly on the official advice the Minister receives to support his efforts to represent defence proposals effectively and make decisions based on good information and analysis.

### Roles and Responsibilities of the Secretary and the CDF

6.33 The review has identified a number of issues concerning the roles and responsibilities of the Secretary and CDF as currently assigned in defence legislation, and embedded in the current structural arrangements of and between the MoD and NZDF.

#### *The Separation of Roles and Responsibilities*

6.34 In some key aspects the separation of responsibilities and roles expressed in Defence legislation has not worked well in practice. These concern the underlying rationale for the separation in the first place, the particular roles and responsibilities that were divided, the goals sought by the division, and the unintended consequences that have resulted from the separation.

6.35 At its most basic, it is not surprising that the defence organisations have failed to perform as was intended. The defence function has been divided into two in an attempt to resolve competing organisational goals – to separate policy from operations, to establish contestability, and to avoid policy capture by the military. This compromise of logics has led to a muddled definition of roles and responsibilities. At one and the same time, the structural arrangements managed to create separate CEs, give one the role of checking on the other, set both up to contest each other, give each powers to partially counter-balance the other and yet leave multiple dependencies between the two. The resultant pulling in different directions has generated tensions and transaction costs that have required committed management on the part of successive CEs to make the arrangements work at all.

#### *Reasons for the Separation*

6.36 The Defence Act's division of responsibilities, and the interpretation of those responsibilities, reflect a theoretical and practical oversimplification, which is at odds with the actual contributions that civilian and military advisers and managers make to achieve defence results - be they strategic policy, strategic management, operations or services.

6.37 The division of responsibilities mandated by the 1990 Act, created a vertical separation, placing the CDF and military staffs on one side and the Secretary and a civilian staff on the other. By dividing responsibility at the CDF and Secretary-level, the split did not match with the most sensible division point in the organisation as a whole - between policy and strategic management on the one hand, and operations and services on the other. The more meaningful division point where operations and services are actually managed and delivered in the Defence Organisation would have been at a point somewhere below the Chiefs of Staff and at the Deputy Secretary of Acquisition level.

6.38 A second rationale was that of separating the responsibilities for delivering annually purchased outputs, on the one hand, and managing the long-term ownership issues of defence on the other. Here again, making a military officer responsible for the former and a civilian official responsible for the latter belies the fact that both have crucial, complementary contributions to make to both purchasing and ownership advice and results.

6.39 A split on this basis would imply that there is little connection between the strategic capacity required to deliver outputs, and the quality, quantity and cost of those outputs. The reality of practical experience is that there are significant connections. Yet, the effect of the split has been to handicap and complicate the Secretary's ability to provide input into purchasing advice and decisions, and the CDF's ability to provide input into ownership advice and decisions.

6.40 As I noted earlier, the Act sets up two CEs - and organisational structures to support them - who are responsible for one set of outcomes. Each must depend upon the other to achieve their separately required results. Because of the artificiality of the separation, in some areas the CDF and the Secretary have been made accountable for results without having authority over critical inputs upon which the quality and effectiveness of results depends. The legislation did not cleanly divide the defence function between two separate organisations that were each organically complete and independent - as it is, for each CE to carry out his responsibilities, he requires contributions from the other.

6.41 A third reason for the separation of responsibilities was that of creating conditions of contestability of advice. In fact, the current apportionment of responsibilities has handicapped both CEs in providing such advice. The philosophy underlying the Act presumes independence on the part of the Secretary in developing and presenting his or her policy advice. Yet, the State Services Commissioner notes in his 2001 Annual Report that: *"The separation of policy advice and service delivery functions can be successful only if the operational information needed for effective policy formation and evaluation is available to, and readily interpretable by, policy advisers. If this is not the case, any separation will over time seriously weaken the policy advice function"*. From the Secretary's perspective, this is the case with the existing arrangements between the MoD and NZDF.

6.42 In his legal analysis, Professor Palmer comments that the 1990 Act fails to provide the MoD with an adequate mandate to obtain information from the NZDF, noting that this inability to require the NZDF to provide information could affect the Ministry's ability to provide quality advice. There is no doubt that this is an important issue. One of the MoD's key reasons for being is to give Ministers effective and well-informed advice on defence matters. In some areas, including defence policy and strategy, operational deployments, capital investment, evaluations, and military capability requirements, access to information generated within the NZDF is the starting point for the preparation of well-informed policy advice.

6.43 At the same time, the Secretary is responsible for developing and retaining a staff capability that can supplement and complement NZDF information and knowledge with broader-based knowledge and thinking particularly in defence policy and strategy, international security affairs, bench-marking and best practice comparisons, commercial management and decision-making procedures. Access to relevant information from military and other sources, *and* knowledgeable staffs operating in a high performing culture are both required to formulate effective advice that meets Government's expectations.

6.44 In pursuing the goal of contestability in policy advice through a separation of powers, the Act is flawed because it specified *different* responsibilities for CDF and the Secretary. If contestability was to work, then logically both the Secretary and the CDF would need to be responsible for contributing their own separate advice on defence policy, military capability requirements, capital investments, purchase levels etc. In fact, the Strategos Report recommended provision for the CDF to contribute his policy advice in at least one area, when it remarked that as well as "*Defence policy being primarily based on civilian input...[it required] a flow of predominantly 'military' advice to the Government...so that the military implications of any policy moves are clearly understood. An important aspect of this is input on the military risks attendant upon Defence commitments and decisions on capabilities*".<sup>3</sup>

6.45 The flawed approach to contestability contained in the 1990 Act has created a difficult climate for building and sustaining effective working relationships between the Minister and his or her officials. It has equally complicated the maintenance of effective working relationships between Secretaries and CDFs. At present, the Minister can receive not only competing advice streams, but advice by one official on the advice provided by the other. Or the Minister can receive advice on an issue from only one official, uninformed by advice from the other. The balance of value must be questioned in terms of additional insights received by Ministers against the

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<sup>3</sup> New Zealand Defence Resource Management Review (Wellington, Strategos Consulting Ltd., 1988, p. 79). It is interesting to note that the Canadian CDS is accountable for providing similar advice to his Minister.

cost in trust between Ministers and their principal advisers and between those advisers themselves.

6.46 The theory of contestability as a healthy competition of ideas makes sense as a means of generating alternative perspectives. In practice, the method adopted in the Defence Act has resulted in the drawing of boundaries between the MoD and NZDF and within NZDF which stymie information sharing. Positions become entrenched in isolation from useful insights by others, contributing to an adversarial and separatist culture.

6.47 These negative effects should be placed in the broader context of international experience. In the countries studied, contestability is more usually achieved through inputs from outside the Defence Organisation. For example, in the US, Congressionally-mandated external panels of independent experts review departmental policy documents – a National Defense Panel of non-affiliated experts is established to assess Department of Defense Quadrennial Defense Reviews. Congress has also established an independent Commission on National Security to prepare alternative national security strategy documents.<sup>4</sup> Similarly, in the United Kingdom and Australia, wide-ranging public consultations and public submissions have been used to broaden the range of inputs into defence and national security policy-making, in addition to the establishment of specialist bodies.

6.48 It is notable that what has actually happened over the twelve years since the passage of the Defence Act, has been a steady erosion of its stated purpose. After an initial period of debilitating hostility when determined attempts were made to create “arms-length” organisations, successive Chief Executives have looked for ways to enable their organisations to work together. As noted in Chapter Three, for example, in the defence policy area, international defence relations staffs from the NZDF have been integrated with MoD staffs. While these are perfectly sensible arrangements and have proved effective, they run counter to the concept of separation on which the Act was based – creating organisational structures which are at odds with Parliament’s supposed intentions.

#### *Particular Roles and Responsibilities*

6.49 Submissions to the review have raised questions as to whether the right responsibilities and accountabilities have been assigned to the two CEs. These questions asked whether there was an uneven balance of responsibilities between the Secretary and the CDF (the Select Committee), whether advice on output purchases and evaluations should be re-connected with defence policy responsibilities (State Services Commission), whether the CDF should have responsibility for force structure proposals (Select Committee) or whether the Secretary should have authority to participate with CDF in NZDF resource management and operations, or to

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4 See Annex D: Comparative Studies: Higher Defence Structures in Australia, United Kingdom, Canada and the United States, para xx. p. xx.

take over responsibility for NZDF resource management (the Secretary, PM&C).

6.50 The review has looked at the questions raised by the submissions in four particular areas of responsibility:

- advice on the defence policy relevance of NZDF output purchase proposals;
- defence resource management;
- the setting of military capability requirements, development of capability investment cases and the acquisition of military equipment, and;
- evaluations of defence performance.

*Advice on the Defence Policy Relevance of NZDF Output Purchase Proposals*

6.51 The provision of advice by the Ministry on NZDF output purchases is an integral component of advice on defence policy. It is important that the Minister receive advice on whether the purchase proposals he is being asked to endorse are likely to support the achievement of the Government's defence policy objectives. The CDF should receive this advice also.

6.52 This is particularly the case with some NZDF outputs, where the Minister is purchasing military capabilities at specified levels of readiness to perform agreed military operations. Determining the level of readiness for operations is a matter of military professional competence. Another type of judgement is required to assess whether any particular level of readiness for operations will meet Government's policy goals, or whether, after the fact, the levels of readiness for operations purchased from the NZDF did achieve these goals.

6.53 It is my view that the Secretary should exercise the responsibility for reviewing and advising the Minister (and the CDF) on the extent to which NZDF purchase proposals will deliver defence policy objectives. The Defence Act does not prevent this. Given that such outputs also have a cumulative effect, and that increasingly, multi-year budgets for purchasing are being set, the Secretary should also review the effectiveness of these purchases in terms of their impact upon longer-term outcomes for New Zealand's national security.

*Resource Management*

6.54 It has been noted by some submissions that resource management is the responsibility of the civilian chief executive in most other Western countries. This is no doubt the case, but "most other Western countries" have not adopted output-based resource management and delivery systems such as those that are now fundamental to the management of New Zealand's public sector (although many countries are moving in this direction), nor have they created two legally separate

organisations with specified financial, resource, and delivery responsibilities. These systems are designed, under the 1989 Public Finance Act, to align resource management authority with those who are responsible, and who will be held accountable, for the delivery of goods and services.

6.55 While these are fundamental differences, nonetheless the review has looked closely at the practice in Australia, the UK, Canada and the US. In Australia, the Secretary has responsibility for resource management in the ADF, but the Chief Financial Officer and the Deputy Secretary Corporate Services report to both the Secretary and CDF. The UK higher defence structure is based on the concept of *collective rather than individual responsibility and accountability*. Resource and programming issues are administered and managed by a Joint Central Staff. This staff has twin reporting lines to both Defence Chief Executives, with the Permanent Under Secretary being designated as the Principal Finance Officer of the Department. In Canada, the Deputy Minister has responsibility for policy, materiel, infrastructure and the environment, finance and corporate services and civilian personnel<sup>5</sup>. In the United States, responsibility for resources rests with the Deputy Secretary of Defense and the Secretary of Defense, both of whom are political appointees, the latter being in Constitutional terms equivalent to New Zealand's Minister of Defence.

6.56 The review has found that the management practice adopted in the 1980s aligning resource management and delivery responsibilities has worked in the case of the CDF and the NZDF. The enhanced ability of the NZDF to manage these tasks has been one of the acknowledged success stories within Defence and recognises that those responsible for operations are best able, and should have the incentive, to achieve economies and efficiencies. I am assured by Treasury that in practice this has happened so that there would need to be major advantages in terms of effectiveness and quality to justify changing the current arrangements. Such advantages are not apparent.

*Military Capability Requirements Setting, Development and Acquisition*

6.57 The Select Committee was of the view that responsibility and accountability for determining the military capabilities required to achieve defence policy, and developing the business cases to support investment in them, should be assigned to the Secretary,. The review has found that there are various perspectives that need to be taken into account. For example, both the Secretary and the CDF have an interest in, and value to add to, the process of formulating advice on the broad military capabilities needed by the Defence Force to deliver the results required by the Minister.

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5 It is noted in Annex D: Comparative Studies that in Canada, the Vice Chief of the Defence Staff plays a unique role in resource management and long-term capital planning in relationship to the Deputy Minister – the VCDS is the senior resource manager and the civilian Assistant Deputy Ministers (equivalent to New Zealand deputy secretaries) work through him to the Deputy Minister and the Chief of Defence Staff. (D.59).

6.58 Throughout the definition, development and acquisition of military capability requirements, there is also a constant need for information that must come from both the NZDF and MoD staff as well as from external sources. As capability development proposals mature, issues of acquisition feasibility (such as availability of a competitive range of manufacturers; environmental and legal considerations; technical specifications etc) must be factored into advice to Government. Qualified acquisition practitioners and military personnel with relevant technical and operational experience, are needed to generate this policy advice.

6.59 Finally, once the business case has been prepared, sent to Government, and decisions made to acquire equipment, there is a need for qualified project teams to undertake the management of acquisition projects. Under the current arrangements, the Secretary is responsible both for policy advice on acquisitions as well as for the provision of acquisition services to the NZDF. This area of defining, developing and acquiring military capability requirements would seem to be one where both the Secretary and the CDF should function as a partnership – the Secretary to be assured that the capabilities being defined and developed are those that are most relevant to defence policy objectives, and the CDF to be assured that these capabilities will provide him and his successors with the capacity to deliver operational results effectively and safely. Indeed, these functions appear especially well suited to being carried out by joint, integrated staff groups under the authority of both the CDF and the Secretary.

#### *Evaluations of Defence Performance*

6.60 Responsibilities for evaluations of defence performance raise further anomalies between intentions on the one hand and practice on the other. The 1990 Act assigns responsibility for audit and evaluation to the Secretary. This was consistent with the intention to position the Secretary and the MoD as an arms-length examiner and assessor of the NZDF. While MoD's performance is assessed externally by the State Services Commission and the Treasury, the CDF and the NZDF, who depend upon the defence policy products and equipment supplied by the MoD, have no authority to evaluate the MoD's performance, yet the Secretary is responsible for auditing his own agency's performance in managing acquisition projects.

6.61 Over the twelve years of operation, there have been continuing difficulties in fulfilling the role and purpose of the evaluation responsibilities of the Secretary in respect of the NZDF. On the one hand, Audit New Zealand and the Office of the Auditor General normally have the task of carrying out independent audits of compliance and effectiveness for Government departments and agencies. On the other, successive CDFs have evolved their strategic management systems to include performance measurement systems for the delivery of outputs, financial compliance, and efficiency and effectiveness evaluations. These performance evaluations - although not as comprehensive and challenging as perhaps they should be - have been built into management systems to provide NZDF senior executives with information for management improvement and efficiency.

6.62 Almost inevitably, MoD evaluations have replicated the type of program evaluations conducted by Audit New Zealand and the Office of the Auditor General. And in at least one instance (the OAG Review of the Light Armoured Vehicle Project), the Secretary employed the OAG directly. Alternatively, they have replicated audits and evaluations that are normally undertaken by the NZDF's own internal auditors.

6.63 The effect of establishing the evaluation of "any function, task or responsibility of the NZDF" as one of the Secretary's prime functions, was to create a climate of mistrust. It implied that unlike any other government agency, the NZDF was not to be trusted to carry out its own programme of evaluations validated by the Government's auditing agency and supplemented with external evaluations by OAG. This perception of mistrust was reinforced by early attempts by unqualified MoD civilian auditors to evaluate professional military standards for battlefield performance and the training required to achieve professional standards. With the benefit of hindsight it is now apparent that such an approach would be unlikely to be acceptable to military personnel as members of a profession with responsibilities for professional standards.

6.64 In order to overcome the problems, the Secretary and CDF of the day were encouraged by their Minister to work out a co-operative arrangement by means of which both could meet their professional and legal obligations. The result was a Memorandum of Understanding between the MoD and NZDF, agreeing to have professional standards assessments conducted by the NZDF on behalf of the Secretary. Subsequently, the CDF established the position of Inspector General for this purpose.

6.65 My impression is that the NZDF performance measurement systems have not yet developed assessments of professional achievements and standards to the level that is necessary for full quality assurance. OPRES - the NZDF's Operational Preparedness and Reporting Evaluation System - while a comprehensive measurement system, is more compliance rather than performance oriented in terms of the delivery of NZDF outputs. I understand OPRES was to have initiated a broader NZDF performance measurement framework that would have included a small, dedicated NZDF evaluation unit (supplemented by international military evaluators), responsible for realistic tactical evaluations and tests of unit capabilities. This unit was to have reported directly to CDF. Service-specific evaluation teams responsible for assessing the professional standards and effectiveness (rather than just efficiency) of training and support functions were to have reported to the Chiefs of Staff and through them to CDF.

6.66 I have been informed that resource constraints have prevented the implementation of the more robust performance measurement regime. Yet, if CDF is to fulfil the requirement for professional standards assessments, OPRES would have to be taken to the higher stage of development first envisaged.

6.67 As noted above, since the mid-1990s, the Ministry's Evaluation Division has been tasked by the Secretary, at the suggestion of the then CDF, to conduct reviews of the NZDF's outputs, in an attempt to find middle ground between efficiency and effectiveness management evaluations of value to the NZDF on the one hand, and the OAG/Audit New Zealand type audits on the other. Only one round of such evaluations has been completed and again these tended to focus on compliance in terms of NZDF's Purchase Agreement rather than on performance as such (although in a number of instances, the reviews were useful in pointing up the lack of policy guidance to drive the outputs).

6.68 This early work should now be built on and NZDF outputs evaluated in terms of whether they contribute appropriately to defence policy objectives (including force structures and capabilities, training support and sustainment etc). Other areas where the evaluation function could add substantial value could include the assessments of equipment purchases in terms of whether they have generated the changes in capability and defence policy results foreshadowed in the business cases presented to Government; of the likelihood that NZDF output proposals will generate defence policy results; and the contributions which both NZDF and MoD outputs, (including the policy functions in both organisations), make to achieving broader national security outcomes.

6.69 It is clear that these defence policy/capability evaluations would require a highly qualified staff with knowledge and competence in defence policy, international defence relations, and military operations. This raises the question as to whether such evaluations should be seen as part of the defence policy advice role, rather than a separate evaluation role, or whether they would be better performed by a joint integrated staff group, with the possible addition of qualified staff from relevant departments such as MFAT.

#### *Shared Rather than Divided Roles and Responsibilities*

6.70 Most of the questions that have been raised concerning the roles and responsibilities of the Secretary and the CDF take us back to the assumption that there is a logical basis for dividing defence functions and assigning them to either one or the other. In hindsight, this was an invalid premise because it did not recognise the interdependencies of the roles and responsibilities of the two.

6.71 Defence processes, whether in defence policy or operational areas, are closely interlinked. The Act set out to avoid the risk of 'policy capture' of the largely civilian Ministry by the service providers (the Defence Force). Experience has shown the more effective goal would have been to develop an institutional framework for ensuring that high quality policy advice could be generated, based on balanced and complementary inputs. Strict interpretations and fierce protection of the boundaries have resulted in an organisational structure that has inhibited the flow of information needed by the Secretary to lead, (but not exclusively generate) the policy

advice process and restricted the ability of the CDF to contribute essential components to it.

6.72 When we look at our international partners, the point that stands out is the degree to which there is a managed balance of responsibility and accountability between the two Defence Chief Executives. These balances have not been achieved by separating and apportioning equivalent power bases of authority that form a “checks-and-balance” framework. Rather, these Defence organisations have adopted a variety of mechanisms for sharing responsibility and establishing working partnerships between civilian and military senior executives. Preference has been for approaches that recognise there are activities and results for which it is sensible for a civilian executive to take the lead, but with appropriate contributions from a military executive. Equally, there are other results and activities where it is sensible for a military executive to lead. It is also recognised that there are a number of activities and results where it is critical both executives share equally in the decision-making. This is reflected particularly in both the UK and Canadian practice of specifying “sole”, “prime”, and “shared” responsibility and accountability relationships across the senior executives of the national Defence Organisation.

6.73 To succeed in carrying out their roles and responsibilities, the Secretary and the CDF must work together, and therefore need equivalent institutional powers that can assist them both in meeting their obligations. The effectiveness of the Defence Organisation rests upon accepting there is significant overlap of functions between the Secretary and the CDF, which creates a need for shared, rather than separated roles and responsibilities, in those areas where this occurs.

## The MoD, the NZDF and the Single Services

### *The MoD and the NZDF*

6.74 Many of the working relationships between the MoD and the NZDF magnify the negative effects of the current division of responsibilities between the CDF and the Secretary. In creating two legally separated departments of State, substantial duplication, particularly in overhead functions, has resulted. For example, there are separate and inconsistent personnel recruitment, career and performance management policies and practices for MoD civilians, NZDF civil staff members, and NZDF military personnel. There are two sets of human resources, corporate finance and management, information technology and management staffs and systems, two corporate secretariat staffs, etc. Each agency has its own and different standards for classified information management and correspondence.

6.75 This level of duplication is not only inefficient, but also generates unnecessary and frustrating transaction costs. Transparency and seamless flows of information are essential, yet the organisational boundaries between the MoD and the NZDF have impeded cross-boundary

information flows. It is widely accepted there is a need for co-ordinated strategic management and planning processes through which agreed activities are undertaken, all information inputs and resources are co-ordinated and the best organisational results are delivered. Much effort has already gone into developing a strategic management and planning system that meets the needs of all users both inside Defence, and its external customers and clients. However, the organisational boundaries, and their supporting cultures within Defence, have hindered these efforts, and led to disagreements, misunderstandings, and competing proposals that have delayed progress. It is important that this development work should be brought to a conclusion forthwith and an effective planning system put in place.

6.76 Similar difficulties arise from the two organisations having separate intranet information systems and Internet websites. The significant differential in size between the two has hindered collaboration on shared systems and processes – for example, an information management system that suits 60 users can tolerate greater diversity than one that must provide for 6,000 users. Further effort would be needed to harmonise the two information systems in any programme to achieve greater cooperation.

6.77 The divisive tendencies, built into two legally separate departments, have been reinforced by the physical separation of staffs in Defence House. When staff work closely with each other, they communicate and involve each other in their respective efforts: when they are physically separated, natural boundaries compound other social or cultural differences.

6.78 Each agency has developed ways of working that are to greater or lesser degrees, exclusive, reflecting the theoretical split in their responsibilities and tasks. This has led to both duplication and gaps in effort and results. There are situations where issues are continually re-litigated, not because the work done is inadequate, but because it was generated by one agency and therefore cannot be accepted by the other - described to me as “the-not-invented here” syndrome. I am told there are also situations where one agency is responsible for generating information or results, and when it does not (or works to a different timetable), the other agency that depends upon that information or result cannot fulfil its responsibilities.

6.79 Each agency maintains separate internal governance structures – the Secretary’s Senior Management Group, and the CDF’s Chiefs of Staff Committee, Defence Co-ordinating Committee and Branch Heads Committee. Inter-agency governance structures have been established by successive CEs mainly for the purposes of moderating the relationships between them rather than as mechanisms for joint management. A number have failed over the period of the two-organisation experiment. A few have survived because of formal MOUs between the two CEs, while others have continued only when the good-will of the senior executives has encouraged

them. The two CEs have a standing arrangement for a formal meeting between them but this is only taking place irregularly. This arrangement has also been of limited success. Because it does not include the bulk of the senior management group of Defence, it cannot develop a sense of shared ownership of all senior management decisions. In my view current governance structures are only marginally effective in providing direction and setting priorities for staffs, and for co-ordinating and encouraging their collaborative efforts.

#### *The NZDF and the Single Services*

6.80 Many of the problems of poor co-ordination, communication, and duplication between the MoD and the NZDF are mirrored in similar problems within the HQ NZDF between the single Service staffs and CDF's staff. Evidence presented to the review confirms that a number of staff functions, currently carried out within each of the Service staffs are duplicated, requiring co-ordination and management by CDF's functional staffs.

6.81 At the organisational level where collaborative effort is vital to achieve jointness, i.e., the strategic level, the NZDF is as disjointed as it was at the operational level prior to the establishment of the Joint Forces HQ. For instance, problems for MoD staffs in co-ordinating with HQ NZDF are multiplied when there are four force development staffs, one for the Naval Staff, the Army General Staff, and the Air Staff, and a CDF functional staff. Despite efforts to achieve consensus on management policies, it would appear that inconsistencies escalate when NZDF-level management policies are ex post facto "re-interpreted" at single Service staff level apparently take into account perceptions of single Service difference.

6.82 Naturally enough single Service staffs are responsive first to their Chiefs of Staff, and only then to the needs of CDF's functional staffs. For so long as single Service staffs are held within their vertical silos, it will be impossible to develop the truly cross-functional and cross-Service teams essential for jointness at the HQ NZDF level. I am told that as the pressures on personnel resources have increased, so too has the attachment of single Service personnel to CDF's functional staff taken second priority to staffing single Service staffs. Such signals as to where values and loyalties should lie have to be reversed if jointness is to be promoted.

6.83 The emphasis on the vertical streams within HQ NZDF has allowed the single Services to generate separate visions for their future organisation and capabilities. These single Service "visions" and I would acknowledge that some good work has gone into them, have not been, but should be, derived from a cohesive "NZDF future vision" that is linked to Government's defence policy and priorities. I understand the current CDF has begun work to achieve this direction.

6.84 Devolution of resource management authorities through the command chains of the single Services, i.e., from the CDF through the

Chiefs of Staff, has reinforced the separate authority of the single Service staffs. The relationship between the CDF's functional staffs and the three Service staffs can be likened to a small corporate headquarters trying to manage and co-ordinate three business lines determined to operate as independently as they can, with substantive authority and control over their own resources, culture and results.

6.85 The effectiveness of senior level committee structures within HQ NZDF – particularly the Chiefs of Staff Committee (COSC) which is a creation of the Defence Act - have been dependent upon the degree to which strong personalities are prepared to work together. It would seem to be generally accepted that in recent years the COSC has not achieved the functionality expected of such a body. In addition to the rigidities of single Service attitudes, concerns have been raised as to whether the membership is sufficiently inclusive and whether the right issues are coming before the Committee. Again, the current CDF is considering means of improving the management of the COSC, and I am aware has invited the Secretary to attend its meetings.

#### *A need for Integration and Jointness*

6.86 Just as with the Secretary and the CDF, the various components of the Defence Organisation – MoD and HQ NZDF – rely on each other. At a basic level, there are significant opportunities for integration and jointness between the MoD and the HQ NZDF and within the HQ NZDF.

#### Relationships between the CDF and the Chiefs of Staff

6.87 In the previous paragraphs I have commented on what I see to be the effect of the current single Service emphasis. In terms of the relationship between the CDF and the Chiefs of Staff, current legal and structural arrangements – particularly the provision for single Service Chiefs to have direct access to the Minister - can dilute the authority of the CDF. They can also affect the working relationship between the Minister and the CDF.

6.88 There is no argument with the proposition that a full range of advice should be available to the Minister and this should include opportunities for the Minister to be aware of the views of the Chiefs of Staff where these differ from those of the CDF on major matters. It is important at the same time that the process by which these differing views are made known to the Minister does not detract from the command and leadership authority of the CDF. Recent history would suggest that the existing procedure in New Zealand should be revised. In doing so we might well consider relevant international experience. For example, in the United States, the Chairman of the Joint Chiefs of Staff as the principal military adviser to the Secretary of Defense and the President is obliged to put forward the alternative views expressed to him by the Service Chiefs when they differ from his own.

## New Organisational Arrangements at the HQ, Joint Forces NZ and the HQ NZDF

6.89 The creation of the Joint Force Headquarters New Zealand (JFHQ NZ) has been a major step forward in achieving the “jointness” desired by the Government. However, it is clear that further changes at the strategic level, i.e., at HQ NZDF, will be required in order to give full effect to the new direction. These include:

- establishing clear civilian and military responsibilities for strategic-level inter-agency relations management in support of military operational planning and on-going operations;
- ensuring appropriate information channels between HQ NZDF and the HQ JFNZ staffs and the Commander Joint Forces New Zealand (COMJFNZ);
- developing planning processes for contingencies and responses to national and international security crises that integrate inputs from MoD and HQ NZDF;
- improved performance measurement and reporting on operational missions; and
- establishing clear lines of resource management authority for joint exercises and training as between the JFCOMNZ and the single Services.

6.90 The Defence Act does not specify organisational structures, but rather personal responsibilities. Neither the establishment of the JF HQ nor the position of COMJFNZ is provided for in the legislation (although appointing joint force commanders for particular operations is) - a situation which led the previous CDF to comment that these developments “stretched the Act to its limits”. I have not sought a separate opinion on this matter but the Government may wish to satisfy itself that no legal difficulties are likely to arise.

6.91 The COMJFNZ is the principal operational “customer” of the HQ NZDF’s staff work, and the single Services’ “raise, train and sustain” outputs. In working day to day with the products of these staffs, in carrying out operations and undertaking operational readiness training, the COMJFNZ and his staff are gathering important information on “lessons learned” – what worked and what did not. This information needs to be fed back into the work of defence policy and capability staffs. I understand that early work is currently underway to ensure this is done. Over time this feed-back loop should enhance CDF’s ability to provide direction on continuous improvement of the NZDF’s overall strategic capacity for operations, and to give good advice to Government when major operational decisions have to be made.

6.92 At the same time, care needs to be exercised. It is critical that the operational demands of the moment, as presented by the JF HQ, are balanced against the longer-term development of the NZDF’s strategic

capacity. While current operations will always tend to dominate, because of the immediate hazards to personnel, there is an inherent risk of remedying the problems and deficiencies in today's force structure, at the expense of creating a force capable of handling missions in the future.

## Parliamentary Roles and Relationships

6.93 I was asked to consider the relationship between the Executive and Parliament in respect of roles in defence decision-making and planning. Defence is a capital-intensive function. Therefore, Government's investment plans for defence stimulate close Parliamentary scrutiny. Equally, the deployment overseas of New Zealanders on military operations, often in dangerous and difficult circumstances, raises issues of national interest and personal safety on which Members of Parliament wish to be informed and to debate.

6.94 In addition to discussions with Members of Parliament themselves, I have looked at the experience of other jurisdictions. In the United States, the "checks-and-balances" distribution of power between the Executive and the Legislature, empowers Congress to "raise and support Armies and provide and maintain a Navy, and to make Rules of government and Regulation of the land and naval forces". While the Executive proposes expenditure budgets and resource plans, following often lengthy negotiations in and between the Senate and House of Representatives Armed Services Committees, it is Congress that enacts an annual Defense Authorisation Act for the US Armed Forces and Department of Defense.

6.95 American analysts themselves have reservations about this system. They note there is a long history of these powers being used in strongly interventionist ways to manipulate expenditure items to suit Congressional agendas. Authorisation Acts are focused on line-item inputs and costs in great detail. Some consider this approach does not lead to the most effective and efficient use of US defence assets and resources and can contribute to mismatches between defence policy and military capabilities. In any case, from our perspective, the difference in size and military power offers little by way of precedent.

6.96 In the four countries studied that have "Westminster" systems, Parliaments and their Committees are empowered to oversee Government activities and decisions in the defence area. They are responsible for reviewing and making recommendations on legislation, examining performance reports, and conducting inquiries into defence matters.

6.97 Particularly in Australia, the UK and New Zealand, reforms in public sector management have influenced the type of information on Government activities that is presented for scrutiny. In the past, Parliamentary Committees exercised a micro-oversight role of checking individual items of budgets and expenditures. Public sector reforms have established purchaser and ownership relationships between Government and public sector departments and agencies. These relationships are

expressed in contracts that are focused on what departments and agencies should be producing, and increasingly upon the effects of those goods and services, rather than how Departments intend to go about achieving delivery through the use of a variety of inputs. It is these contracts (Purchase Agreements, and Departmental Forecast Reports) that are subject to Parliamentary oversight. This trend is likely to be reinforced with the current shift in focus from “outputs” to “outcomes” as the results to be measured.

6.98 For Defence, this oversight function is primarily managed through Select Committee hearings that are attended by the Defence CEs and supporting staffs, and on occasions by Ministers. In recent years, the Select Committee has taken a particular interest in the strategic and governance issues that provide the framework for New Zealand’s defence effort. This is particularly evidenced in the 1999 Select Committee’s *Beyond 2000 Inquiry*.

6.99 Over the past two decades the shift from the primacy of managing defence alliances (which is essentially an Executive function) to the emphasis on overseas deployments as partners in peacekeeping and peace support missions, has led to increasing Parliamentary interest in defence and its management. Recent Governments have chosen to involve Parliament in decisions to deploy the NZDF overseas on operations that may involve combatant situations. The decision to commit forces rests with the Government. However, because of the consequences for personnel deployed overseas and for the need to maintain public support, Governments have recognised that Parliament can play a valuable role in building a national consensus for such deployments.

6.100 Another emerging trend is legislative provision for oversight of particular Government decisions and plans. For example, provisions were inserted in the recent Civil Defence Emergency Management Bill requiring Government to submit its Five-Year Civil Defence Strategic Plan for consideration by the relevant Select Committee. These provisions for Parliamentary scrutiny involve Government plans at the macro level and are consistent with an oversight role, rather than a decision-making one. Nonetheless, the possible precedent would require careful consideration if it were applied to Defence.

6.101 In the case of Defence, the New Zealand Constitution assigns the decision-making role very clearly to the Executive. Under both Crown Prerogative and the Defence Act, the Executive - rather than Parliament - is authorised to raise, arm and commit armed forces (See Annex G; Heron J and Court of Appeal Legal Judgements). What is not in question is Parliamentary supremacy in passing legislation and appropriating finance for defence purposes, and in holding to account those responsible for defence policy and operations.

6.102 It is clear that to perform its oversight roles effectively in these areas, the Select Committee needs high quality advice and information. Compared with parliamentary machinery concerned with defence and security in the countries examined during this review, there is a substantial difference in the resources available (even taking into account our much smaller size). Select Committees in Canada, Australia and the United Kingdom are all equipped with professional researchers and advisers, to assist Members to cope with the complexities of international security problems, rapid defence-related technology change and cost drivers for defence materiel. I note also that considerable use is made of briefings by officials as a means of widening the basis for parliamentary debate and improving the range of advice available on defence matters.

6.103 Members of Parliament themselves will be more aware than I of the differences between New Zealand and the three other Commonwealth countries. My impression in discussing the matter with them is that our Parliamentary environment has undergone significant change in recent decades. Twenty years ago, defence and foreign policy issues were generally regarded as bipartisan: that is no longer the case. No doubt there are a number of reasons for this but MMP in particular has brought with it, as was intended, a much wider expression of opinions on defence as on other matters. In these circumstances consensus is infrequent. Some Parliamentarians have also made it clear that they would not be bound by any confidentiality restrictions: that would rule out the possibility of sharing sensitive information (as is done elsewhere), particularly where this originated with a treaty partner.

6.104 The conclusion one draws from this is that it is difficult for an organisational review of this kind to comment on Parliamentary procedure or even the relationship between the Executive and Parliament. Both are political matters, requiring political debate and decision. I understand the Select Committee would like to be better informed on defence questions, to be briefed more frequently on overseas deployments and capital purchases and to have additional resources to enable it to examine issues in greater depth. For his part, the Minister has spoken positively about the role of the Select Committee in discussions on such issues as the future of the Territorial Force. In my view, if any change is desired, the political channel is the best means of taking this matter further.

### Enabling Policy Advice on Defence Matters from a Variety of Sources

6.105 I was asked to consider options for the Government to draw policy advice on Defence matters from a variety of sources. The view of the Select Committee in its 1999 report was that there were few options in New Zealand outside the officials' community, the political parties and the Select Committee itself for generating independent assessments of defence policy and military capability options. The question remains, given the low priority of defence, in comparison with our strategic partners, what other sources are necessary? Moreover, what level of Government expenditure could be

justified in supporting such sources, if the internal defence management systems were strengthened in the manner suggested by this report and bearing in mind that unlike our strategic partners, alternative sources of advice are unlikely to be funded privately.

6.106 Elsewhere, independent institutes, “think tanks” and universities play an important role in enabling Governments to reach balanced decisions. Study centres not only provide inputs into the national defence and security debate from a non-officials’ perspective, they also counter-balance and challenge the information provided by lobby groups who seek to press their views on Ministers, political advisers and Parliamentarians (a major consideration in jurisdictions where defence expenditure is much greater than ours).

6.107 In Washington DC for example, over 100 not-for-profit research think-tanks operate. At the same time, the US Federal Government funds a number of research institutions to provide sources of advice, external to the Department of Defense. These Federally-funded institutions play an important role in conducting wider and more in-depth studies than can be undertaken by defence officials. This research sector is also useful in the professional development of officials in providing a range of opportunities for them to “take time out” to test their thinking and expand their knowledge in a challenging academic environment. Similar practices apply in Australia, Canada, and the United Kingdom.

6.108 The base for such activities in New Zealand is at present very thin. The university sector, for example, does not seem to have been able to develop and retain groups of researchers of international repute in defence and national security matters. Individual scholars are dispersed and educational programmes for developing researchers have shortcomings when compared with the practice in other countries.

6.109 While I have not undertaken a review of the Centre for Strategic Studies, I understand that it has not been as successful as was originally hoped in terms of value for the funding provided by the Defence and Foreign Affairs agencies. I have been told one of the reasons for this may have been that the funding was insufficient to bring an adequate number and diversity of scholars together to generate the studies expected from similar institutions overseas. It may also have been optimistic to have one small academic institution undertaking the function carried out by a wide range of institutions in other larger countries. In these countries, contestability between institutions insures that it is irrelevant if one institution is seen to be “institutionally” or “ideologically” captured – for inevitably others from opposing perspectives will balance it.

6.110 I suspect that part of the problem could have been the onset of the “think tank” syndrome which in the past has affected other similar Government-funded bodies in New Zealand. The recent decision by Victoria University of Wellington to establish a School of Government and incorporate the Centre for Strategic Studies within it, should give the Centre

a new lease of life. Certainly it will provide Government with a fresh opportunity to renegotiate a Memorandum of Understanding that makes explicit the expectations of both parties. If this proved to be satisfactory, similar MOUs could be considered for other universities which provide courses or undertake research related to defence issues.

## CHAPTER 7

### CO-OPERATIVE AND JOINT ARRANGEMENTS FOR NEW ZEALAND DEFENCE

7.1 In presenting the information and opinions that have been conveyed to me in the course of this review, I hope I have done justice to the effort that has been expended to ensure all the relevant material was made available. All of those who have participated in the review have done so with the national interest in mind and while there are significant differences of perspective, the goodwill I have received has convinced me that all parties are anxious to put behind them the experiences of the past few years and engage in a discussion which will lead to a more positive and effective defence management system for the future.

7.2 Looking across the range of suggestions for improvement that should now be made, there are some areas where consensus is possible and others where differing views are sincerely held and unlikely to be reconciled. Boiled down to its essence, there are broadly two schools of thought. The first is that there is now a clearer understanding of what is required, an acceptance that essential adjustments can be made without major upheaval and that the process for achieving improvement should be gradual and practical: in this view there is no need to revise the current legislation, although some limited amendments may be needed to clarify one or two points. The second school is that while some of the measures introduced with the 1990 Defence Act have been successful and should be retained, that Act was based on a wrong premise and should now be replaced with legislation based on structures and systems that recognise the importance of melding the military and civilian contributions to the defence of New Zealand.

7.3 Having weighed up all the material presented to me, I have concluded that our current systems must be thoroughly revised, new organisational structures and processes established and new legislation enacted. While my preference would be for this to be done by means of a single series of measures over a period of twelve months, I would concede there could be good practical reasons for taking somewhat longer and instituting a programme for change in two or more steps. For example, an initial programme could be agreed and implemented within the framework of current legislation then an assessment made in the light of experience whether more fundamental adjustments were desirable, including the passing of a new Defence Act.

7.4 In this chapter I am putting forward a number of proposals which I consider necessary to transform the current system. These proposals are presented in a form which is capable of being implemented – at least to a degree which would achieve many of the essential improvements – whether or not the legislation were revised. In my opinion, however, that would not attain the objectives implicit in the Terms of Reference for this review. I would suggest that the concepts of jointness and cooperation which are the focus of the review, are only achievable through the unification of the civilian and military arms of the defence system; through a major shift in the thinking of the military as to what jointness means and how it should work in practice; and through the development of new cultural and organisational norms to reinforce the behavioural and attitudinal changes that must be made by both civilian and military officers.

### A High Performing Defence Organisation

7.5 High performing organisations are those that are able to adapt successfully to the demands of the future. They have cultures that place high value on collaboration, innovation and continuous learning. Leaderships develop and spread a common vision of organisational purpose and direction. They provide examples of corporate commitment to sustain both a shared vision, and ensure its continued relevance to internal members, as well as external clients and stakeholders. Policies for recruiting, selecting, paying, training, developing and organising the organisation's workforce reflect corporate values.

7.6 High performing organisations also have a strong focus on mission and results, with everybody in the organisation being interested in understanding what the organisation's customers want. In addition, all parts of the workforce are aware of, and work to supply, the resources, information, and support that all need, to achieve the organisation's mission.

7.7 In high performing organisations, corporate-level decision-making processes are designed to support strategic policy and management for delivering results to external clients. These processes are clearly defined, including key corporate-level decisions. Standards of information support for decision-making stress high levels of factual data, understandings of cause and effect mechanisms, rather than instinct, authority or anecdotal evidence.

7.8 The roles of all participants in decision processes are also well defined and the approach to decision-making is highly inclusive. Such approaches have proven more effective in managing the points of intersection between different units of the organisation and co-ordinating all contributions to achieving organisational strategies. Inclusive decision processes also extend outwards to incorporate contributing partners from complementary organisations.

7.9 Decision-making authority is aligned with responsibility and accountability for results. At the same time, for decisions that have whole-of-organisation impacts, there is a trend to re-design management and work responsibilities to be more over-lapping, acknowledging the importance of teamwork. For example, high performing organisations have adopted flexible, adaptive structures more suited to the current operating environment. Such structures include cross-functional teams that draw people and resources from vertical structures to deliver corporate-level results. Cross-functional teamwork is managed through planning processes that facilitate whole-of-organisation strategic management. Collaborative information-sharing tools have also been introduced to encourage and assist staff to share knowledge and best practice. Co-operative, participatory work processes de-emphasise rigid internal vertical hierarchies that build and nurture their own barriers, distinctive cultures, particular priorities and control over resources and results.

7.10 Where common processes are identified, duplication between vertical structures has been removed (particularly in overhead support functions). Specialised structures are retained to facilitate specialised processes that do not require critical connections to other processes. The management systems of high performing organisations, (such as compensation systems, selection and promotion criteria, career paths, performance appraisals and training and development for example) have also been re-aligned to support team structures and over-lapping accountabilities.

7.11 In my view, New Zealand Defence could benefit substantially from the application of these reinvigorating organisational principles. Transformed structures and arrangements for New Zealand Defence need to reflect:

- cultures that value collaboration, contribution, commitment, innovation and continuous learning
- leadership at all levels that promotes a shared vision of relevance to Government and the New Zealand people, as well as the internal memberships of the organisations they lead;
- clearly defined decision-making processes that are inclusive of all key participants and are based on high standards of information
- decision-making aligned with responsibility and accountability for specific outputs balanced with over-lapping and shared responsibilities for whole-of-organisation results;
- more flexible and adaptive internal structures that integrate and connect people, tasks, and processes to results.
- fewer internal vertical hierarchies linked to specialist functions; and
- career paths, compensation policies, and training and development for personnel aligned to support cross-functional teams and shared responsibilities and accountabilities.

## Requirements and Timing for Legislative Change

7.12 This and other earlier reviews, have identified persistent and extensive problems with the current defence management system. Moreover, it is clear there is a need for defence structures and arrangements better able to cope with the future, as much as to deliver better results today. In responding to these factors, it is my judgment that, amongst other changes, the two existing defence organisations need to be merged into one, and as part of that merger, the NZDF needs to be developed substantially as a joint organisation at the strategic, as well as at the operational, level.

7.13 Unless this happens, it is my assessment that there will continue to be a potential for dysfunction, division and defensive behaviour, and resultant unnecessary transaction costs. In the absence of such change, it is likely that the current defence arrangements will become progressively less capable of delivering the performance expected by future Governments.

7.14 This is not to say that complete integration will eliminate the personality conflicts that have characterised the current arrangements. However, the harm such conflicts inflict is likely to be less damaging in a single strategic-level Defence Organisation working to a single set of directions and objectives and a common view of the world, than one where integration is laid over two separate organisations and cultures, and where one of those organisations contains strong internal boundaries and cultures.

7.15 The advice received by the review (See Annex F) is that - paradoxically given its original intention - the current Defence Act would allow, or rather would not prevent, transformational change. In fact, a significant range of organisational, structural, procedural, and governance changes could be set in place without triggering a need for legislative revision. Such changes could be reflected and managed down through both current organisations to achieve a considerable degree of jointness and integration.

7.16 If such changes were to be instituted without preceding law change, the current Act (and the other relevant Acts) would require that the Secretary remain the “principal civilian adviser” and the Chief of Defence Force the “principal military adviser” to the Minister. Each would need to remain responsible and accountable for their respective departmental outputs. The Chiefs of Staff would need to remain titled as “Chiefs of Staff”, the Chiefs of Staff Committee retained.

7.17 My legal advice (See Annex F) is that these matters would not prevent the formation of an integrated and joint MoD and NZDF defence policy and strategic management group, and an operations and services group: nor would such a structure be legally prevented from providing recommendations and information to the Secretary and the CDF to assist in their advice functions. But there is one important caveat: “*Legally, however,*

*the Secretary and the CDF would each continue to fulfil separate functions in providing advice. They would be doing so through the same medium and there would be some doubt as to what extent of integration would run into legal impediments”* (my emphasis added). To overcome this potential inhibition, pending revision of the Act, the structural and other reforms recommended here could (and should) proceed on the basis of Ministerial direction – as was done in 1989 in the structural and responsibility changes that were undertaken ahead of the 1990 Defence Act.

7.18 I have noted that the changes made in setting up the position of the Joint Forces Commander NZ and the Joint Forces Headquarters have already moved the current arrangements to the edge of legality under the current Act. I have also noted the opinion of a number of the Government’s senior advisors that it is not necessary to revise the Act in order to fulfil the TOR for this review. Yet, there is a risk of back-sliding unless effective changes are endorsed in law. I accept that it is possible to make substantial progress without changing the law, and that it would be unacceptable to delay any action until the Act had been revised. However, I would be concerned if there were no ultimate legislative expression of the new direction that would confirm, embed and mandate that direction.

7.19 To assess the merits of both viewpoints, I would propose that consideration be given to a phased approach to change – the immediate implementation of an action plan that can be completed within the parameters of the current Act, followed by an examination of the effectiveness of these reforms; then, when the timing was appropriate, the introduction of a revised Defence Bill into Parliament. In this Chapter I present one approach to integration, jointness and broader governance that has been designed to fit both possible scenarios i.e. whether the law remains unchanged or whether it is changed after a period of implementing and trialling new arrangements.

## Transformation Proposals

7.20 The proposals for change are grouped into two areas: first, higher national security governance structures and governance and second, management structures and responsibilities within the defence organisational framework.

### Higher-Level National Security Structures and Arrangements

7.21 As outlined in earlier chapters, among our strategic partners the defence function is increasingly accepted as part of a broader responsibility of sovereign states for all aspects of national security. In turn, as national security becomes “more than simply defence”, it involves a wide range of Governmental agencies and departments that need to network with non-governmental national and international contributors. While New Zealand’s higher-level national security arrangements are gradually but consistently moving in the direction of a more co-ordinated approach, in my view they are the starting point rather than the end-point, of a more highly developed

national security governance structure. Consideration could now be given to a whole-of-Government approach to national security policy, strategy and action. This approach would ensure that the full weight of national effort was co-ordinated to shape New Zealand's security capability so that we were better prepared, as well as to address security issues when they arise.

7.22 Such a whole-of-government approach would encourage the Defence Organisation to take a wider view of national security. In so doing, it would enhance its ability to understand its role and responsibility in the desired context of jointness and co-operation. It would also provide a broader-based higher governance structure to guide internal direction and decision-making.

7.23 To this end, I am suggesting the Government might consider setting up a permanent national security governance structure including a National Security Committee of Cabinet. The Committee would be responsible for providing political direction on strategic priorities for influencing New Zealand's national security environment over the medium to long term. It would also be responsible for guiding Cabinet decisions in response to security crises and emergencies, and for providing political direction to relevant departments and agencies to implement the components of any national response strategy. Further, it would create an opportunity for building up a widened base of political expertise and knowledge in national security affairs.

7.24 I would see the Prime Minister chairing the Committee with the Ministers of Defence, Foreign Affairs and Finance being permanent members, and other Ministers invited as appropriate. The Secretaries of Prime Minister and Cabinet, of Defence and of Foreign Affairs, and the CDF, would serve as principal advisers to the Committee.

7.25 It is also suggested that a National Security Officials Committee, with membership from relevant Government departments and agencies, could be set up to support the Cabinet Committee. This officials committee would be responsible for:

- co-ordinating and consolidating national security policy and strategy advice;
- providing the Cabinet with periodic assessments of national security risks as well as response capabilities;
- co-ordinating the implementation of Cabinet directives in response to specific threats to national security;
- serving as a centre of expertise for inter-departmental/agency processes and procedures and as an officials-level focus for networking with strategic partners on international security issues; and
- providing the overall management and evaluation framework within which the activities of each of the individual organisations concerned

(including Defence) were conducted and assessed – this would reinforce the Government’s growing emphasis on strategic outcomes.

7.26 The logical location for the Secretariat to support this Committee would be in the Department of Prime Minister and Cabinet, with the CE serving as Committee chair. The Secretaries of Defence and Foreign Affairs, the Chief of the Defence Force, and other relevant Department CEs with a national security interest would comprise the membership (some of them on an “as needed” basis). The Secretariat could comprise staff seconded from each of the permanent members of the Committee.

## Supports for Ministerial Roles and Relationships

7.27 As noted in the previous chapter, Defence is a demanding and complex portfolio. In other countries studied, Ministerial decision-making, control and oversight responsibilities are managed:

- by supporting lead Ministers with associate or assistant Ministers with specialist portfolio responsibilities;
- ensuring that Ministers of Defence do not have other demanding duties;
- attaching specialist staff advisers to the Minister’s office; and
- ensuring effective working relationships with departmental advisers.

7.28 The first three of these arrangements are appropriate in countries where the defence function has a much higher profile in the overall priorities of Government and where the expenditure levels require a higher level of political supervision than here. In the New Zealand context, it may not be practical for the Minister of Defence to be responsible for the Defence portfolio alone.

7.29 However, there is scope for considering the appointment of an Assistant Minister outside Cabinet at an appropriate stage with responsibility for one of the defence areas - for example, equipment acquisitions – to assist the Minister to cover the ground that has the greatest political sensitivity. There would be value also in considering an expansion of the Ministers’ office to include at least two advisers, one military and one civilian, from the Defence Organisation.

7.30 When the strategic management and planning processes for the Defence Organisation are defined in logical sequence, as I have attempted to do in Table 1 and Figure 1 on pages 65-66, it is clear that the Minister is involved at key points to provide direction and guidance to officials, and to receive appropriate advice in order to present the Defence Organisation’s work to Cabinet. While the practice over the last decade has been to place a certain distance between the role of the Minister as decision-maker, and the role of departmental officials as managers, there is a need to ensure that this distance does not become isolating, either for the Minister or his or her officials. It is evident that at times in the past, this level of exchange has not

been sufficient for either party. There is a need to improve the Minister's access to a more inclusive range of senior advisers, and vice versa.

## Defence Governance Structures

7.31 New governance structures are needed that will allow the Minister to share his vision, priorities, and strategies with the key Defence Organisation executives who will be responsible for implementing them. Similarly enhanced structures are needed that will allow Defence Organisation executives to contribute their knowledge and experience to support the Minister in his role of presenting defence business to Cabinet.

7.32 Furthermore, the existing governance arrangements inside Defence have at best ameliorated some of the unacceptably high transaction costs of the present structures; at worst, they have exacerbated these costs. If they are not working in the current environment - a view which is widely held - they are even less likely to meet the needs of an organisation based on the principles implied by the TOR for this review. I propose a new Defence Organisation governance structure - set out below in Figure 1 - that is externally responsive to the Minister and the proposed national security arrangements, and internally suited to new organisational structures and processes processed for the Defence Organisation.

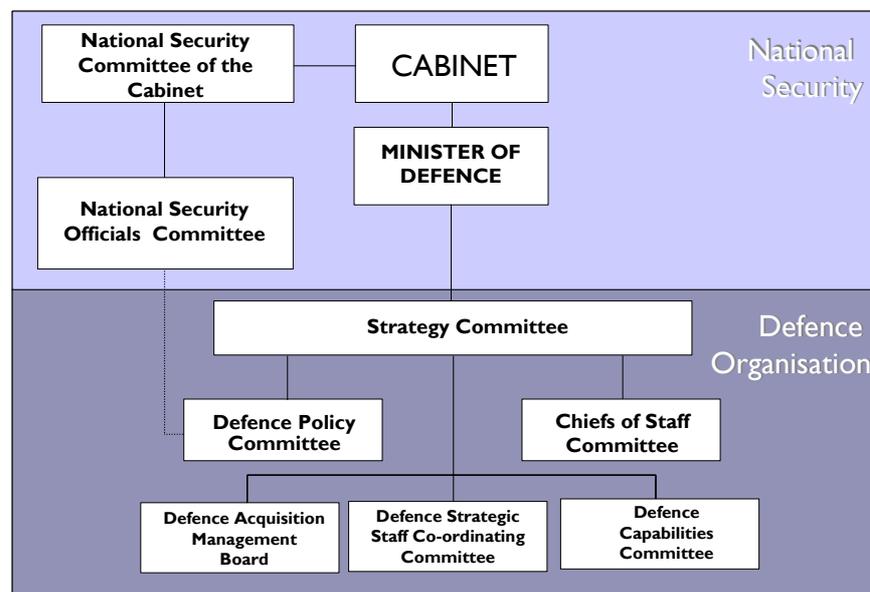


Figure 1: Proposed Defence Governance Structure

### *Strategy Committee of the Defence Organisation*

7.33 For the future, I would suggest a more inclusive governance arrangement. The key engine would be a Strategy Committee, which would be the Defence Organisation's highest decision-making forum. It would

integrate both senior military and civilian advisers and decision-makers.<sup>1</sup> Its membership would include the Secretary, the CDF, Vice Chief, Deputy Secretary of Defence, heads of Defence Evaluation and Acquisition Services, the Chief Financial Officer, the JFCOMNZ, and the three Service Chiefs. For greater transparency, and to include other relevant perspectives, an appropriately qualified external director might also be considered.

7.34 In my view more explicit Ministerial oversight of the Defence Organisation is needed, particularly where departmental decision-making requires political direction. The fact that a third of Defence's strategic management processes involve political direction/decision points indicates the level of desirable involvement of the Minister.

7.35 For this reason, I would suggest that the Minister should chair the proposed Strategy Committee. Given the competing demands upon the Minister's time, the Ministerial chairmanship could be exercised on, say, a quarterly basis, with the Secretary and CDF co-chairing other meetings of the Committee in the absence of the Minister.

7.36 If the Minister were able to chair the Strategy Committee at least quarterly he or she would be well placed to provide clear political direction to Defence's senior management group, engage them in the Government's vision for the Defence Organisation and receive their input into Cabinet decision-making. This level of participation would not compromise managerial responsibility by the Defence Organisation's principal officers. It would ensure that the Government's interest was more directly applied to the management of the substantial resources allocated to Defence.

#### *Other Joint Integrated Committees*

7.37 There are three areas of Defence management where particular decision support is needed: Defence policy/strategy guidance, future capability, and major equipment acquisitions. Many of the problems raised in submissions to the review demonstrated deficiencies in appropriate forums and mechanisms for inclusive decision-making and effective process management. These areas of defence management can be better supported and managed through inclusive committee arrangements, as is done successfully elsewhere. It is noted that recently moves have been made in this direction with the establishment of an Acquisition Control Group. I would suggest that this Board be retained, and additional high-level committees be established to report to the Strategy Committee.

7.38 In this new setting, I would see a revised role for the Chiefs of Staff Committee. If my suggestions are adopted, the Chiefs of Staff would be involved in the strategic direction and management of the overall Defence Organisation, through their membership of the Strategy Committee. This would allow the Chiefs of Staff Committee to focus more particularly on

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<sup>1</sup> For more detailed discussion of changes to senior military and civilian decision-making positions in the proposed defence organisation, see paras. xx pages xx.

professional matters relating to armed forces – military personnel policies, military ethos and ethics, leadership and training, operational practices and effectiveness and professional advice to the principal military adviser to the Government.

7.39 In support of a more inclusive, information-sharing management approach, there would be considerable value in the Secretary of Defence being invited to join the Chiefs of Staff. Indeed, I note that the current CDF has already taken this initiative.

7.40 A total of five top-level Committees are proposed for providing product for the Strategy Committee's agenda in a structure set out in Figure 4 below with the following memberships:

- *Defence Policy Committee* (chaired by the Secretary; membership: CDF, Deputy Secretary of Defence, Vice Chief, Director, Policy, Strategy and Plans);
- *Chiefs of Staff Committee* (chaired by CDF; membership: Vice Chief, Chief of Navy, Chief of Army, Chief of Air Force, Joint Forces Commander NZ and Secretary)
- *Acquisition Management Board* (chaired by the Secretary; membership: CDF, Deputy Secretary of Defence, Vice Chief, Head Acquisition Services, Director, Force Structure, Resources and Logistics);
- *Defence Capabilities Committee* (co-chaired by the Deputy Secretary of Defence, and the Vice Chief; membership: Director Force Structure, Resources and Logistics, Head Acquisition Services, Director, Policy, Strategy and Plans); and
- *Defence Staff Co-ordinating Committee* (co-chaired by the Deputy Secretary of Defence, and the Vice Chief; membership: functional directors of the Defence Strategic Staff).

7.41 All five committees would work to the direction of the Strategy Committee, with the Defence Policy Committee having the same standing as the Chiefs of Staff Committee. The other three committees would be high level working groups with specific co-ordinating functions. The intention would be to ensure that the Strategy Committee remained focused on providing strategic direction and decision-making and the subordinate committees focused on results management and production – it would be expected that the three “second level” committees would occupy less of the Strategy Committee's time than the other two. The suggested governance structure is outlined in further detail at Annex I.

## Shared, Prime and Sole Roles and Responsibilities for the Secretary's and CDF

7.42 I believe that a new approach to defining responsibility and accountability as between the Secretary and the CDF would serve the Government's interests better than the present organisational separation.

In order to attain jointness and cooperation, it is first necessary to be clear as to the processes that lead from the formulation of Government national security and defence policies to effective military operations and evaluating and accounting for defence performance. These are the defining points in the defence management cycle. Everything else is in place to ensure Ministers are able to make the best possible decisions within the limit of available resources so that when required they can give effect to New Zealand's national interest through the deployment of NZDF units and personnel appropriately trained and equipped to perform the missions expected of them.

7.43 Strategic management and planning processes through which the Defence Organisation should work are critical to organisational responsibilities, capacity and structure. They define what the Defence Organisation needs to do to meet Government's performance expectations. From an understanding of what processes are needed to deliver results, the question of the most appropriate roles and responsibilities for the Secretary and the CDF, as well as other senior defence executives, and how best to structure the Defence Organisation to carry out these processes, can be addressed.

7.44 I have examined the Government's performance expectations of the Defence Organisation, most particularly those relating to providing strategic direction; preparing and developing joint force packages; providing high quality advice that supports Government decision-making; effective and efficient direction, planning, management and accounting for Defence's resources; being a good employer; and maintaining high standards of professionalism, including ethical behaviour. I have also examined the nature of management and planning challenges, both those that are particular to Defence and those that are faced by other public and private sector organisations.

7.45 Many of Defence's high-level activities are cyclical and iterative rather than sequential, so that one needs to be careful in depicting them as a neat linear progression. Moreover, within many processes, there are a number of specific sub-processes. With these provisos in mind, I have attempted to provide a simplified outline of Defence's strategic management processes in order to see more clearly how structures might be erected to manage them and where responsibility should lie for performing them. These macro-processes are listed in Table 1 and Figure 2 overleaf. A more detailed definition of each step is given at Annex H):

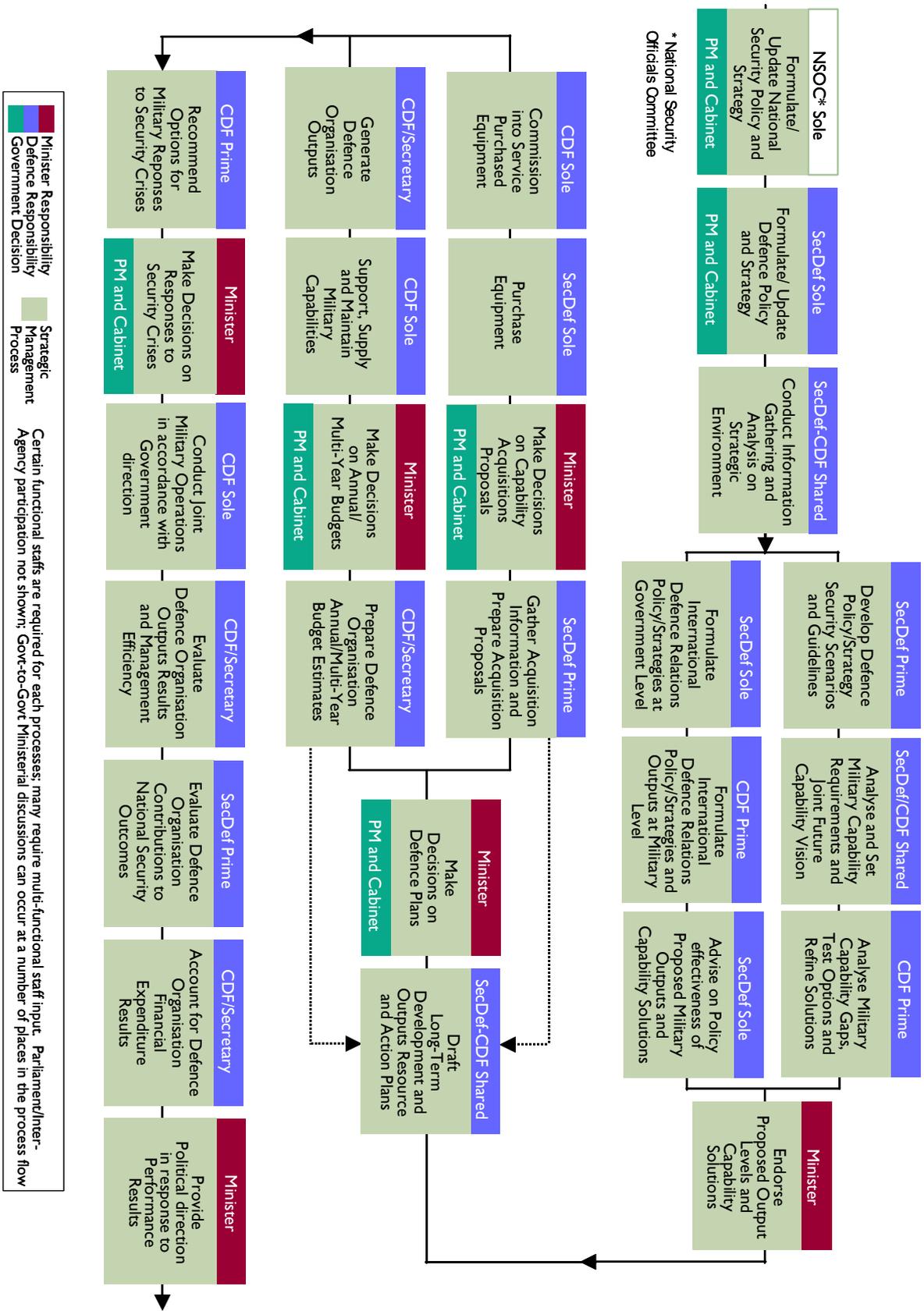
7.46 I have attempted to capture in the Table above and in Annex H all of the processes which support the two objectives of good policy decisions and good operations. In doing so, three points are apparent:

- the dominant and continuous role that must be played by the Minister and his Cabinet colleagues to give effect to the system;

Table 1: Defence Strategic Management and Planning Processes

Step	Process
1	Formulate/Update National Security Policy and Strategy (Political Direction/ Decision Point)
2	Formulate/Update Defence Policies and Strategies (Political Direction/ Decision Point)
3	Conduct Strategic Environment Information Gathering and Analysis
4	Develop Policy/Strategy Security Scenarios and Guidelines
5	Formulate International Defence Relations Policy/Strategies at Government Level
6	Formulate International Defence Relations Policy/Strategies at the Military level
7	Analyse and set Military Capability Requirements and Joint Future Capability Vision
8	Analyse Military Capability Gaps, Test Options and Refine Solutions
9	Advise on Policy Effectiveness of Proposed Military Outputs and Capability Solutions
10	Endorse Proposed Military Output Levels and Capability Solutions ((Political Direction/Decision Point)
11	Draft Long-Term Development and Output Resource and Action Plans
12	Make Decisions on Defence Plans ((Political Direction/Decision Point)
13	Prepare Defence Organisation Annual/Multi-Year Budget Estimates
14	Gather Acquisition Information and Prepare Acquisition Proposals
15	Make Decisions on Annual Multi/Year Budgets ((Political Direction/Decision Point)
16	Make Decisions on Capability Acquisition Proposals ((Political Direction/Decision Point)
17	Purchase Equipment
18	Support, Supply and Maintain Military Capabilities
19	Commission into Service Purchased Equipment
20	Generate Defence Organisation Outputs
21	Recommend Options for Military Responses to Security Crises
22	Make Decisions on Responses to Security Crises ((Political Direction/Decision Point)
23	Conduct Military Operations in accordance with Government direction
24	Evaluate Defence Organisation Output Results and Management Efficiency
25	Evaluate Defence Organisation Contributions to National Security Outcomes
26	Account for Defence Organisation Financial Expenditure Results
27	Provide Political Direction in response to Defence Organisation Performance Results

Figure 2: Recommended Defence Strategic Management and Planning Processes and Responsibilities



- the breaking down of the defence system into clearly definable steps (as long as this is not taken to absurdly detailed lengths) enables accountabilities to be clarified even in an organisation where the overall responsibility is shared; and
- the need for both the Secretary and CDF to be engaged in certain key processes across the cycle so that shared responsibility is inevitable if the best result is to be produced.

7.47 There are some defence strategic management processes where single-line accountability has proven to be the most effective and rational arrangement, for example, in aligning all aspects of financial and resource management with responsibility for outputs. However, there are other areas, where to achieve the Government's performance expectations - for example of timely, balanced and frank advice that encompasses both civilian and military contributions - it is desirable to move beyond the "one-size-fits-all" limitations of single-line accountability and to consider an approach which makes room for combined military and civilian responsibility and accountability for specific functions. As noted above, flexible concepts of over-lapping responsibilities are increasingly used in high performing organisations to ensure co-ordinated whole-of-organisation results, full ownership of internal decisions, improved information sharing, and to resolve the negative effects of vertical hierarchies.

7.48 To achieve this, I am suggesting the adoption of the British and Canadian ideas of "shared" and "prime" responsibility and accountability for the Secretary and the CDF for some of Defence's strategic management processes. This would complement single-line accountability where this is seen to be essential.

7.49 The concept of "shared" responsibility and accountability recognises situations where results are best achieved when undertaken on an equal basis by at least two principal agents. The function and the performance expectations must still be defined but the designated principals would be responsible collectively for working together to co-ordinate inputs and manage tasks. Both principals would be equally accountable for results, as they would have shared authority over resources and actions to achieve them.

7.50 The concept of "prime" responsibility and accountability recognises processes where there is a logical prime area of activity for generating results, with inputs being required from other staffs. In this case, while the process itself would be collegial, one person would assume the lead role and be responsible and accountable for managing inputs from those areas of the Defence Organisation affected by process decisions and results. Prime responsibility and accountability is seen as going well beyond the normal expectations of consultation and requiring the full involvement of all parties.

7.51 These concepts of responsibility fit under the broader notion of a strategic partnership arrangement between the Secretary and the CDF, and their respective agencies, where the Secretary and the CDF would share overall responsibility and accountability for all the strategic management processes undertaken by civilian and military professionals (whether they were configured in one organisation or in two as at present).

7.52 Particular processes where sole, prime and shared accountability and responsibility are appropriate for CDF and the Secretary, are outlined and elaborated on in Annex H and summarised in Table 2 and 3 below:

*Table 2: Secretary of Defence High-Level Sole, Prime and Shared Responsibilities*

Sole	Prime	Shared
Formulating advice on defence and international defence relations policy and strategies at the governmental level	Developing security scenarios and planning guidelines from defence policy and strategy	Conducting analyses of the strategic environment,
Purchase advice on NZDF outputs policy effects	Preparing business cases for acquisition proposals	Analysing and setting military capability requirements
Equipment purchasing	Evaluating Defence Organisation outputs and contributions to national security outcomes.	Defining a joint future capability vision,
MoD resource management and		Drafting long-term development and medium-term output plans for the Defence Organisation.
Evaluation of and accounting for MoD outputs		

*Table 3: Chief of Defence Force High-Level Sole, Prime and Shared Responsibilities*

Sole	Prime	Shared
Commanding the NZDF	Formulating international defence relations strategies and outputs at the military level	Conducting analyses of the strategic environment
Commissioning new equipment into service		Analysing and setting military capability requirements
Supporting, supplying and maintaining NZDF capabilities	Analysing military capability gaps, testing options and refining solutions, and	Defining a joint future capability vision
Conducting military operations	Advice on military responses to security crises	Drafting long-term development and medium-term output plans for the Defence Organisation.
NZDF Resources management and		
Evaluation of and accounting for NZDF outputs		

7.53 It is my assessment that to achieve jointness and cooperation the inflexible application of single-line accountability must be set to one side in favour of shared, prime and sole responsibilities in a strategic partnership concept. This concept is needed to align the roles and responsibilities of the Secretary and the CDF to the defence outcomes desired by Government, demonstrate the dominant and continuous role of the Minister and the Cabinet; and develop effective working relationships between the CDF and

the Secretary, so that all relevant inputs of information and knowledge are made to strategic management and advice to Government.

7.54 I am aware that since the reforms of the mid-eighties, the doctrine of accountability has evolved in the NZ Public Service that it is essential to ensure one individual is ultimately responsible for a department of State and is accountable to the Minister for it. This is seen to give the greatest incentive to Chief Executives to accept personal responsibility for their own actions and advice and for those of their staff (who are in turn accountable to their CE). The question is whether single-line accountability is the most appropriate form in situations where shared responsibility is the most effective way of delivering the results sought by the Minister.

7.55 The concept of single-line accountability works best in comparatively small organisations with few, stable and uncomplicated results, that are not dependent upon multiple contributors, that have few information sources and only a limited number of uses for information. In my judgement, the Defence Organisation's strategic management processes - sometimes involving as many as five or six viewpoints - do not permit the rigid application of single-line responsibilities and accountabilities.

7.56 There is a strong consensus that the concept has contributed to artificial divisions in the Defence Organisation. Some senior managers under both the CDF and the Secretary have used single-line accountability to enforce their exclusive control over particular processes and results. Value-adding inputs from other parts of the Organisation have been excluded. "Territorial preserves" have been reinforced. At the same time, as I noted in Chapter Six, because of the manner in which functions and responsibilities have been distributed between the two parts of Defence, in some cases senior managers have been made accountable for processes and results with little or no responsibility for the critical inputs upon which processes and results depend.

7.57 While there appear to be few good reasons for retaining single-line accountability across the board, and many for moving to a strategic partnership concept of accountability where this is likely to produce the best results, there may be concerns about the extent to which this latter concept might become a precedent for other Government departments. The needs of each department should be considered on their own merits. I would suggest that Defence is unique in requiring an organisational framework headed by two professional leaders, one administrative, the other technical.

7.58 Should this continue to be an issue, however, I have examined the possibility of using the strategic management processes I have outlined in Table 1 above to define more clearly single-line accountabilities as between CDF and the Secretary. While a division along these lines does better define the roles and responsibilities than is currently the case, it avoids the real issue. It is my view that the goal should not be to draw a clearer line of difference between the two Defence Organisations, but rather one of working out better ways for all parts of the Defence Organisation to

work effectively to meet Government's expectations. Nonetheless I have set out a single-line accountability model at Annex K should this be needed.

## A Strategic Planning and Management Process System

7.59 To support the Secretary and the CDF in their policy and strategic management responsibilities, there is an urgent need for an appropriate Defence Planning System. Current disagreements may become moot if my recommendations for a future Defence Organisation are accepted. It is noted that there have been a number of checks and examinations of the planning system as it has evolved over the years – the latest being undertaken as the first activity of the DPS project launched in July 2001. The table of processes outlined above, (and expanded upon in Annex H) could serve as a macro-level outline of the strategic management and planning processes for the Defence Organisation. These processes should be taken into account by any DPS project reactivated following the completion of this review, in moving to finalise the planning arrangements, through which an enhanced Defence Organisation can work. If it is decided to proceed in this manner, I would strongly urge that a three-month time limit should be placed on the completion of the DPS.

## New Integrated, Joint Strategic-Level Policy and Management Structures for the Defence Organisation

7.60 As I have stressed, the time has come to move towards a more integrated Defence Organisation. Other organisations aspiring to high performance both in the private and public sector have already eliminated unnecessary internal vertical boundaries. Similarly, other defence establishments are moving to integrate civilian and military advice, and strategic management processes, and develop joint structures for military advice and management.

7.61 An integrated, joint structure is also needed to support the shared and prime responsibilities and accountabilities being suggested as the optimal accountability arrangements for the Defence Organisation. Such a structure is an essential foundation for directing the culture and attitudes within Defence away from the current emphasis on patch protection and exclusion. It is important that such a structure builds on the distinctive skills and experiences that both civilian and military staffs bring to the formulation of Defence policy advice and Defence strategic-level management. The Minister needs to receive free, frank, timely, and highly informed professional advice from both his military and civilian advisers. The intention of a new structure would not be to blend military and civilian advice so that it became indistinguishable, but rather to ensure that a full range of military and civilian advice was made available to the Minister.

7.62 In recommending changes to management structures, I have been guided by my findings that have identified a need to:

- improve substantially information sharing and eliminate boundaries and their supporting cultures that impede strategic management;
- develop a Defence-wide vision of the purpose and direction of the organisation and sustain this into the future; and
- build and sustain professionalism in key functions such as defence policy, equipment acquisitions, strategic human resources, knowledge management and information technology, and resource management.

7.63 There are many options for achieving an effective level of civilian-military integration and jointness. One that is matched to the governance structures and strategic management processes outlined in this review has been developed as an example of how this might look. Some other options have been considered but they raise a requirement for immediate legislative change, have significant shortcomings, or could not achieve the goals set by the Government for a revitalised defence system. Some of these alternatives are outlined in Annex L.

## A Joint, Integrated Defence Organisation

7.64 A more integrative structural arrangement would establish a framework – the New Zealand Defence Organisation (NZDO). The NZDO – see Figure 3 below – would receive political direction from the Minister of Defence, and be headed by the Secretary and CDF with shared, prime and single-line accountabilities as set out in Table 1 of this Chapter and Annex H. In practical terms, the Secretary and the CDF would continue to be the Government’s principal advisers on defence matters.

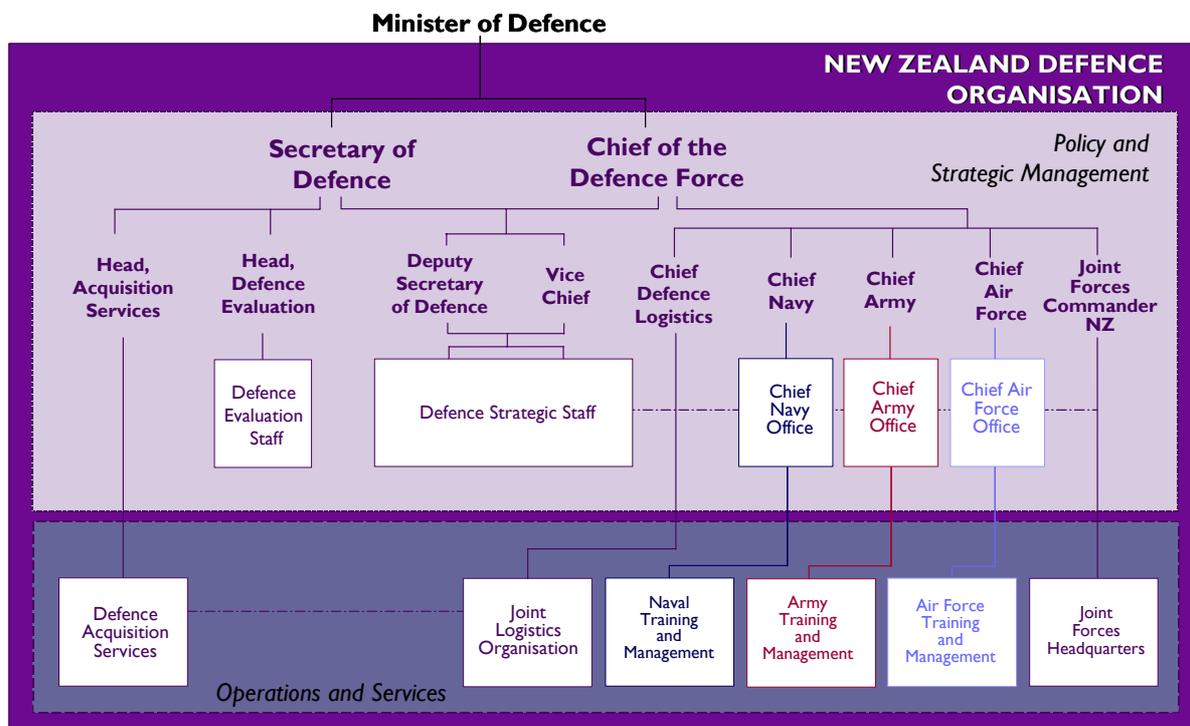


Figure 3: A Joint Integrated Defence Organisation Model

7.65 The NZDO would comprise the New Zealand Defence Force with its three constituent arms - the Royal New Zealand Navy, the New Zealand Army, and the Royal New Zealand Air Force – together with the Joint Forces Headquarters, and a new Defence Corporate Headquarters/Office.

*Defence Corporate Headquarters/Office*

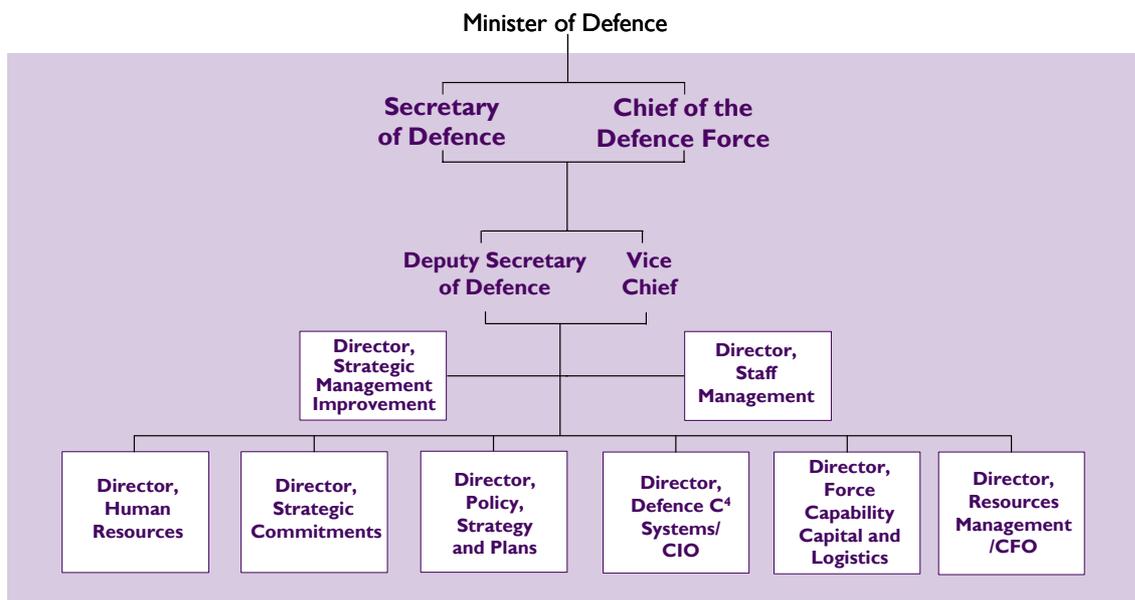
7.66 The Defence Corporate Headquarters/Office (DC HQ) would be the corporate-level policy and management structure for, and the centre point of, the New Zealand Defence Organisation. This suggested title is used to indicate that I do not see the Ministry of Defence being subsumed into the Headquarters, New Zealand Defence Force, or vice versa.

7.67 The Defence Corporate HQ/Office would comprise the Secretary, the CDF, and other principal military and civilian officers and their staffs. This would include: a Deputy Secretary of Defence and Vice Chief (as co-directors of an integrated civilian-military joint staff); the three Service Chiefs, and their personal office staffs; Heads of equipment acquisition services and defence evaluation; and the Joint Forces Commander, New Zealand. (The main parts of the model are outlined below and in Figure 2 overleaf with a more detailed description provided at Annex J.)

*Defence Strategic Staff*

7.68 The core of the DC HQ would be a new integrated and joint civilian-military staff. This group – for the purposes of this report, named the Defence Strategic Staff, - would bring Personnel, Force Development, Logistics, Command, Control, Communications and Computers and Information Systems (C<sup>4</sup>IS), Defence Policy and International Defence Relations, and Resources Management staffs from the MoD and HQ NZDF, together in new integrated staff groupings. These staff groupings, depicted in Figure 4 below, would be aligned with all strategic management processes outlined in Table 1 and Figure 1 above, and are described in further detail in Annex J.

Figure 4: Main Components of a Defence Strategic Staff



7.69 The Defence Strategic Staff would be the main vehicle through which the Secretary and CDF would manage their shared responsibilities. A Deputy Secretary of Defence on behalf of the Secretary and a Vice Chief on behalf of the CDF would co-direct and lead the Staff, with responsibility for co-ordinating all staff effort; developing an integrated, joint corporate culture; and meeting all the Secretary's and CDF's needs for information assistance to support their responsibilities as principal advisers to Government.

#### *Service Chiefs*

7.70 The roles and responsibilities of the Service Chiefs of Staff would be redefined. They would retain important responsibilities as guardians of the ethos and professionalism of their Services. They would continue to be at the strategic management level of the Defence Organisation, so as to participate in setting the overall aims and vision for Defence, and commit themselves to implementing that vision in their own Services. They would contribute to the management of each of their Services but within a framework of responsibility that is increasingly joint in its orientation and focus. Some narrowing of their focus away from the conduct of operations and operational command, which is the prerogative of the CDF and the Joint Forces Commander, and on to recruitment, training, ethics, professionalism and support to forces held at readiness, is already underway: this should be taken a step further if my suggestions in the following paragraphs are accepted.

7.71 The current legislation requires the retention of the title "Chiefs of Staff". In any subsequent legislative revision, consideration should be given to changing the title to "Chief of Service". Such re-titling would reinforce a clearer definition of their responsibilities within a Defence Corporate Headquarters, and as part of a joint-oriented NZDF.

7.72 Whether the title is changed, or not, Service Chiefs would be responsible for:

- personal advice from a Service (land, maritime or air) professional perspective into strategic management processes;
- managing the activities to recruit, select and train personnel, maintain equipment and infrastructure that supports or is contributed to front-line force elements so that they in turn achieve and hold a level of capability for assignment to the Joint Forces Commander New Zealand when required for operational missions;
- assessment and advice on the overall effectiveness of forces and formations for which they are accountable;
- professional leadership that inculcates values and behaviours that equip their personnel to support, and participate in joint operations
- the highest professional standards of forces and formations for which they are accountable.

7.73 A redefinition and re-attribution of NZDF output responsibilities and lines of resource management authority for the Service Chiefs, the Joint Forces Commander New Zealand, and the Land, Maritime and Air Component Commanders would be required to reflect the formers' more focused responsibility for specific recruitment, individual training, equipment maintenance and support activities.

7.74 The manner of the Service Chiefs' involvement in issues concerned with military capability development and acquisition would also change. The primary method through which the single Service contribution would be made would be through seconded staff officers being part of a joint, integrated strategic staff; the Service Chiefs personal contributions would be through their membership of the proposed new senior management committee structure.

7.75 International experience (in the United States, Canada, Australia and the United Kingdom) has consistently demonstrated that when single Service Chiefs are integrated into joint structures, they seek to re-create their own staffs to provide them with personal advice. While this may appear a valid requirement, it re-introduces duplication. It runs counter to the goals of establishing a joint, integrated staff structure, and risks re-establishing centres of competition. To ensure that Service Chiefs are provided with the information they need in order to participate in the Strategy Committee and the Chiefs of Staff Committee, they would have full access to the directors of the Defence Strategic Staff. Their current supporting staff could be reduced accordingly.

7.76 In practical terms, I would see the Service Chiefs spending a good deal of their time outside Wellington taking a hands-on leadership role in the training and preparation of personnel under their command. I see no conflict between this direct involvement in professional development and their participation in the strategic direction of the NZDO.

7.77 The Service Chiefs would retain the right to request direct access to the Minister. I would suggest this right be set out in a Ministerial directive including the conditions that Service Chiefs provide formal notification to the CDF and, where possible, the CDF attends any meeting with the Minister. Such conditions would preserve the Minister's access to a range of professional military opinions, while allowing the CDF the right of reply and ensuring that the CDF's position as principal military adviser was not undermined. It is expected that this right would be exercised in exceptional circumstances only, particularly as the Minister's participation in the proposed Strategy Committee would enable the views of the Chiefs to be available to the Minister in a forum where transparency and frankness would be encouraged. Such a Ministerial directive could also establish a procedure by means of which both the CDF and the Secretary are consulted prior to the appointment or removal of a Service Chief.

### *Joint Forces Commander and JF HQ*

7.78 The position of Commander Joint Forces New Zealand (COMJFNZ) would need to be reflected in any legislative change. With the Service Chiefs being responsible for “recruiting and training personnel, and maintaining equipment and infrastructure that supports or is contributed to front-line force elements” i.e., internal outputs, the JFCOMNZ with the three component commanders would be responsible for *externally-delivered outputs* from the NZDF. These outputs would consist of front-line force elements delivering a directed level of military capability in preparedness for operations, and those units on operations.

7.79 To be consistent with the overall spread of responsibilities and accountabilities being recommended for the Defence Corporate HQ, the management and accountability lines for resources management would need to be redefined. One option would be for the JFCOMNZ to be accountable to CDF for units deployed on operations, and those units that are being worked up to deploy. This would make the Land, Maritime and Air Component Commanders responsible to CDF for maintaining units at their directed level and working together to carry out joint training required by that directed level of capability.

7.80 Working relationships and procedures for providing advice on operational responses to security crises need to be defined between the components of the JF HQ and the relevant directorates of the proposed Defence Strategic Staff. For example, planning for operations involves a cycle of information exchange between the JF HQ directorates and the Defence Strategic Staff’s Strategic Commitments and, Policy, Strategy and Plans directorates. The latter would provide strategic direction, strategic intelligence, planning assumptions, and information from inter-agency co-ordination. The former would provide feasibility assessments, options for operational force packages, operational intelligence and costing information. Similar linkages for JF HQ contributions to future capability development processes need to be validated. Effective linkages are also needed to make sure that the joint and particular needs of JF HQ front-line units (trained replacement personnel, maintained equipment, training facilities etc) are incorporated into single Services planning.

### *Joint Logistics Organisation*

7.81 I have noted that the NZDF is already evaluating the feasibility of possible efficiencies to be gained from establishing a Joint Logistics Organisation. Given the positive international experience in this area, I have incorporated a Joint Logistics Organisation as part of this recommended model, since it would provide a unified framework for NZDO logistics management functions including acquiring through-life support for equipment.

7.82 While having the potential to achieve efficiencies in areas of common logistic support to the three Services, such an organisation should also include centres of excellence required for the specialised support needs

of each Service. Such areas include, for example, air-worthiness certification for RNZAF air assets. The aim would be to achieve the optimum balance between joint logistic support for activities that are common to all three Services, and to retain as single Service units, only those activities where there are unique Service-specific requirements.

7.83 It will also be important to define the supplier-customer relationships and levels of service expected between the Joint Logistics Organisation and the single Service and Joint Force output managers on the one hand and the Defence Organisation Acquisitions Services Division on the other. In the case of the latter, international experience has demonstrated that interoperable working procedures and information resource management systems are essential.

#### *Defence Evaluation Services*

7.84 To address the issues concerning defence evaluations which were outlined in the previous chapter, a prior question needs to be resolved. In order to achieve levels of assurance required by Ministers, should evaluation services be provided by a unit external to a new joint, integrated Defence Organisation? Evaluations are needed to improve the quality of defence policy advice to Government; to assist the NZDO senior executive to continuously improve their use of resources; to manage risks; and to maintain standards. But primarily evaluations are needed to provide Government with assurance that the Defence Organisation is providing value for money and is effectively translating its priorities and directions into force capability and operational success.

7.85 There is no doubt some evaluations may be best handled externally. In this category, I would suggest the outsourcing to OAG/Audit New Zealand of the conduct of evaluations of defence acquisition projects. There does not appear to be any reason why this service (which essentially concerns performance of a commercial management activity) should be carried out internally. Of all the areas on which successive Governments have sought reassurance, major purchases have been the most sensitive. I would suggest that the Auditor General's audit of the LAV vehicle purchase indicates the value of external assessments of major acquisitions and that this precedent should be adopted as general practice.

7.86 On the other hand, because most core evaluations required by the Defence Organisation and Government involve specialist knowledge and experience, a new integrated NZDO must have its own evaluative capacity, even if greater emphasis is placed on external assessments. The purpose of such a reconfigured internal unit would be to evaluate:

- the impacts upon defence policy over time of the annual delivery of NZDO outputs and capital investments and other capability enhancements;
- the cumulative impacts of defence policy achievements and Defence Organisation outputs upon progress towards achieving strategic outcomes for national security;

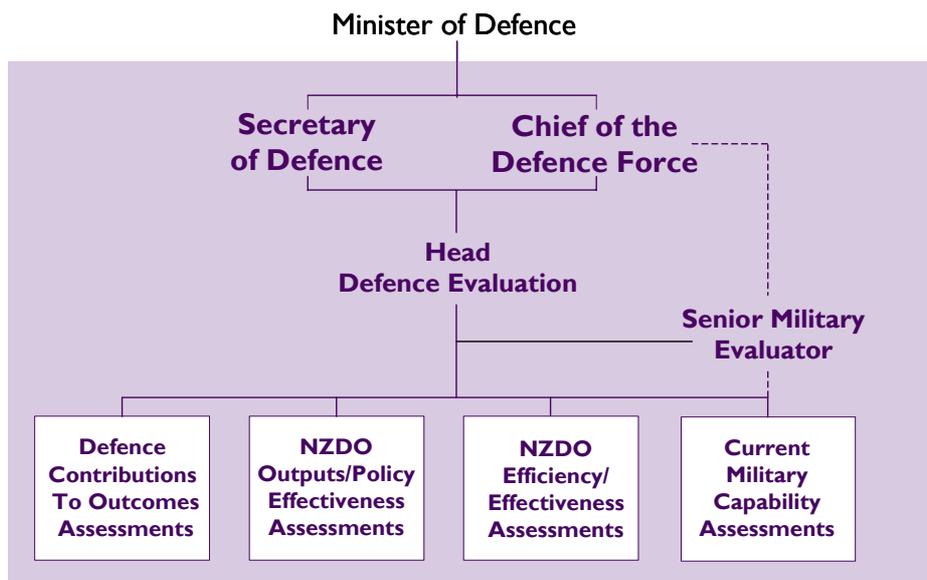
- Defence Organisation (strategic-level) efficiency and effectiveness; and
- professional standards and outputs performance of NZDF current military capabilities.

The Strategy Committee would agree an annual Evaluation Programme based on these four areas of emphasis. Internal audit for management purposes would continue as present, as a normal part of efficient management practice.

7.87 In the case of professional military outputs performance and standards, the intention should be to pursue the broader concept of performance evaluation of NZDF military capabilities that was envisaged at the time the position of the Inspector General was established. This would mean changing the role of the NZDF Inspector General from that of merely collating OPRES reports to that of being the NZDF’s Senior Military Evaluator. He or she would be responsible for a military evaluations staff, as part of an integrated, joint Defence Evaluations unit and responsible (as is the case in other defence systems) for an annual programme of evaluations under simulated operational conditions of selected NZDF capabilities.

7.88 In the context of a joint integrated organisation, the Head of Defence Evaluations should report directly to both the Secretary and the CDF. Either a military officer or a civilian official with appropriate policy and management experience could fill this position. An important proviso would be the retention of a direct reporting line on matters of professional standards between the Senior Military Evaluator and CDF (as set out in Figure 5 below): this would be essential to support the command responsibility of the CDF.

Figure 5: Evaluation Areas for integrated, joint Defence Evaluations Staff



7.89 To undertake the range of evaluations outlined above, a joint, integrated evaluations staff would be drawn from the current MoD

Evaluations and Policy areas, and the CDF's Corporate Risk Assessment Unit and Inspector General areas. While the Senior Military Evaluator could retain a direct reporting line to CDF, in all other respects, military evaluators would be part of the Defence Evaluations Staff. As such, they would be expected to contribute relevant expertise not only to professional standards evaluations, but also to outputs and efficiency and effectiveness evaluations.

7.90 An evaluations function of the kind suggested here would be more likely than the current system to attract and retain qualified staff, particularly on the civilian side. Opportunities would exist for civilian and military analysts to have career development paths alternating between Defence Evaluations and the Defence Strategic Staff. This would be mutually beneficial in developing both evaluative and analytical skills and knowledge that would over time improve policy formulation as well as evaluation.

#### *Acquisitions Advice and Services for Specialist Military Equipment*

7.91 As with defence evaluations, similarly with acquisitions of military equipment, a prior question needs to be asked: is greater value for money to be obtained from continuing the present practice or is this more likely to be achieved through a separate external organisation? Apart from the provision of acquisition-related investment advice, the function is primarily a service and commercial activity. Theoretically, therefore, it does not need to be part of the defence organisation itself.

7.92 Yet, the practice among our strategic partners is to retain this function in-house. It is accepted that acquisition projects for military equipment are uniquely demanding and that success depends upon developing a cadre of acquisition professionals. In the United Kingdom for example, an appropriate degree of separation from other staffs is established to allow the acquisition organisation to function in a commercial manner, including retaining an essential level of responsiveness to the needs of its customers. The UK Defence Procurement Agency has an integrated board of directors, which includes three senior military officers.

7.93 In New Zealand's case, because our military forces are small, most equipment projects tend to be unique, so that it would be unlikely that a critical mass of expertise could be developed and sustained in an external organisation. For the time being, therefore, there is a need to retain within the Defence Organisation, an acquisition services capacity.

7.94 The role of an Acquisition Services Division within the Defence Organisation would be to provide project management services for major military purchases. This service should be focused on supplying in the most affordable manner, equipments that most closely meet the military performance needs specified by the Defence Strategic Staff and agreed by Government.

7.95 A second role of such a unit would be to provide “acquisition advice to support defence investment cases for major equipment”. Clear processes and structures are required to define the parameters and appropriate point in time for this advice. This has not always been the case in New Zealand, particularly on those occasions when the acquisition staff have felt they have “got on to a bargain”. If acquisition practitioners provide advice from a commercial perspective too early in the process of military capability definition and development, full consideration of military performance alternatives can be foreclosed. Information on acquisition opportunities should not be allowed to drive choices about what military capabilities are required. Defence policy objectives – not equipment “opportunity buys” – must drive capability requirements. If the capability has not been endorsed as a requirement, the possibility of getting a “cheap deal” on equipment is not only irrelevant but possibly dangerous, if it involves lower safety margins for the military personnel who have to use it. It is only when performance goals for military equipments to meet capability requirements are firmed up that acquisition practitioners should be brought in to advise on issues of acquisition feasibility, develop acquisition strategies and plans and playing a leading role in evaluating proposals and tenders. It is at that point that the commercial instinct for the best value-for-money is most valuable.

7.96 The Defence Organisation’s management and governance arrangements therefore should prescribe when acquisition advice is to be provided. One mechanism for managing this acquisition advice function is suggested below in proposals for governance committees for the Defence Organisation.

7.97 One other factor also needs to be borne in mind. In addition to major upgrades to existing equipment, or acquiring new equipment, the Defence Organisation must also repair and maintain equipment throughout its life. This includes the purchase of spare parts, updated test equipment, etc. There is a view that a defence acquisitions services unit should undertake such purchases. There is an equally strong argument that a Joint Logistics Organisation should perform this function, as it is an integral part of the logistics support cycle for maintaining and repairing equipment and supplying the logistics needs of the defence function.

7.98 In examining the pros and cons, international experience offers examples of both approaches. Key issues would appear to be customer responsiveness, and the alignment of accountabilities and responsibilities for service delivery. In my view if the decision were made to set up a JLO, it would be preferable to avoid the transaction costs of splitting off a key component of the logistics function and making the Acquisitions Services Division responsible for it. Spare parts purchasing is integral to the service partnerships that need to be built up by a Joint Logistics Organisation with its single Service customers. These daily relationships are different in nature from those used for “one-off” purchases. It is suggested therefore that the Acquisition Services Division continue to be focused on project

services for equipment costing over the current limit of \$NZ7m, while responsibility for spare parts and maintenance should be assumed by the proposed Joint Logistics Organisation.

## External Sources of Advice on Defence Matters

7.99 I have been asked to consider options for “enabling policy advice from a variety of sources to ensure high quality, professional, timely, fully-tested and informed defence and security policy advice to the Government” and also “options or structural arrangements and accountabilities that enable appropriate Parliamentary Select Committee participation in defence planning and capital acquisition advice and decision-making”. Implicit in the call for these options is the desire to provide contestability of ideas that is at present internalised within the Defence Act structure. In its 1999 Report, the Select Committee proposed the establishment of a Public Advisory Committee on Defence and Security similar to the Public Advisory Committee on Disarmament and Arms Control. As I have not had the opportunity to discuss this question with those who would know, I cannot comment on the success of PACDAC. Nor am I in a position to assess whether an external advisory group on defence issues would assist Parliament: that is for the Select Committee to decide.

7.100 So far as advice to the Executive is concerned I am not convinced that such an advisory body would add a great deal and could have the opposite effect of what might be intended – that is, it could be a source of discord rather than of consensus. The security of the nation is a principal function of Government. It calls for the clear exercise of authority often in difficult, and confused circumstances. While it is essential that Ministers should have the means of gauging public opinion, particularly when the arguments for and against a particular course of action are finely balanced, I am not sure a public advisory committee would be the best means of providing this insight.

7.101 My preference would be to take the other steps suggested in this review to improve the quality of information and advice to Ministers before establishing additional institutional frameworks. Once the priority objectives had been achieved and assessed, then further consideration could be given to whether other measures were desirable. For the present I would suggest the emphasis should be on improving the Government’s own defence machinery.

7.102 Some universities are developing their capacity to provide alternative points of view – and I have mentioned above the moves that are currently taking place at Victoria University of Wellington to establish a School of Government (of which the Centre for Strategic Studies would be an integral part). There are also other university-organised events such as the Otago University Foreign Policy or Massey University Defence and Security Studies conferences as well as public bodies like the New Zealand Institute of International Affairs, that provide platforms for debate on defence issues. The Government has given some support to these activities in the past and

it may be more cost-effective in terms of improving the quality of public discussion to consider providing additional funding to them rather than setting up a new body.

## Summary of Organisational Proposals

7.103 In summary, I recommend that consideration be given to the implementation of six areas of transformation:

- emphasis on clear processes and explicit outcomes to achieve the Government's defence objectives and in order to implement them, on the establishment of an integrated Defence Organisation working to a single vision and a common set of values. While these are of the greatest importance, structural change would be needed to enable them to be achieved;
- a national security governance structure to co-ordinate the formulation of Government policies and planning as well as the activities of all agencies concerned with the development of New Zealand's national security capability.
- new governance processes emphasising jointness and cooperation, centring on a Strategy Committee that brings together within a framework of Ministerial control, both senior military and civilian advisers and decision-makers. In support of this would be four subordinate committees (the Defence Policy Committee, the Defence Acquisition Management Board, the Defence Capabilities Committee, and the Chiefs of Staff Committee) responsible for managing co-ordinated inputs from across the organisation.
- increased Ministerial involvement through the chairmanship of the Strategy Committee (at least once a quarter), supplemented by the appointment to the Minister's Office of two advisers from the Defence Organisation – one military, one civilian.
- new concepts of shared, prime and sole accountability and responsibility for the Secretary and CDF based on equal partnership and participation in the strategic policy and management processes of an integrated Defence Organisation
- new management and governance roles and responsibilities for the Chiefs of Staff and their current HQ NZDF-based staffs;
- a new organisational structure – the New Zealand Defence Organisation – with an integrated strategic staff at its centre, supported by a Joint Logistics Organisation, and re-focused acquisition and evaluation functions, which would:
  - bring together both civilian and military contributions to improve advice formulation and management decision-making;
  - model standards of behaviour based on partnership, participation and professionalism;

- provide information access for the over-lapping and shared responsibilities and accountabilities of the Secretary and CDF;
- reduce negative effects of vertical boundaries by integrating fragmented staffs into integrated and joint work structures;
- develop an effective strategic joint culture and capability in the NZDF through the incorporation of single Service staffs into a joint-oriented Defence Strategic Staff, a joint Military Evaluations unit, and a Joint Logistics Organisation
- bring about, over time, a shift from an information-denial culture to an information-sharing/learning organisation culture; and
- achieve resource savings in removing the requirement for duplicated overhead support activities, personnel and facilities, particularly in information technology, financial management and administrative support systems.

## CHAPTER 8

### CHANGE MANAGEMENT

#### Requirement for Change

8.1 As I have noted in the preceding chapters, in order to achieve the objectives of this review, current defence structures and arrangements require major transformation. Such organisational transformation is neither simple, nor resource-neutral. It is inevitable that significant changes of this kind will encounter institutional resistance. This may seem at odds with my finding that across the Defence Organisations, and in a number of submissions, there is general recognition that such change is required.

8.2 It may also seem at odds with the new senior appointments made earlier this year, which were intended to herald a fresh start. However, as I have observed elsewhere in this review, it would be unwise to rely on individual appointees to overcome ineffective and costly structures, processes and governance systems. Leaders on their own can only be one part of an effective solution. Inevitably, new leaders will replace those currently in the Defence Organisation. A new combination of personalities may not be as congenial as the present one appears to be, and systems whose fundamental flaws have not been remedied, could again become the means for dysfunctionality and ineffectiveness.

8.3 It remains the case also that there is reluctance in some quarters to contemplate the scale of change needed to achieve the improvements in performance that will meet Government's expectations. I recognise the Defence Organisation has been working to improve its practices, processes and working arrangements and that a number of practical measures have been initiated. From my perspective, however, these are limited in both scope and effect, and do not address in a comprehensive and interconnected manner the four change areas - processes, responsibilities, governance systems, and organisational structures. In terms of meaningful progress, they are only signs of good intentions, not the real thing.

8.4 I suspect also there are those who would like to "pick and choose" from among the reforms proposed in the previous chapter. Only those parts of proposals that do not fundamentally affect the status quo, or the "status quo plus" that exists in the Defence Organisations today, are likely to be supported. Those that are uncomfortable, require critical changes of authority and responsibility, and commitment of resources to achieve, will encounter the usual bevy of reasons why they cannot be actioned. Proposals will be challenged because they will require the

allocation of staff resources that might have been committed to other important work. They could be rejected as likely to generate a high level of staff turbulence. While to be expected, such reasons for avoiding change are not sound. Short term considerations should not be permitted to stand in the way of actions – whether they be those I have suggested or others equally fundamental – which will cut to the heart of the current problems within our defence system.

8.5 The experience of similar change processes in the United Kingdom, Canada, Australia and the United States has shown that initiatives to create integrated joint defence organisations are routinely resisted by powerful actors – be they civilian or military – within those organisations. For example, in dealing with joint reforms, General David C. Jones, the US Chairman of the Joint Chiefs of Staff 1978-82 tellingly commented: *“When my first term as Chairman began, I had great hopes that internally we chiefs could reform the system....At the end of my first two years as Chairman, I became convinced that Admiral Mahan, the guru of naval strategy at the turn of the century was right when he said that no military service could reorganize itself. The pressure had to come from the outside. These words pertain even more to a joint organization. I hasten to add that I did not consider my colleagues to be negative or parochial. A chief is first the chief of his service. History has shown that a chief who does not fight tooth and nail for his own service may soon lose his effectiveness.”*<sup>1</sup> Given the entrenched nature of this opposition, it was accepted in the United States that the inability of the defence organisation to transform itself required legislative change – the Goldwater-Nichols Department of Defense Reorganization Act of 1986.

8.6 For my part, I do not suggest that new defence legislation is the only way forward. The change process can commence within the framework of the present Act. At a certain point, let us say 12 months after the reforms have been launched, Ministers could reassess the situation and decide whether amended legislation is needed either to reinforce the higher levels of jointness and co-operation achieved at that stage or to put in place new statutory frameworks should satisfactory progress not have been made. As I have noted at a number of points in this review, my own assessment is that new legislation will be required, whether now or at a later date, if the stated objective is to be attained.

## Management of Change

8.7 Once this report, and its accompanying material has been referred to the Government’s advisers for comment, I would see the development of a Cabinet paper or series of papers, to provide the basis for substantial change to the current system and structure. I suggest that a proactive management approach to make these changes should include the following elements:

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<sup>1</sup> David C. Jones, “Reform: The Beginnings” in Dennis J. Quinn, (Ed.), *The Goldwater-Nichols DOD Reorganisation Act – A Ten-Year Retrospective* (Washington DC, National Defense University Press, 1999), pp. 4-5.

- a Ministerial Oversight Committee chaired by the Minister of Defence;
- a high-level steering group of senior officials chaired by the Head of the Department of Prime Minister and Cabinet and including the CEs for Defence, Foreign Affairs and Trade, Treasury, and the Chief of the Defence Force;
- a dedicated task force headed by two senior defence executives – one from the Ministry of Defence and one from the NZDF – who should report to the high-level steering group; the task force should also include representatives from the Ministry of Foreign Affairs and Trade and the Department of the Prime Minister and Cabinet and Treasury;
- a fixed time period for completion of the initial components of reform of no less than six months and no longer than a year (assuming that at that point a further Cabinet decision would be made on the question of legislative revision);
- a review mechanism whereby the State Services Commission evaluated progress at six monthly intervals.<sup>2</sup>

### Initial Practical Steps

8.8 I am aware that some time could elapse between now and when a task force could start work on implementing major change. This time should not be wasted. Following the lead of the current Defence CEs who have already initiated some enhancements, the submissions made to this review identified a number of practical and comparatively straight forward actions that are consistent with the overall transformation concept outlined in the preceding chapter. Such measures do not represent the substantive body of reform that is required of New Zealand's defence system, but they could lead into and support the change process. It is suggested therefore that the current defence organisations could take early action on the following:

- formalise consultative relationships between all agencies involved in defence and national security matters;
- set up regular meetings between the Minister, the Secretary of Defence, the CDF, the Joint Forces Commander and the three Service Chiefs;
- introduce an annual Ministerial Directive to both the Secretary and the CDF setting out the Government's objectives for, and expectations of, defence strategic management;

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<sup>2</sup> I would note here that I do not think these evaluation arrangements should be as complex or time consuming as they were in the early 1990s. A simple process of establishing progress against the Government's prime objectives would be all that was necessary.

- eliminate distinctions between civilian and military advice so that both CDF and the Secretary may offer any advice to the Minister they consider professionally necessary;
- co-locate the current five senior military and civilian officials of the HQ NZDF and Ministry in adjoining offices;
- establish procedures for the Secretary to participate in senior military appointments and for the CDF in senior civilian appointments;
- assess the potential for allocating organisation-wide responsibilities to the Chiefs of Staff in addition to their redefined responsibilities as professional leaders of their Services;
- define the circumstances in which individual Chiefs of Staff might seek to consult with the Minister, and the procedures to be followed in requesting consultation;
- establish the committees and workgroups suggested in this review, to cover the main responsibilities of both the NZDF and MOD, on which there should be full military and civilian representation;
- develop, adopt and disseminate widely a shared organisation vision statement and strategy for the Defence Organisation that incorporates the responsibilities and goals of both the NZDF and the MoD;
- develop similarly a long-term joint vision of the future capabilities of the NZDF in a form that is readily understandable by military personnel and civilian staffs of the Defence Organisation;
- develop a top-level joint doctrine for the NZDF that defines a joint philosophy of how the NZDF's components will work together or with strategic partners on future operations, and a set of values, behaviours and working practices at all levels of the NZDF;
- complete the defence planning system project - with new terms of reference to co-ordinate system design, development and support with any implementation of the major organisational changes recommended in Chapter 7 of this review - within three months of the Government's decisions on this report;
- expand current moves to ensure greater harmonisation between defence policy and capability development decisions on the one hand and acquisition processes on the other, and closer customer/client involvement in those processes, in line with the over-arching concepts of a new Defence Planning System;
- implement immediately measures to improve communications and information flows between MoD and NZDF, including introducing or

expanding exchanges of staff between the two agencies, and between the two organisations and other agencies;

- review the entry-level skill requirements of civilian staff and their subsequent personal development programmes to ensure improved knowledge and understanding of the defence function and its policy framework, the conduct of military operations, and the systems and management processes of the NZDF;
- re-designate the RNZAF Command and Staff College as the Defence Command and Staff College, further develop a joint curriculum, and an increased and more balanced participation of potential senior military officers and senior civilian officials in the College.
- examine the potential for integrating existing single Service military educational institutions and schemes into a Joint Defence College;
- recognise service in Wellington-based and joint strategic staff-level appointments as career-enhancing and valued by all parts of the NZDF by introducing into military and civilian career management policies, a requirement for successful completion of such an appointment for promotion above the rank of Lieutenant-Colonel (and equivalents);
- develop a funded strategy for assuring Ministers of contestable advice from sources other than the NZDF and MoD on defence policy, value for money in defence expenditure and performance evaluation.