

**THE MINISTRY OF DEFENCE  
AND THE  
NEW ZEALAND DEFENCE FORCE  
REVIEW OF STRUCTURAL ARRANGEMENTS**

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## Part One – Introduction

1.1 The Terms of Reference for this review were simple. The review was required only to answer the question: *What is the best organisational structure for the Ministry of Defence and the New Zealand Defence Force?*

1.2 A simple question but not so simple to answer. Since the establishment, in the 1960s, of a defence department of state to replace the offices of the single services, the structures of New Zealand's defence establishment have been periodically reviewed, radically changed once, and often fine tuned.

1.3 From the appointment of the first Secretary for Defence in the 1960s, there have been periods of both effective cooperation and divisive acrimony between the Government's top civilian and military advisors. Personalities, and the issues of the day, seem to have been more important than the structures at any time.

1.4 The current structures have been criticised for exacerbating inherent tensions between military and civilian world-views, praised for their clarity of financial responsibility and accountability, and blamed for contributing to the occasional cost over-runs and controversial decisions on force capability and equipment which occur in most national defence establishments from time to time.

1.5 Given the generality of the Terms of Reference, and the urban mythology which seems to have grown up around the history and purpose of the structures set up under the Defence Act 1990, I have tried to trace the policy intent behind the Government's decisions on the 1988 Strategos Review. I have tried to identify where: lack of clarity in some of the policy advice and Government decisions at the time; issues that remained unresolved prior to the introduction of enabling legislation; discontinuity between policy intent and the drafting of the Defence Bill; and ad hoc working arrangements agreed from time to time between the Ministry of Defence and the Defence Force; have left a division of responsibilities, and an imbalance of influence, not intended in 1990.

1.6 Why go to this trouble? The answer is straightforward enough. There is no right structure for New Zealand's national defence establishment. It depends on what is important to the Government at any time. Is the priority: civilian control or influence over the armed forces; transparency of policy advice on long term military capability; the military effectiveness (including minimising losses of our forces) of deployments; the effective use of capital; or controlling annual expenditure?

1.7 The answer, of course, is all of these. But many involve trade-offs. Transparency of policy advice implies bringing different perspectives before the Government, and therefore ensuring that policy capability is not monopolised by either the military or civilian elements of the defence

establishment. Successful deployment with minimum casualties can never be guaranteed, but readiness to bring greatly superior capability to bear (at the right time, and in the right circumstances) has financial cost implications which democratic governments have often struggled to justify. And planning for, and managing, the operating cost consequences of major capital expenditure, is a core responsibility of any chief executive. The benefits of dividing this responsibility need to be carefully weighed against the risks.

1.8 It is these, and similar areas, where I have questioned, and in some cases recommended changes to, the respective responsibilities of Ministry and Defence Force.

1.9 To cut to the chase, I have not recommended a return to a diarchy, either in its pre-1990 form, or a modification of the same. In my view, the benefits of the current system outweigh the costs of major structural change. The perceived advantages of a diarchy: better alignment of policy advice; reduction in points of organisational tension; reduction in transaction costs; fewer “dropped balls” as responsibility passes from one organisation to another; are offset by costs and risks.

1.10 Organisational change is costly, financially and in loss of institutional memory. A diarchy, whether based on shared responsibilities, or on a split between military command and civilian resource management, has poor or unclear management accountability. As a former Secretary of Defence put it to me “Don’t go back to a system where the Secretary is accountable for the total defence vote, but has no effective control over the expenditure”. I agree. But there are two provisos:

1.11 If the Secretary of Defence is to fill the expanded role I have recommended, then that role should be properly resourced, and reinforced by the Government’s expectations and behaviours. A statutory responsibility to be the chief civilian policy adviser on defence matters is of nugatory import if the Government neither seeks nor expects advice from the Secretary.

1.12 The Chief of Defence Force has the financial authority of a public service Chief Executive for the \$2.8 billion Vote Defence Force, but is subject to a much lighter-handed performance review regime than a public service chief executive with a fraction of that financial responsibility. If the Chief is to assume greater financial responsibility, as I have proposed, this needs to be addressed as a *quid pro quo*.

1.13 As a final introductory comment, this report, and some of the concerns which lie behind it, should be seen in context. In the last decade New Zealand’s defence establishment has faced, and addressed, block obsolescence in much of its major equipment, for the most part purchasing effective replacements or upgrades at a good price by international standards. At the same time the Defence Force has successfully sustained a considerable operational tempo, neither anticipated nor fully planned for, albeit at some cost in long run capability.

1.14 And the relationship between the Secretary of Defence and the Chief of Defence Force has been professional, cooperative, and to the benefit of this country's national security. Nothing in this report should take away from these achievements.

## Part Two - Establishment History

### Introduction

2.1 The Resource Management Review of the Ministry of Defence, prepared by the Strategos Consulting Group, was presented to the Ministers of Defence and Finance in December 1988. The Review made wide-ranging proposals for the organisational restructuring of defence headquarters, the introduction of improved management systems and the achievement of cost-savings through rationalisation of assets and other efficiencies.

2.2 There was much else in the report about the basis of New Zealand's defence policy, which related to the 1987 Defence Review, which is outside the scope of this review.

2.3 The philosophy underpinning the report was consistent with the then current principles of state sector reform. These were characterised by:

- the need for transparency and contestability in the provision of advice to the Government;
- the separation of policy and operational responsibilities to give effect to that transparency and to ensure policy advice was unfettered by entrenched processes or commitment to past capital investments; and
- clear accountability and authority for the management of *all* the costs of activities based on full financial information and conventional management practices.

2.4 The Government accepted and acted on the main thrust of the Strategos Report. As summarised in the Cabinet papers at the time, the then Ministry of Defence, which was provided for in the Defence Act 1971, was to be abolished. Two new structures – a Ministry of Defence under the Secretary of Defence as chief executive, and a New Zealand Defence Force (NZDF) under command of a Chief of Defence Force, were to be established.

2.5 The Secretary was to be responsible for: policy advice to the Minister, (with military input it was noted); capital expenditure which entailed major changes to capability or involved major re-equipment; and audit of the NZDF in "carrying out its functions". The Chief was to be responsible for the command and administration of the armed forces, including civilian employees; and for the provision of military advice to the Minister.

2.6 The lines of responsibility went from each to the Minister of Defence. The Defence Council (whose members were the Minister of Defence, Chief of Defence Staff, Secretary of Defence, and the Chiefs of Staff of the Navy, Army and Air Force) was to be abolished. The argument was that the role of the Defence Council was inconsistent with the prevailing principles of the respective Ministerial and public service responsibilities for resource management. Cabinet consideration of other roles for the Defence council, or a similar body, did not result in any replacement. In some respects this is unfinished business which is raised again in Part Six of this report.

## **The Context**

2.7 The context of the 1988 Strategos Report is important. It is a product of its time. The circumstances in which it was prepared, and the problems which it was intended to resolve, may not be the priorities of 2009.

### *State Sector Reform*

2.8 A principal aim of State sector reform was to extract efficiencies from the state sector (consistent with the exposure of the private sector to competitive pressure), and to free up capital and current resources for reinvestment, or to improve a dire fiscal outlook. By and large this was successful, very successful in many cases.

2.9 But there were downsides. The separation of policy and operational responsibilities has, over time and in some instances, resulted in unhelpful divergence or disconnection. It is notable that subsequent structural changes in the areas of social policy, roading infrastructure, and health (to name a few), have either re-combined policy and operations or otherwise blurred the policy/operations distinction.

2.10 This is not to say a reversal of the defence structural decisions of 1989 is therefore warranted. The point rather is that there is no structural option, in any sector, which will be right for all time.

2.11 The separation of large departments into small agencies with narrow mandates drove "production efficiency" but made integrated advice and action trickier to achieve. This is compounded by the hard-wiring (via the State Sector and Public Finance Acts) of the system for annual output production. The system is not all that well configured to address matters which require integration across agency boundaries, multi-year action and long-term investment. These are most often the important issues.



### *The Presenting Problem*

2.12 What were the drivers for the Strategos Review? There are differing views, a reflection of the passage of 20 years and the patchy record of that time. There is a general consensus that:

- The Defence establishment was large and perceived as “ripe” for efficiency extraction in terms of the public management environment touched on above.
- This was part of the systematic review of all large government departments in terms of the public management paradigm of the 1980s.
- The measurement of what the Government was getting for its investment in Defence was (and is) difficult. The Government is often purchasing capability rather than an output. Obtaining assurance on the level of capability delivered for the dollars invested required a specialised, external function, rather than reliance on a form of self assessment.
- Defence policy was perceived as being, if not driven, then at least overly influenced, by professional military preferences for “platforms”, rather than vice versa.
- Furthermore, these preferences were themselves being influenced by an informal understanding between the heads of the three services of “whose turn” it was for capital investment.
- The purchasing of large capital items was not done well, in part because the whole of life costs were not being adequately identified and managed by the Ministry. (This was not a Ministry problem alone given the inadequacy of accounting for capital costs which was characteristic of the state sector up to the mid-1980s.)

### **The Argument for Structural Change**

2.13 From the record, there was little or no discussion on whether structural change was necessary. Realistically, some form of structural change was inevitable from the commissioning of the Strategos Report. Restructuring was a major tool of the decade for improving state sector performance; and there were compelling arguments that the presenting problems in Defence required a structural solution along the lines proposed by Strategos.

2.14 However, consensus among officials on the allocation of responsibilities between the Ministry of Defence and the NZDF was not achieved. The arguments at that time are relevant to a consideration of the present structure, and the problems which that structure is now generally held to exacerbate.

## Risks and Reservations

2.15 There were three matters of contention in the deliberations by officials leading up to Cabinet consideration of the structural options. And there was a further element of the structural change which has at times been an uncomfortable fit in the present structure. I have gone to some effort describing these as, in my view, the different options put before the Government, and the decisions on them taken by the Government at the time, sowed the seeds of the difficulties in the NZDF/MoD relationship which have emerged from time to time over the last two decades.

### **1. Financial Influence and Control**

2.16 The policy documents and cabinet papers at the time refer to the new Ministry as a "Policy/Funding Organisation"; and to the Secretary of Defence variously as the provider of "policy and funding advice" to the Minister, and as responsible for "overall funding management".

2.17 These terms were used in the policy debates about how much financial authority should be devolved to the Chief of Defence Force. Officials' advice to the Government was that establishing the Chief of Defence Force as an independent Chief Executive was problematic. In the language of the time, the "defence market" was unique and lacked contestability; the training of military personnel was for command for military purposes rather than for efficient management; and there could be a tension between ensuring efficient resource management in the civilian sense and achieving optimum military capability.

2.18 The reference to the Secretary's "vote management" role implied some authority over the allocation of funding for Vote Defence, although there is no indication in the record whether anything more than the provision of advice on the quantum and allocation of funding to achieve required military capability was expected of the Secretary.

2.19 The reference should also be seen in the context of the public management objectives of the time, one of which was, through making managers face the full resource cost of their "outputs" they would have the incentive to quit unproductive assets to reduce their costs and increase production efficiency.

2.20 It seems that a distinction was being made between the *overall cost and funding* of desired military capability, both capital and operating, and on the *efficient management* of Defence Force funding once approved. The Secretary was to be the principal adviser on the former, which of course needed to be based on decisions and assumptions on the Defence Force's optimal capital asset base. The latter was to be the responsibility of the Chief of Defence Force.

2.21 Whether these references were: reflective of a fundamental disagreement about who held, or should hold, the defence purse strings,

which was not explicitly nor adequately addressed in the haste to set up the new structures; reflective of the “shakedown” period of the introduction of the State Sector and Public Finance Acts, where the respective responsibilities and accountabilities of Ministers and Chief Executives were still being tested in practice; or a genuine belief among some involved in the policy process that the Secretary would be, in some form, a “budget holder”; is again not clear - from the record or from the recollections of those involved.

2.22 Nonetheless, the debate at the time, and the philosophy which underpinned it, are consistent with both:

- a presumption that the Secretary would, or was expected to, exercise some form of influence over defence funding: and
- the ambivalence of some officials at the time about recommending that full financial authority should be held by the Chief of Defence Force as the “chief executive” of the Defence Force.

2.23 The presumption in the first point above is consistent with other post 1998 public management initiatives. For example, the expectations of the former Ministry of Justice in exercising control, or even influence, over operational Departments such as Courts or Corrections, or of the erstwhile Ministry of Social Policy over the operations of Work and Income or CYPFs, could not be met. Formal control was incompatible with the provisions of the State Sector and Public Finance Acts. The exercise of informal control or influence foundered on the power asymmetry between the small policy ministries and the resource and information-rich operational departments. In some instances these were reinforced by divided ministerial responsibility for the organisations concerned. In both the cases cited here, subsequent structural change reversed, wholly or partly, the original policy/operations splits.

2.24 The Defence Council, in contemplating its own demise under the proposed structural changes, stated its view that “financial accountability remain with the (civilian) secretary consistent with the Westminster principle of civilian financial control”. As Don Hunn commented in his report<sup>1</sup>, this appeared to be a confusion of “civilian” with “ministerial”. But, on the assumption that this comment reflected the view of the then Minister of Defence as Chair, supported by the then Secretary of Defence, it is a further indication of that ambivalence about going the whole way in devolving financial control and accountability to the CDF.

2.25 But the provisions of the Public Finance Act and Defence Acts are unequivocal in assigning full financial responsibility and accountability to the Chief of Defence Force. Section 104 of the Defence Act confirms that the provisions of the Public Finance Act apply to the Defence Force as if the “Defence Force were a department within the meaning of (the Public

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<sup>1</sup> Hunn, D. K., Review of Accountabilities and Structural Arrangements between the Ministry of Defence and the New Zealand Defence Force. Paragraphs 2.8, 2.9

Finance) Act", and as if the "Chief of Defence Force were a chief executive within the meaning of that Act".

2.26 No special "modifying role" is accorded the Secretary of Defence.

## **2. Policy**

2.27 Both Strategos and the Government's advisers recognised two categories of "independent" (i.e. provided by other than the Defence Force) policy advice required by Ministers:

- the role of the NZ Defence Force in supporting the long term national security and foreign policy objectives of the Government of the day (which is what most people mean when they talk loosely of "defence policy"); and
- the capability options for giving effect to that role.

2.28 The convention at the time was that both needed to be separated from those with operational responsibilities, to ensure both transparency of advice and that a full range of options was considered, unfettered by commitment to prevailing platforms or doctrine, or by judgements made principally on military considerations.

2.29 This was very much the underlying philosophy of most state sector reform of the time.

2.30 Officials expressed concern that an independent policy function might struggle to maintain the resources and information base to be effective, while avoiding substantial duplication of both resources and activities with the Defence Force. The then CDS expressed concern that the structural change proposed might result in the provision, and acceptance, of militarily untenable advice.

2.31 Nonetheless the policy/operations split was approved on the basis that it would generate "parallel effort to provide genuine discipline"<sup>2</sup>, but with the provisos that: the Ministry would have access to information and expert resources; excessive duplication of effort would be avoided; and militarily untenable advice would not be proffered.

2.32 But, more importantly for this review of the current structural arrangements, and in the context of the section above on "Financial Influence and Control", the policy advice role of the Secretary was intended to be part of a continuum - as the Government's principal adviser on:

- (a) the role of the Defence Force in pursuing New Zealand's national security and foreign policy objectives;

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<sup>2</sup> POL(89)14, Paper D, paragraph 10

- (b) the preferred capability options for the Defence Force to achieve those objectives;
- (c) the cost and NZDF funding implications of the capability options;
- (d) the annual funding, capital and operating, of Vote Defence; and
- (e) the performance of the Defence Force in using the funding to produce deployable capability.

2.33 How this advice would be provided appears to have been left unresolved (or perhaps left to the Secretary of Defence and the Chief of Defence Force to resolve in practice).

2.34 There is another important aspect of the policy role of the Secretary of Defence. The "model" was intended to accommodate periodic defence reviews, supplemented by regular defence assessments, which would provide a continuous process for addressing categories (a) and (b) in paragraph 2.32 above.

2.35 That has not happened. As a result, the opportunities for the Secretary to exercise the policy leadership expected of the role have been constrained.

### ***3. Capital Acquisition/Procurement***

2.36 The 1989 decision of the Government to withhold from Defence Force control the purchase of large capital items should be seen in the context outlined above.

2.37 The decision was a matter of contention. It is clear that almost all the Government's advisers considered divided responsibility for the Defence Force's capital programme and operating expenditure was undesirable. It divided accountability for financial management, with the result that neither the Secretary nor the Chief of the Defence Force had "clear overall accountability for financial performance"<sup>3</sup>. It was also seen as creating a risk of duplication of effort – the functions needed for specification, contract management and bringing into service complicated and expensive pieces of kit, being either seamless or overlapping, could lead to duplicate structures in the Ministry and Defence Force.

2.38 However, the Prime Minister's Department took the view that retaining the "important capital equipment programme under non-military control" was a means of strengthening the "civilian oversight of defence activity"<sup>4</sup>.

2.39 Other officials held that this was adequately achieved by the "control of funding" described on pages 10 and 11.

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<sup>3</sup> POL(89)14 Paper D, Paragraph 14(a)

<sup>4</sup> Ibid, paragraph 21

2.40 In hindsight, the view of the officials from the Prime Minister's Department was probably right for the time, given the Secretary's lack of effective "control" over Vote Defence.

2.41 However, whether this was an ideal disposition of responsibilities, or a "patch" on a set of structural arrangements which were evolving differently from that anticipated at the early design phase, is arguable.

#### **4. Audit**

2.42 The Strategos Report proposed that there should be external audit, or assessment, by which the Minister of Defence could be assured of the adequacy of the performance of the Defence Force. Although endorsed by officials, there were two elements of this proposal which raised policy concerns:

- The Strategos recommendation, in the view of the Government's advisers at least, failed to distinguish between the audit of internal efficiency – how cost effectively the funding is being applied to produce the result (in this case deployable capability) sought by the Government, and the audit of whether the result itself, to an adequate standard, has been delivered for the funding provided. The former was deemed to be part of the management responsibility of the Chief of Defence Force. The latter was considered a legitimate subject for external assessment.
- The proposed reporting line of the audit function, which was directly to the Minister of Defence. This was seen as problematic for two reasons. It placed the Minister in what was termed an "inappropriate management role"<sup>5</sup>. The Minister was, in effect, monitoring Defence Force output performance directly, a responsibility which he should look to the Secretary of Defence to perform. It also took from the Secretary's direct control the means of assisting the Minister hold the Defence Force to account for producing deployable capability, an important role in the continuum of policy and advisory responsibilities listed in paragraph 2.32 above.

2.43 On the second point, the proposed reporting line was also seen as creating an unclear and confusing relationship between the Secretary and the Chief of Defence Force. For example, the Ministry's auditors could form a view of the Defence Force's performance, with which the Secretary might not fully agree, and on which he could exercise little or no *ex ante* influence.

2.44 In the event the audit function was established with a direct reporting line to the Minister of Defence; and with the authority to audit any "function, duty or project" of the Defence Force.

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<sup>5</sup> Ibid, paragraph 14 (b)

2.45 However, from the establishment of the new structure the then Chief of Defence Force expressed strong opposition to review, by what were perceived by the Defence Force as unqualified and inexperienced civilians, of military capability. Under a “refinement of structures” endorsed by the Government in 1991, a set of working arrangements between the Ministry and the Defence Force were defined and put into place. This “refinement” will be the subject of further comment in this report. For the Ministry’s audit and assessment function, the eventual result was that operational evaluations of the Defence Force were to be the responsibility of the Inspector General i.e. kept within the Defence Force. Financial (including efficiency and effectiveness) audits of the Defence Force would be carried out by the Ministry.

2.46 This was effectively a reversal of the ideal audit responsibilities of the Secretary and Chief as described in the first point under paragraph 2.42 above. These “refined” arrangements were criticised by the Inquiry into Defence Beyond 2000<sup>6</sup> which confirmed that *audit and assessment of all aspects of NZDF preparedness and performance must be conducted by agencies outside the NZDF command chain; and that primary responsibility for such audits and assessments should be returned to the Secretary of Defence as set out in the Defence Act.*

## Comment

2.47 The history is important. The policy work for the new arrangements was done at speed – a characteristic of much of the structural change at the time. That is no bad thing. It reduces uncertainty. Getting it 90% right in 6 months is more cost-effective than getting it 100% right in 2 years. But there are risks, and some of those risks seem to have been realised.

2.48 From the history, there are 7 important features to be carried forward for consideration into the next sections of this report.

- (a) There was an assumption throughout the design phase that the Secretary would be, in one way or another, the Government’s principal adviser on: the role of the Defence Force in pursuing New Zealand’s national security and foreign policy objectives; the capability options for the Defence Force to achieve those objectives; and the cost and funding of those options.
- (b) There was also the assumption that the Secretary would be the Minister’s principal adviser on the annual funding, capital and operating, of Vote Defence; and on the performance of the Defence Force in using the funding to produce deployable capability.

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<sup>6</sup> Foreign Affairs, Defence and Trade Committee, Inquiry Into Defence Beyond 2000, August 1999.

- (c) The Defence Act conferred no authority on the Secretary to assume those functions, nor to access the information required for him to do so.
- (d) The Defence Council was abolished. It was not a good fit with the managerial accountability regime established in the State Sector and Public Finance Acts. But it left a vacuum at the centre.
- (e) Capital acquisition was made the responsibility of the Secretary, at odds with the principles of resource management, creating divided, and therefore unclear, financial and management responsibility for an important element of military capability.
- (f) The initial policy assumption was that there were two audit and assessment roles. Audit of the efficiency of production was a management responsibility of the CDF. Assessment of whether the result had been achieved for the funding was to be a Ministry responsibility (the “back end” of the funding responsibility in point (b) above).
- (g) The audit and assessment responsibility was assigned to the Minister, notwithstanding the uncomfortable fit of this arrangement with the prevailing state sector management principles. It removed an important lever from the control of the Secretary.

2.49 It can be seen that the structure created difficulties from the outset. These have been made more difficult by subsequent decisions and events.



## Part Three - Refinement of Structures 1991

### Introduction

3.1 By 1991 problems with the new arrangements had already emerged; in the development of defence policy; in the procurement of major capital items; and in the assessment, by the Ministry, of Defence Force capability.

3.2 The production of the defence assessment was characterised by delay and dissension, and by a form of competition between the policy staffs of the Ministry and the Defence Force. The process of acquisition of capital equipment was criticised by the Auditor General as, *inter alia*, taking place in an environment of poor communication, confusion over roles, and dysfunctional relationships. The result, according the Auditor-General, was that acquisition projects slowed, costs increased and relationships were damaged. The assessment of Defence Force performance by the Ministry, a role which was always going to be difficult to achieve in a low trust environment was, according to Don Hunn<sup>7</sup> compromised at an early stage by the attempts of unqualified Ministry civilian auditors to evaluate professional military standards.

3.3 Were these problems the result of:

- Teething troubles as a radically different set of structures and responsibilities bedded in;
- Personalities at the top, and at the important "contact points" between the Ministry and Defence Force; or
- The inevitable result of the new structures themselves?

3.4 The probable answer is a mix of all three. But it is difficult, particularly at this distance and outside the policy issues which were exercising the main players at the time, to state with authority that structure was the principal determinant.

3.5 A set of structural "refinements" was worked out by the then Secretary and CDF, approved by the Minister of Defence, and noted by Cabinet. These refinements warrant some elaboration and comment, for three reasons.

- They are, obviously, a pointer to the problems of the time;
- Those that were put in place might, possibly, be part of today's problem. In other words, it may be that the inherent tensions within the 1989 structure and in the Defence Act 1990 have been

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<sup>7</sup> D.K. Hunn, *ibid*, paragraph 6.63

exacerbated by the protocols and working arrangements which have grown up around them in the last two decades.

- Some of the refinements, and in particular those which were not put into effect, resonate with concerns expressed today by Ministers.

## **The Structural Refinements - Introduction**

3.6 The refinements were intended to give effect to the provisions of the Defence Act 1990, and be compliant with the provisions of both the state Sector and Public Finance Acts.

They were, however, something of a paradox.

- The Cabinet paper<sup>8</sup> made it clear that they were to leave in place the principal functions and responsibilities of the Secretary and CDF. It was also made explicit in the Cabinet paper that the responsibilities of the Secretary and CDF were to be "singular" and not "diarchal".
- But the arrangements provided for the establishment of "joint steering groups", "working parties", "liaison and advisory boards"; the integration of civilian and military staffs in both "departments"; and the production of a "single, integrated corporate plan."

3.7 On one hand these arrangements can be regarded either as a proper and practical delegation, by the Secretary and the CDF, of their respective "singular authorities" in the interests of getting things done. On the other hand, the fact that the refinements went before Cabinet gave them an authority and status which diminished the clear, separate, accountabilities of the Secretary and CDF.

## **The Structural Refinements - Described**

3.8 The main features of the refinement are set out below, together with a brief comment on those which have significance in the context of the current structural review.

*1. Giving effect to the arrangements for consultation formalised in the Defence Act with the concept of an Office of the Chief Executives which would provide an environment for cooperation and collaboration from which the Chief of Defence Force and Secretary of Defence would discharge their singular and shared responsibilities.*

The Office of the Chief Executives was established.

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<sup>8</sup> CAB(91) M20/9 May 1991

*2. Instituting of a Defence Policy Liaison Board consisting of the Chief of Defence Force, the Secretary of Defence and the Secretary of External Relations and Trade (and also, when appropriate, the Head Prime Minister and Cabinet Department, the Secretary of the Treasury and other departmental chief executives) to extend liaison and coordination across other departments of state on which Defence policy impinges.*

This was not established. However, two comments are warranted. First, it is consistent with other sectoral responses to one of the downsides of New Zealand's public management reforms – the "weak centre". As I commented in paragraph 2.11 above, getting alignment and consistency across the departments and other agencies of state has been a constant challenge since the "decade of reform".

Second, there are elements of a National Security officials' structure, albeit without a corresponding ministerial structure, in this proposal. (see Part Six)

*3. Creation of a Procurement Advisory Board consisting of the Chief of Defence Force and the Secretary of Defence and three appropriate private sector appointees to provide Defence with wider access to commercial expertise in its procurement function and to foster defence industry association.*

This was not established. Two comments on this proposal also are warranted. First, problems with defence "procurement" or "acquisition" have featured, in one way or another, in reports and commentaries over the last 30 years. It was inevitable, given the split responsibility inherent in the new structure and accountabilities, that tensions would soon emerge.

Second, what is notable to the reviewer is the lack of precision in the definition of problems around the procurement or acquisition process itself. It may well be that a form of Procurement Board, with private sector membership, has a place in New Zealand's defence structure. The problems that this would address need to be better defined. (see paragraph 7.62).

*4. Establishment of a corporate financial advisor responsive to both the Chief of Defence Force and the Secretary of Defence to provide financial and treasury advice on the optimum management of the funding allocated to Defence.*

A Corporate Financial Adviser position was established in the Defence Force, although the function was not extended to include the Ministry.

*5. Provision, by the Chief of Defence Force, of financial accounting services to the Secretary of Defence.*

This was not implemented.

*6. Creation of a corporate information service to develop appropriate material to support wider public information programmes and corporate media issues.*

Implemented.

*7. Employment of mixed military and civilian staff throughout the two organisations, particularly in their Policy Divisions, and the use of joint steering and working groups as cooperative links between them.*

Implemented

*8. Extension of the function of the Secretary of Defence to cover all audits of the financial accounting and resource management activities of the New Zealand Defence Force.*

*9. Establishment, under the Chief of Defence Force, of an Inspector General responsible for the management of operational evaluations of the New Zealand Defence Force in conjunction with the Secretary of Defence.*

Protocols 8 and 9 should be considered together. From the establishment of the new structure the then Chief of Defence Force opposed external review of military capability by "unqualified" Ministry staff. The two protocols represent an agreement to make the respective responsibilities work in practice. Operational evaluations of the Defence Force were to be the responsibility of the Inspector General i.e. kept within the Defence Force. Financial (including efficiency and effectiveness) audits of the Defence Force would be carried out by the Ministry.

In October 1991, a new Secretary (and a new Government) agreed a "Memorandum of Arrangements" which put these protocols into practice. They were an uncomfortable fit with the Defence Act, for three reasons in particular.

Direction of the audit and assessment function, as set out in the Defence Act, lies very much with the Minister of Defence. The scope of audits and assessments is broadly defined in the Act, and they are to be carried out as required by the Minister, or under a programme approved by the Minister. By establishing joint Ministry/Defence Force structures to plan and agree the audit and assessment programme, the Minister effectively delegated, to the Secretary and CDF, his authority to determine the nature and scope of audits and assessments.

By establishing the CDF (through the Inspector-General) as responsible for evaluating the professional military performance of the NZDF, this important assurance role was moved a further step away from the Minister's direction under section 24 (2) (e) of the Defence Act.

Finally, the Memorandum of Arrangements specified the functions of the Ministry's Audit and Assessment Division as providing assurance that the NZDF is producing "outputs" to the specified quantity and cost – but not their effectiveness. Assessment of quality was limited to the financial and resource management practices to produce the outputs. This was not a constraint specified in the Defence Act.

Things have moved on since 1991, and these boundaries have blurred, in large part because of the confidence of the Defence Force in the professional competence of the Ministry's auditors. Nevertheless, whether the original "design" was right, and whether the current *modus operandi* fits the intent and letter of the Defence Act, are questions worth revisiting.

*10. Incorporation into a common corporate support organisation of those agencies required to provide administrative services to both departments.*

Not implemented.

## **Comment**

3.9 The 1991 "refinements", very briefly described above, are important when seen in light of the gaps between policy intent and result described in Part One. The fix introduced by these refinements did not go back to the policy intent. Rather, it moved some of the responsibilities of the Secretary and CDF even further from the arrangements contemplated by the Government's advisers in 1989.

3.10 Three matters in particular seem important.

- (a) The agreement on the respective audit and assessment responsibilities of the Secretary and CDF are almost a complete reversal of the policy assumption described in paragraph 2.48 (f) in the previous section. The Secretary's focus was now to be on the management efficiency of the NZDF, while the CDF provided assurance on military capability delivered for the financial appropriation.
- (b) The "delegation" or movement of responsibility for the audit programme from the Minister was not only inconsistent with the provisions of the Defence Act (whether or not those provisions were good management practice), but it did not move the responsibility to the Secretary. In effect, the audit programme became a joint responsibility, giving the CDF a strong say in the programme of audits.

- (c) The proposal to establish a Procurement Advisory Board is indicative of early criticism by the Defence Force, and concern by Ministers, of the Ministry's ability to maintain a high-performing defence acquisition capability. It has been a recurring feature of the background to this review, albeit not always well defined.

3.11 The Defence Force and Ministry worked under these arrangements for the next decade until a new Government commissioned a Ministerial Review, in effect asking the question whether New Zealand had got it right in 1990.

## **Part Four - Ministerial Review 2001/2002**

### **Introduction**

4.1 In September 2001 the Minister of Defence announced a review of the accountabilities and structural arrangements between the Ministry of Defence, the New Zealand Defence Force, and the three service arms.

4.2 The review, which was carried out by the former State Services Commissioner, Don Hunn, addressed: the effectiveness of the 1990 decision that created the Ministry and the NZDF; the balance of responsibilities and accountabilities between the Secretary of Defence and the Chief of Defence Force, and between the 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 the capital planning and acquisition process.

4.3 That review should be seen in context. Towards the end of the decade following the establishment of the new structures, the defence establishment was characterised by: inter-service competition for diminishing resources; difficult relationships between the CDF and some service chiefs, and between senior staff in the Ministry and the NZDF; factionalism within the army; and major capital equipment purchase decisions which were seen as driving doctrine and long term operational capability, rather than vice-versa. It was the era when the air combat wing was disbanded, tensions remained on how "blue" a "blue-water" navy New Zealand should have (and be able to pay for); and the re-equipping of the army as mobile infantry was seen as taking place outside the context of a full strategic assessment.

4.4 The major question for the current review is whether that context was created or made more problematic by flaws, and inherent tensions, within the 1990 structures. It is, of course, impossible to say with any certainty. There is no counter-factual.

4.5 However, it is at least an arguable proposition that, had the arrangements in 1990 been fully implemented, especially periodic defence reviews, supplemented by regular defence assessments, the acquisition debate may have taken place in a structure within which the government could exercise some control.

### **Findings**

#### **Introduction**

4.6 The nub of Don Hunn's findings are encapsulated in the following extract from his report.

*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 capture by the military. This compromise of logics has led to 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.<sup>9</sup>*

4.7 This is strong stuff, and reflects the dysfunction and acrimony within parts of the defence establishment at the time. His argument is that the Ministry and the Defence Force exist to achieve a single end result – deployable military capability, aligned to the country's foreign policy and national security interests, cost effectively delivered. Setting up two organisations to achieve one objective was, basically, wrong-headed.

4.8 Furthermore, he argues that the nature of the structures set up in 1989/1990 made achievement of the single outcome even more difficult. It created information asymmetries, left the Secretary with no statutory clout to access information, and through the audit and assessment responsibility, created a hostile rather than a cooperative environment.

4.9 I have not seen the same problems, or at least all of them, a consequence of the resolution of many of the environmental factors listed in paragraph 4.3. Within the Defence Force itself, the drive for "jointness" has moderated (if not removed) inter-service competition. The tempo of operations overseas has rightly generated professional pride, and left little time for internal political campaigns. The commitment of the Secretary and CDF to make things work, and lead by example, should be acknowledged.

4.10 But there are echoes of the old problems, centred most obviously on major capital procurement. And there is always the chance that different people at the top of both organisations could undo recent progress.

4.11 In the following section I will set out, and provide some brief comment on, some of the main findings and recommendations of Don Hunn's report. If I depart from some of his conclusions, below or later in this report, it is not a criticism. In the last eight years the environment, and the presenting problems, have changed. The solutions, or at least their priority, are likely to be different. More importantly perhaps, there is simply no right answer, or at least an answer that will be right for all time. A different recommendation now may not be at odds with a solution recommended eight years ago.

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<sup>9</sup> D.K. Hunn, *ibid*, paragraph 6.35



4.12 This is not a comprehensive re-statement of Don Hunn's report. That stands alone. Rather, I have picked up some of the themes in the report which are relevant to my current brief, and which will lead in to the discussion and recommendations on the structural options in Part Seven.

### **A. Contestability of Policy Advice**

4.13 There is much criticism in the 2002 Ministerial Review of the concept of contestability of policy advice as an objective of the defence structure. The argument is that, if their advice is to be contestable, then the Secretary and CDF should be responsible for providing advice on the same matters. The Defence Act, however, specifies different responsibilities for each. Therefore the goal of contestability cannot be achieved.

4.14 From my reading of many of the archived documents on the establishment of the new structures, "contestability" of policy advice was not a feature of the design intent. Although this was part of the terminology of state sector reform, and although the presumption that this had been a policy objective may have developed in the following decade, it is clear that the original policy intent was to ensure that Ministers received *independent* advice. The advice was to be independent, for example, of military preferences for particular platforms (existing or prospective), and of military views on their role on their in New Zealand's foreign and national security policy frameworks.

4.15 The Secretary was to be the principal adviser on national defence policy, informed by the professional judgement and advice of the CDF on military capability and related matters.

4.16 A further aim, implied rather than explicit, was to achieve *transparency* in the provision of policy advice. In other words, if there were differences of view, driven for example by the differences between a foreign policy and a military perspective of an issue, these should be exposed for Ministers' consideration and decision, and not resolved through compromise among officials.

4.17 Although I do not agree that the problem is one of contestability being set up in an inappropriate situation, I nevertheless consider there is a problem with the original design of the policy relationship between the CDF and Secretary. This is described in the next section of the report.

### **B. Resource Management**

4.18 The most unusual feature of the Defence Act, certainly for overseas commentators, is the authority given the CDF for resource management. In most "western" jurisdictions this is the responsibility of a civilian Secretary. The New Zealand model aligns responsibility for both delivery of results and control of the resources to achieve the results.

4.19 Don Hunn supported retention of this responsibility by the CDF. I agree, with two provisos.

1. Control of major resources is usually accompanied by some form of review of performance to provide assurance to the Government on the effectiveness of resource use. For public service Chief Executives this lies principally with the State Service Commissioner. There is a gap which needs to be addressed.
2. The split responsibility for the purchase of large capital items was, at the outset, considered by most advisers to be contrary to good financial management practice. It is, and should be addressed.

4.20 Both matters are covered in more detail in Part Seven.

### **C. Evaluations of Defence Performance**

4.21 The Hunn Report concluded that 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 distrust<sup>10</sup>. My view is that a climate of distrust was already in existence. Assigning this role to the Secretary, without powers of access to information other than the general statement in section 24 (3) of the Defence Act, made a bad climate worse and set up the Secretary for failure in the face of determined resistance by a CDF.

4.22 A further abrasion point was identified by Don Hunn. While the Defence Force's performance (and by implication the CDF's performance) was assessed by the Ministry, the Ministry's performance in delivering the policy within which the Defence Force operated, and the major equipment it used, was not subject to reciprocal review by the Defence Force. In fact, the Ministry was responsible for auditing its own procurement performance.

4.23 Don Hunn usefully distinguished 3 types of evaluation which were needed to support delivery of deployable capability within a policy framework:

1. *Output evaluations* – has the Defence Force produced the force elements for which it was funded?
2. *Policy evaluations* – have the outputs, including the major equipment purchases to support them, generated the changes in capability and defence policy foreshadowed in the business cases presented to the Government.
3. *Professional standards assessments* - covering tactical evaluations, unit performance standards, effectiveness of training programmes etc.

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<sup>10</sup> D.K. Hunn, *ibid*, paragraph 6.63

4.24 In his view the first and third needed to be done more comprehensively. The second had not been done at all and was, if anything, part of ex post policy implementation review. (The latter, in my view, has never been a strong feature of New Zealand's state sector environment.)

#### **D. Acquisition of Capital Equipment**

4.25 Don Hunn<sup>11</sup> confirmed that throughout the definition, development and acquisition of military capability requirements, there is a constant need for information that must come from both the NZDF and Ministry staff. 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 the Government. In his view, both "qualified acquisition practitioners" and military personnel with relevant technical and operational experience, are needed to generate this policy advice.

4.26 He goes on to state that, once the business case has been prepared, sent to the Government, and decisions made to acquire equipment, there is a need for "qualified" project teams to manage acquisition projects. Under the current arrangements, as he pointed out, the Secretary is responsible both for policy advice on acquisitions as well as for the "provision of acquisition services to the NZDF".

4.27 Again he usefully distinguishes two core responsibilities:

1. The Secretary to be assured (and to assure the Government) that the capabilities being defined and developed are those most relevant to defence policy objectives.
2. The CDF to be assured (and to assure the Government) that these capabilities will provide him and his successors with the capacity to deliver operational results effectively and safely.

4.28 This distinction omits two other important responsibilities or interests which can be a source of tension.

1. The Government should expect the Secretary to ensure that the capital acquisition is the lowest cost option (on a full, whole of life cost), to deliver the capability the Government requires.
2. The CDF should, properly, be seeking equipment which will maximise the military advantage to his forces, and their safety in the face of danger.

4.29 That tension, and the behaviours which it may promote, need to be recognised in any acquisition solution.

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<sup>11</sup> D.K. Hunn, *ibid*, paragraph 6.50

4.30 Finally, the report is silent on one important aspect of capital acquisition viz. the problems inherent in splitting responsibility for capital acquisition from all other aspects of resource management. This was a reservation expressed by Treasury in particular at the design phase of the current structures. It remains a consideration to which I will return in Part Seven.

## E. Structure

4.31 The solution proposed in the Ministerial Review was a radical structural revamp. Its aim was to address the tensions inherent in the structural and statutory arrangements, at the same time holding on to what worked well. At the risk of over-simplifying an integrated and complex proposal, it comprised the following core elements:

- The re-establishment of one “Defence Organisation”
- The Secretary and the CDF each to have a mix of accountabilities
  - Sole* - for which one or other alone had responsibility and accountability.
  - Prime* - for which one or other had a lead responsibility, supported by the other.
  - Shared* – for which both were equally responsible and accountable.
- The retention by the CDF of sole financial accountability for, as well as command of, the Defence Force.
- The establishment of a central, combined “Defence Strategic Staff”, with the Policy, Strategy, Force Development, Logistics, HR and Finance of both organisations combined under the shared authority of the CDF and Secretary.
- A Defence Evaluation unit (combining all the assessment responsibilities specified in paragraph 4.23 above) supporting the Defence Strategic Staff, informing strategy, policy and capability development.
- A Defence Acquisition Unit, with a governance board chaired by the Secretary, and including the CDF and private sector representatives, supporting the defence Strategic Staff through the whole process of capital acquisition – from capability definition through to purchase.

4.32 There were many other elements in the recommendations, including detailed proposals for joint committees, transition processes etc. But the core of the proposals, relevant to the current exercise, are summarised above.

4.33 Although not spelled out in his report, it seems that the Secretary would retain responsibility for the evaluation and acquisition units, but both would be re-focussed to provide a service for the Defence Organisation as a whole. That is an important distinction from the current models which are predicated on (even if operating more collegially in practice) an arm's length, *ex post* audit role, and an acquisition process separated from those who will eventually use and manage the equipment.

## **Comment**

4.34 The proposals, although detailed, were nevertheless incomplete. They were intended to be a "working draft" of proposals for change on which, if accepted, more policy work would be required. In particular, much more work would have been needed to reconcile the shared accountabilities, on which the structural model depended, with the singular accountabilities on which the State Sector and Public Finance Acts are predicated.

4.35 In the event, the fundamental structural proposals were not accepted by the Government, although other recommendations have been put in place, in one way or another, for several reasons.

4.36 The timing of the Ministerial Review coincided with the State Services Commissioner's review, at the request of the Minister of Defence, into some aspects of behaviour in parts of the Defence Force. In 2002 a new CDF was appointed with a mandate to drive "jointness" through the senior ranks of the Defence Force. These resulted, over time, in a reduction of "tribal" and competitive behaviour within and between the armed forces, and accelerated the development of Defence Force (as opposed to single service), views on strategy, policy, capability development and logistics.

4.37 That, in turn, has made easier the efforts of the Secretary and CDF to establish a form of "jointness" across the civilian and military sides of the structural divide. But the questions remain whether this is a fix which depends on personalities at the time; and whether the working arrangements comply with the policy intent of the Defence Act.

4.38 There are four matters raised by Don Hunn which still need to be addressed.

## **Acquisition**

4.39 The recommendation to establish an Acquisition Board, with private sector membership is similar to the unfulfilled agreement as part of the 1992 refinement (Paragraph 3.8(3)) It is consistent with the preferences of the Minister, and is part of the suite of recommendations in the separate review of the procurement function.

4.40 The "seamlessness" of whole of life management of capital items is an uncomfortable fit with the current separation of responsibility between

the Secretary and the CDF for major capital purchases and resource management respectively.

## **Evaluation**

4.41 The split responsibilities for the three types of evaluation outlined in paragraph 4.23 makes critical mass of skilled staff difficult to achieve; the linkage of ex post evaluation to policy intent is fragile; and the Defence Force and the Ministry are responsible for the assessment of their own performances in respect of professional military standards and the effectiveness of procurement respectively.

4.42 Furthermore, the responsibility of the CDF for management of the Defence Force budget should be matched by some mechanism for assuring the Government on the effectiveness of that expenditure.

## **Power Asymmetry and Trust**

4.43 The Defence Act both exacerbates any low trust relationship between the Secretary and CDF, and does not provide the Secretary with the ability to access information should the working relationship between Secretary and CDF become difficult.

## **Defence Policy**

4.44 Don Hunn describes the objective of a defence structure as melding the civilian and military contributions into a single stream of advice, and not keeping them in separate boxes. His contention is that the structure makes integrated policy development unnecessarily difficult to achieve.

4.45 Each of these is addressed in Part Seven of the report, in the context of the original policy intent (Part One), the 1992 Refinement (Part Two) and the current situation.

4.46 Before doing so, two other matters can be addressed in isolation from these larger questions of structure:

- The role of the three Chiefs of Services.
- Defence in the context of National Security Governance.

## Part Five – The Chiefs of Service

### Introduction

5.1 The New Zealand armed forces have 5 “two star” positions below the “three star” CDF: the Vice Chief Of the Defence Force (VCDF); the Chiefs of Navy, Army and Air Force (CN, CA, and CAF); and the Joint Force Commander<sup>12</sup>. Of the five positions, the three Chiefs of Service are “warranted” in the same way as the CDF. The appointments are made by the Governor-General in Council in terms of section 28 of the Defence Act, in effect on the recommendation of the Government. Appointments to the two other positions are made under section 32, by the CDF under delegated authority from the Governor-General as Commander-in-Chief.

5.2 Two further statutory provisions are relevant:

- The Chief of Defence Force commands each of the Navy, Army and Air Force *through* the respective Chiefs of Service (section 8(3)); and
- Each of the Chiefs of Service may, after notifying the CDF, make representations on any matter related to their professional responsibilities directly to the Minister of Defence (section 28 (6)).

### Ministerial Review

5.3 Although, arguably, the statutory basis of appointment of the Chiefs of Navy, Army and Air Force are not part of the “best organisational structure for the Ministry of Defence and Defence Force”, this was a matter raised during the course of my review, and was addressed by Don Hunn in the 2002 Ministerial Review.

5.4 The issues are presented succinctly in that report and reproduced below.

*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.....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 ability*

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<sup>12</sup> The “star” terminology is a common way to denote senior military ranks to achieve an understanding of equivalence where different countries use different titles. For New Zealand a three star rank is Vice Admiral, Lieutenant General and Air Marshall. Two star ranks are Rear Admiral, Major General and Air Vice Marshall.

*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 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 effectively.<sup>13</sup>*

## **The Pros and Cons**

5.5 The arguments for placing the terms of appointment of the Chiefs of Service on the same basis as all other officers of New Zealand's armed forces, and repealing the provisions of sections 8 (3) and 28 (6) can be summarised under four headings:

1. The current arrangements weaken the command authority of the CDF.
2. The direct route to the Minister by a Chief of Service can allow a strong and persuasive Chief to promote a single service position at the expense of the effectiveness of the Defence Force as a whole.
3. This ((2) above) intensifies existing incentives for single service views of capital expenditure priorities.
4. More generally, the current arrangements are inconsistent with "jointness", in deployments and in the range of planning, development, training and logistics activities required to deliver deployable capability.

5.6 There have been examples of each of the first three in the 19 years since April 1990. However, there are counter arguments:

1. Command Authority comes from the respect in which the CDF is held, and the "command presence" of the person, as much as from the statutory basis of subordinate appointments.

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<sup>13</sup> D.K. Hunn, *ibid*, paragraph 2.13



2. A CDF will, by definition, be expert in one service only. It is an important safeguard that the heads of the other services are able to put before the Minister their professional concerns on any matter relating to their service.
3. Capital purchases are important, and can generate inter (and intra) service dissension. But changing the statutory basis of appointment of the Chiefs of Service is a blunt instrument to address such a problem.
4. Jointness continues to develop, notwithstanding the "employment status" of the Chiefs of Service.

5.7 The answer depends on what the Government, and Parliament, hold important at any time. My own view tends to that of Professor Palmer's, quoted in paragraph 5.4 above, albeit from a slightly different perspective, and based on personal experience.

5.8 Where the holder of a statutory office exercises significant independence, and/or coercive powers, it is usual for a deputy position, with separate statutory authority, to be established. The rationale is that the person in the deputy role is not dependant on the principal office holder for continuing employment or income, and can act as a check on their principal should that ever be necessary. It has been necessary, twice, in recent history. The independence of both the Deputy Auditor General, and Deputy Commissioner of Police, was vindicated in difficult circumstances during the 1990s.

5.9 My view is that this is an important safeguard. Its importance should be placed alongside any perceived efficiency benefits of a "cleaner" and more conventional military or managerial hierarchy.

## **Options**

5.10 Any decision effectively comes down to three matters:

1. The CDF's constraint of "commanding through" the Chiefs of Service.
2. The employment status of the Chiefs of Service.
3. The right of direct access to the Minister by the Chiefs of Service.

5.11 On balance, my preference is to leave the current system in place.

5.12 An option would be to place the appointment, and authority, of the Chiefs of Service on the same basis as for other senior officers, and make the Vice Chief of Defence Force a "warranted" position. While providing a dilution of concentrated power, this would not provide for the independent, service-specific, professional advice to the Minister.

5.13 Retaining right of access to the Minister by the Chiefs of Service, but placing their employment in the hands of the CDF, seems illogical, as it provides the CDF with a coercive power to prevent exercise of that right. It is for the Government to judge the importance of that access.

## Part Six – Ministers and Defence Governance

6.1 If the previous section on the appointment and statutory authority of the Chiefs of Service was at the margin of my Terms of Reference, this matter is firmly outside them. The reason for raising it is twofold:

1. It was a major feature of the 2002 Ministerial Review and, in the decision to make an administrative rather than a statutory response to that review, may not have been given full consideration.
2. Defence policy is part of national security policy. National security policy for most western countries has become more sharply focussed, and more globalised, in the last decade. The links between domestic and external security are more obvious. Defence policy needs to be well integrated into a view of New Zealand's national security interests and priorities.

6.2 Ministers require advice on our defence capabilities which fits into a national security as well as a foreign policy framework. The defence establishment requires clear political direction for developing long term capability options. Don Hunn made extensive recommendations on the Ministerial machinery which he considered would put national security and defence policy and decision making on a footing comparable with that for economic and social policy.

6.3 The Defence Review provides a new context for the recommendations to be revisited.

## Part Seven – Structural Options 2009

### Introduction

7.1 The preceding sections of the report have recounted the policy intent of the structural arrangements put in place in 1990, and modified in practice in the intervening two decades. They have summarised some of the problems to which, according to the 2002 Ministerial Review, the 1990 structure has contributed.

7.2 There are four conclusions which I draw from this narrative:

1. There is no “right”, structural answer. No structure will meet all requirements and be fit for all circumstances. The best structure will be one which reinforces achievement of the things which are important at the time, and in a cost-effective manner.
2. Relationships are important, very important. Competent people of goodwill, and with good relationship management skills, can get things done, irrespective of the shortcomings of the structures within which they operate. That is the situation now within New Zealand’s Defence establishment.
3. But structure is also important, and in this context structure includes the legislative framework which confers responsibilities and powers on the principals involved. Structure can make process unnecessarily complicated, exacerbate poor relationships, create burdens for the principals when authority and accountabilities are not aligned, and can place obstacles in the path of those wanting to get things done.
4. Finally, be careful about hasty structural fixes. The speed of the processes in 1989/90 undoubtedly contributed to the problems with the current structure, including the way in which the policy decisions were (or were not) incorporated into legislation. Furthermore, the decision to scrap the form of diarchy which had been in place since the mid-1960s was taken with good reason. The problems of the 1970s and 1980s should be well understood prior to any decision to revert to the old models.

7.3 In this part of the Review I will set out:

1. What I consider important in terms of the respective responsibilities of the Secretary and CDF - what should be retained, and what should be changed, and other principles underpinning accountabilities in the Defence establishment; and
2. The structural and/or legislative implications of these statements.

7.4 Consistent with the caution in paragraph 7.2(4) above, there should be plenty of discussion on the former before any decisions are taken on the latter.

## **Structural Design Principles**

### **CDF Financial Responsibility and Accountability**

#### **1. Retain the singular authority and accountability of the CDF for the management of the resources of the NZDF.**

7.5 There are two good reasons why the CDF should retain the financial management and control, as well as command, of the New Zealand Defence Force. By and large it has worked; and the reality is that a civilian Secretary of Defence would have (as was the case in the past) only nominal control over much defence expenditure. Assigning this responsibility to the CDF places decision-making on expenditure priorities with the person who will bear the capability and operational consequences of those decisions.

7.6 There are three provisos. First, the split responsibility for the capital and operating cost of major capital equipment was, and remains, an anomaly. The Secretary is responsible for the purchase of equipment within a *capital* expenditure constraint. The consequences of decisions made during the purchase phase, driven by the capital cost constraint, may well have consequences for *whole-of-life costs* (as well as maintenance processes; timing of introduction; safety and health; inventory management; etc) which the CDF will bear. The Secretary and CDF have managed this tension through internal processes, joint committees and similar. But these have high transaction costs, and are a “fix” for a design anomaly.

7.7 The procurement process, as one part of capability enhancement, is a complex, sequential process, from the development of policy on the Defence Force’s future role through to the delivery of a major capital item. The issue is where the respective responsibilities of Secretary and CDF should lie at different points in the process, as well as the involvement of outside expertise through a more sophisticated governance process for defence acquisition. This is touched on in paragraph 7.41, but is the subject of a separate workstream.

7.8 The second proviso relates to the term of the CDF, as well as the senior military officers of the Defence Force. Although the present chief will serve at least 4 years, and his predecessor served 5 years, for a number who have served as CDF or CGS, three years has been an expected term. Even if supported by senior civilian staff, the posting cycle of senior military officers, whose primary role is the conduct of military operations, could be an uncomfortable fit with, for example, the long term rationalisation of the Defence Force asset base. There may be no answer, but it needs to be factored in to any design.

7.9 The third proviso is the condition under which the CDF retains, or might expand, his responsibility for resource management. As indicated previously in the report, control of major resources within the public service is usually accompanied by some form of performance review to provide assurance to the Government on the effectiveness of resource use. For Public Service Chief Executives that responsibility lies with the State Services Commissioner as their employer. But for “office holders” (such as the Commissioner of Police, the Auditor-General or the State Service Commissioner himself) as opposed to “employees”, there is no routine performance review.

7.10 The State Sector Act (section 11) provides for the State Services Commissioner, at the request of the Prime Minister or Responsible Minister, to review the performance of the Commissioner of Police as for any public service chief executive. The Policing Act 2008 limits the application of that provision to management matters, as opposed to those areas where the Commissioner exercises constabular independence. The new provision in the Policing Act is more of a clarification, or reinforcement, of the powers of the State Services Commissioner which already existed. It made clear the condition on which the Commissioner of Police exercised his resource management authority. A similar provision should be included in the Defence Act in relation to the resource management responsibilities of the CDF.

7.11 Review of the management performance of the CDF should *not* be made a responsibility of the Secretary of Defence. There is scope for widening the Secretary's assessment responsibilities (see below), but reviewing the performance of the CDF is simply inconsistent with the effective operation of their respective but cooperative responsibilities to deliver effective military capability for deployment by the Government of the day.

## **Secretary of Defence Policy Leadership**

**2. Retain and reinforce the role of the Secretary of Defence as the Government's principal advisor on National Defence Policy.**

**3. Make explicit the role of the Secretary of Defence as the Government's advisor on Defence force funding.**

7.12 These are more than restatements of the current role. Given the principle that there should be political control of the armed forces, the political arm requires sound civilian, as well as professional military, advice. The Government should look first to the Secretary of Defence for the answers to four questions:

1. What is the national security context for New Zealand in the next decade or more, and what should be the role of the armed forces in furthering New Zealand's interests in that context?

2. Having formed a view on the context and the role for the armed forces, what are the force capability options needed to discharge that role?
3. How should those force capabilities be funded, when and to what level?
4. Has the funding delivered the force capabilities required and did these meet the national security and other objectives for which they were approved by the Government?

7.13 Of the four questions posed above, three are forward looking; one is *ex post*.

7.14 The **first** is strategic, in the proper sense of the term. It is the stuff of Defence Reviews, undertaken each decade or so.

7.15 The **second** is more akin to a defence assessment, provided for in the Defence Act, anticipated in the design phase of the current structure, but rarely carried out. Assuming the strategic context and policy objectives remain broadly the same, a defence assessment might address: the progress in developing force capability to meet those objectives; whether those capabilities are still the right ones; whether technology or other developments might justify a reassessment of equipment plans; the lessons from recent deployments; etc.

7.16 The **third** question relates directly to a fundamental role of the Secretary, debated in 1989 and described on pages 10-12 – the influence of the Secretary in the annual decisions on the Defence Force budget. It was assumed, based on my reading of the policy documents at the time, that the Secretary would be either the “funder” of the Defence Force or, if not, at least the Government’s principal adviser on the overall cost and funding of required military capability.

7.17 The **fourth** question is one of policy review – have the decisions on force structure, equipment and funding, derived from the policy and funding decisions for the Defence Force, delivered the anticipated capability. This differs from an audit in that the findings are not assessed against a standard of, for example, efficiency or compliance, which can reflect upon management performance. The findings are about achievement of policy goals. Management performance may turn out to be a problem. But it is also possible that the original decisions, (and the advice on which they were based), were the root cause of a capability gap. That may be politically difficult, but it is better to know, and take action, than not. It is this role which is addressed as part of Audit and Assessment in paragraph 7.45.

7.18 To a greater or lesser extent, all of these require professional military input and perspective. But the lead role in initiating and leading, for the Government, the processes to address these questions, weighing and integrating the views of those with foreign policy, national security

and other relevant interests, should belong to the Secretary of Defence. The Secretary must be accountable, in leading these processes, for ensuring that any advice is militarily sound, and properly reflects the views of the professionals.

7.19 There will be tensions. It is inevitable that a professional military cadre, wanting the best of equipment and the freedom to apply their expertise as their skills and training have prepared them, will chafe at the conflicting values which need to be reconciled by political process, and under the realities of resource constraint. One has only to look at the health sector for parallel examples.

7.20 In some respects Secretaries of Defence have not been well served by Governments in terms reinforcing the authority of their role. By not seeking regular defence assessments, or by making decisions on major equipment purchases or capability on the advice of narrow views from within the armed forces, the role of the Secretary has been diminished. Governments have every right to take decisions in this way. However, the state sector responds to such signals. The results may be perverse in the long run.

## **Capital Acquisition**

**4. Redefine the respective roles of the Secretary and CDF in major capital acquisitions.**

**5. Align decision authority with accountability for the consequences of the decisions.**

**6. Access private sector acquisition and project management skills and experience for major defence acquisitions.**

7.21 The acquisition of major military equipment, and how this might be improved, is the subject of a separate workstream. The authors, who have expertise in that area, will propose a detailed solution to the problems they see in New Zealand's defence acquisition process. My more general views have been formed from an organisation design and job accountability perspective, together with some experience in state sector machinery of Government. These views may be a helpful adjunct to the Aurecon report.

7.22 In almost all my discussions with senior officers and staff of the two defence organisations, capital procurement featured as a problem or an issue. Some of the problems were to do with personalities; some with split accountabilities; some with the inevitable pressure of financial constraint; some with the perceived (lack of) expertise of their counterparts in each of the two defence organisations; and some with the usual New Zealand struggle to do a big job from a thin skill base.

7.23 A second feature of these discussions was the way in which problems were often seen narrowly, at particular steps of the acquisition



process. For example, some saw the nub of the problem with the poor quality of the business case put up by the Defence Force early in the process, to justify the acquisition of a particular type and quantum of equipment; others saw a problem with the way the end-users of the equipment were held at arms-length by the Ministry for too long prior to equipment delivery.

7.24 It may be useful, first, to describe some important context to defence acquisition in the last decade and, second, to set out the steps of the acquisition process to identify where different accountabilities might help address presenting problems.

*(a) Acquisition Context*

7.25 Any solution needs to recognise that there is a particular context to the purchase of major equipment for New Zealand's Defence Force.

- The defence market is specialised, with small numbers of suppliers.
- The purchase is often of a platform, to which specialised systems are added.
- New Zealand buys small quantities, which reduces our market leverage.
- New Zealand buys for long-life, which means that the purchase of new platforms can involve a significant technology jump or the "skipping of a generation".
- New Zealand can require one platform to perform multiple roles, where other defence forces may have two platforms for different purposes.
- New Zealand has, recently, not planned well for replacement, with the result that the last decade has been characterised by block obsolescence and major pressures on the defence capital budget and purchasing capacity – as well as on the operators in the armed forces.
- Another proposition, on which I can make no judgement, is that New Zealand leaves acquisition decisions on replacement too late, driven by the wish to postpone new capital expenditure. That can impose artificially short deadlines on delivery dates if effective capability is to be retained in the face of accelerating obsolescence.

7.26 These mean that the defence purchase function is complex, and some caution should be exercised about applying private sector, commercial models as a solution to the problems touched on above. However, there is a case, if only to provide assurance to the Government that the function is operating effectively, for some private sector involvement at a governance or advisory capacity.

7.27 This was part of the 1991 refinement (paragraph 3.8(9)), but not put into place.

*(b) Acquisition Process*

7.28 Acquisition of military hardware starts with a long-term view of what the Defence Force will be required to do in pursuit of national security and related objectives. That, in turn, translates into propositions about what capability the Defence Force will need to deploy, where, for how long, with whom and against what opposition. The next step is probably the most difficult. The capital equipment decisions to give effect to those propositions are far from straightforward. Hardware is one component of capability – along with force size, doctrine, training, command and control systems, logistic support, morale and leadership, and others. Capital equipment decisions need to be integrated with these.

7.29 There are also options with complex trade-offs: what type (of helicopter for example), with what features, with what spares, in what quantity. Each of these decisions has a cost implication (both capital and whole of life), and implications for many of the other elements of capability. The price of options can be difficult to estimate given: those variables; that the equipment may be bespoke rather than off-the-shelf; and the price is only the price when a supplier submits a quote. Once a decision has been taken on an option, there may be a tender process, or a negotiation with the only/preferred supplier. There is a contract negotiation, and a contract. The project is then managed, sometimes over several years, with variations to both the specification and contract, many of which will have cost and capability consequences.

7.30 There is a further complexity. This process has to fit within a Government budget forecasting and appropriation process. Preliminary estimates can become fixed in three year forecasts.

7.31 The “procurement problem” seems to revolve around three main areas:

1. The translation of long term strategy to hardware or platform options. This is as much a function of the “strategy gap” referred to in paragraphs 7.15 and 7.20 as it is of effectiveness in translating strategy to capability.
2. The adequacy and accuracy of the business case on which the Government can take a particular procurement decision, and on which the purchasers can go to the market.
3. The inadequate involvement of the end user in the contract management decisions of the purchaser.

7.32 Having made these points, it is worth recording that, for the most part, New Zealand has bought useable equipment at a good price, even if at times the transaction costs, for the Government, officials and the Defence Force, have been high.

*(c) Acquisition Responsibility*

7.33 In the 1989 design phase of the current structure, there were two views on the proposition that the Defence Force should have responsibility for major capital expenditure. As recounted in Part One, what could be termed the "Treasury view" was that divided responsibility for the Defence Force's capital programme and operating expenditure was a bad thing. Divided accountability for financial management was likely to result in inadequate accountability for overall financial performance. There was also a risk of duplication of effort, as the processes of contract management and commissioning of major equipment proceeded in parallel.

7.34 The other, "Prime Minister's Department", view was that the retention of the capital equipment programme under "non-military" control was a means of strengthening "civilian oversight of defence activity".

7.35 My view is that control is probably being exercised at the "wrong end". The Government has two major controls over defence capital expenditure – deciding what should be bought, and obtaining an appropriation for the capital sum. It is at these points that the greatest leverage is exercised, and where the Government should look to the Secretary for advice on the reconciliation of New Zealand's national security objectives, professional military preferences, and fiscal realities.

7.36 In relation to the three "problem" areas in procurement identified in paragraph 7.31, in my view the Secretary should have primary responsibility, supported of course by military advice and judgement, on:

1. The translation of long term strategy into platform or hardware options.
2. Once this is clear, the business case for particular platforms and capability, their quantity, and the preliminary assessment of cost.

7.37 Once the business case is accepted and the purchase approved by the Government, the Chief of Defence Force can then have primary responsibility for the third:

3. The purchasing of defined equipment on the basis of an approved business case, and within a financial appropriation.

7.38 At this point the proposal is concerned with authority and accountability, *not* structure. The reality is that business case preparation will need heavy military involvement. Procurement is a specialist function which will require both connection with those preparing the business case, and a permanent civilian staff with the requisite expertise.

7.39 A counter argument is that the military are best placed to translate force capability requirement into equipment specification. I accept the argument, in part, with three important reservations:

1. As touched on in paragraph 1.7 of the Introduction, the Defence Force will have the (proper) incentive to buy the best possible equipment to obtain the greatest military advantage.
2. Within the military, there are, and will continue to be, different views, and strongly held opinions, by senior officers both within and across the single services, on the right equipment to buy. The equipment will long outlast those protagonists.
3. Any Government should look for another view and assurance, on a capital proposal put forward by "expert users". Someone other than the Treasury needs to provide that opinion.

7.40 Under this proposed allocation of responsibilities, the Defence Force is likely to continue to carry out the development work on acquisition options. The Ministry will need sufficient capacity, and the authority to access any relevant information, to engage with the Defence Force development staff, and to give authoritative assurance and advice to the Government. The Defence Act is more of a barrier than a help in this regard. This is addressed below.

7.41 If the CDF is to assume the responsibility for the purchasing function, the beginning point of whole-of-life asset management, some supplementary, external governance arrangements would be justified. This may be a "Defence Acquisition Board", with private sector membership, as well as the Secretary of Defence. This is further elaborated in paragraph 7.61.

7.42 Responsibility should be accompanied by accountability and review. This is the next step.

## **Audit and Assessment**

**7. Make explicit the Secretary of Defence's role in leading output evaluations and policy evaluations.**

**8. Confirm the current role of the Ministry in management efficiency audits, including of a reassigned procurement function, to support the CDF in the management of the NZDF.**

**9. Differentiate these from reviews or assessments of the management performance of the CDF, a role which could be assigned to the State Services Commissioner, on an ad hoc basis as in the Policing Act.**

**10 Remove from the Defence Act the current provision for the Secretary to Audit any “function, duty or project” of the Defence Force.**

**11. Provide explicitly in the Defence Act the right of the Secretary to access Defence Force information to discharge these responsibilities effectively.**

**12. Review the consultation provisions in section 31 of the Defence Act in light of the decisions taken on these and the preceding recommendations.**

**13. Change the reporting line of the audit and assessment function from the Minister of Defence to the Secretary.**

7.43 In contrast to the procurement function, I received little or no criticism of the exercise of the Ministry’s audit and assessment responsibilities.

7.44 This section is intended to make a distinction between

1. The assessment of how well the Defence Force is meeting the standards of capability, and other performance levels or criteria, for which it has been funded.
2. How well these standards or levels of capability, even if achieved, meet the policy objectives for which they were funded.
3. The efficiency with which the outputs of the Defence Force are produced.
4. The performance of the Defence Force as it may relate to the performance of the CDF as the “Chief Executive” of the Defence Force.

#### *Recommendation 7*

7.45 Policy reviews or evaluations are the corollary of the policy and funding advisory roles of the Secretary. They complete the circle by testing whether the policy intent was achieved for the funding provided. They generate important information which is an intermediate product or input to a regular cycle of Defence Assessments, and to the annual defence funding decisions. Furthermore, this reverts to the original design intent, described in Part Two of the report.

7.46 Audits of outputs, the provision of specified products or services for the funding provided would, if the management responsibility were transferred as recommended above, include the audit of procurement – whether the equipment was purchased, at the standard specified, for the funding provided. This would also relieve the system of the unsatisfactory tension inherent in the Ministry auditing its own performance in the procurement of major capital items.

7.47 I realise that the line between audit of outputs and audit of management performance can be fine. However, the *purpose* of the audit is the important control, and the preparedness of the Secretary to keep to his brief.

*Recommendations 8 and 9*

7.48 There is an element of letting well alone in confirming the role of the Ministry in supporting the CDF in the management efficiency of the Defence Force. It does not fit with the original design of the respective roles of the two organisations. The management efficiency audits are, from all reports, a valuable adjunct to the management responsibilities of the CDF and the Service Chiefs. That they are carried by staff of one organisation for the support of good management of the other organisation is not a problem provided: the governance arrangements and decision rights are explicit, to protect the professional standards of the auditors and assessors; their funding is consistent with the annual appropriation; and they are not a substitute for the assurance required in paragraph 7.44 1 and 2 above. If these conditions are met, and the points of abrasion between the Ministry and Defence Force can be minimised as proposed, it seems sensible to consolidate expertise and institutional knowledge, where possible, in one place.

7.49 An important condition is that the Secretary should not be assigned, explicitly or implicitly, responsibility for assessing the performance of the CDF. That role is incompatible with the requirement for close and constructive engagement between the CDF and Secretary to provide the Government with the military capability it requires. Furthermore, the Secretary requires free access to Defence Force personnel and the information they hold. If military officers believe that this is for the review of the performance of their commanding officer, they will be placed in an untenable position.

7.50 If the Government is concerned to have available a mechanism for such a performance review, the Police Act provides a model. The State Services Commissioner, at the request of the Responsible Minister, can exercise all his powers in reviewing the performance of the Commissioner of Police in any non-constabular matter.

7.51 For similar reasons, section 24(2)(e) of the Defence Act sets up an adversarial relationship between Secretary and CDF. This is compounded by the absence of effective powers for the Secretary to access information to carry out these functions. For example, the general power in section 24 (3) of the Defence Act falls well short of providing the Secretary with the kind of powers accorded the Auditor-General, State Services Commissioner, or the Secretary to the Treasury to access information to discharge their responsibilities.

*Recommendations 10 and 11*

7.52 These are intended to balance the removal of the Secretary's ability arbitrarily to decide to review any matter in relation to the Defence Force (and by implication the performance of the CDF), with an explicit recognition of right of access to all information relating to a more clearly defined assessment responsibility.

*Recommendation 12*

7.53 The statutory requirement for the Secretary and CDF to consult each other, and the provision that the Minister of Defence may *require* such consultation from time to time, are indicative of a low-trust, adversarial environment, and may not even be effective in ensuring well integrated advice to the Government. Consultation is not cooperation. Consultation in line with a statutory obligation is a formal, defined process. It requires one party to seek the views of the other, consider what is relevant, set aside what is not relevant, and then exercise independent judgement.

7.54 The consultation provisions themselves are more likely to reinforce a formal, arms-length relationship rather than foster joint effort to achieve a common goal.

*Recommendation 13*

7.55 The direct reporting line to the Minister was, and remains, an anomaly in terms of the principles which underpin the respective responsibilities of Ministers and Chief Executives in the Public Service. Clear management control of this function will help provide the Secretary with the authority, and capability, to discharge the responsibilities proposed in this review.

## **Structural Implications**

7.56 This report does not propose a return to the diarchy. On balance the clarity of the respective roles of CDF and Secretary of Defence, and the clarity of accountability for resource management in particular, weigh against it. The old diarchy was subject, at least as often as the current structure, to the vicissitudes of personality conflict. Decision making was more opaque and, in any event, such a structure would now sit uncomfortably with the singular accountabilities specified in the State Sector and Public Finance Acts.

7.57 Nevertheless, there are special, even unique, characteristics of the civilian/military relationship which warrant some modification (or enhancement) of the sole, linear accountabilities which characterise New Zealand's public management model.

7.58 The trick is to:

- retain the clarity of the respective roles of Minister and Chief Executive (including the CDF) and the individual financial responsibility and accountability of the Secretary and CDF for their own organisations; and
- Put in place sufficient structure and process to promote cooperative and aligned effort, with minimal transaction costs.

7.59 That is not straightforward.

7.60 There are two areas where some formal, joint governance arrangements can be justified: in procurement; and in audit and assessment.

#### *1. Procurement*

7.61 If the CDF is to assume responsibility for the procurement of capital equipment, *once the business case and funding for a capital acquisition has been approved*, the Government is likely to require assurance that the purchase is being carried out to the specification, and within the cost parameters, approved. An ex post evaluation is too late for management purposes.

7.62 An **Acquisition Board**, advisory to the CDF, chaired by the CDF or his nominee, with private sector membership appointed in consultation with the Minister, and including the Secretary of Defence or his nominee, could fit the bill. The head of procurement could report to the Board. This would be at the direction of the CDF, who would employ, and hold accountable for performance, the head of procurement.

7.63 There may be individual projects, of such size and duration, that merit their own Advisory Boards. (It is noteworthy that the Chief Executive of DPMC has established a Project Advisory Board, along similar lines, to enhance the governance of the conservation of Government House.)

7.64 There are two considerations in this proposal. The responsibility and accountability of the CDF for the quality and financial control of the procurement function should not be diluted. That supports a Board that is advisory rather than executive, although the CDF may delegate his authority to it as he sees fit. The same consideration supports a Board that reports to the CDF, and not to the Minister.

7.65 This proposal is very lightly sketched out. The procurement workstream will generate a more detailed proposal. But from my experience it is important to decide, first, if the procurement function is going to sit within either of the current organisations, or be a stand-alone agency. On the assumption that it will be part of the Defence Force, then four conditions should be met:



- Clear accountability and decision rights for the CDF.
- Access to expertise from outside the Defence Force.
- Continuing engagement with the Secretary of Defence, consistent with the responsibilities of the Secretary as proposed above (including the management of any conflict of interest related to the audit function)
- Sufficient permanent, senior civilian expertise within the Defence Force to maintain critical mass, continuity of process management, and respect and authority within a professional military structure.

## *2. Audit and Assessment*

7.66 As has been canvassed in this report, this function provides a mix of services - output evaluations, and efficiency and effectiveness audits which support the management of the CDF. The proposals above provide for an enhancement of this role to provide for the evaluation of the achievement of the defence policy objectives of the Government, on which defence funding was predicated. This also reinforces the link between the policy role of the Secretary, and the ex post review of the achievement of policy goals.

7.67 Because the audits and evaluations are not reviews of the performance of the CDF, and the CDF has a clear interest in the nature, scope and results of the assessment unit, a joint governance structure could be put in place.

7.68 There are similar arrangements already in place. These can be formalised, not in statute, but in an agreement between the Secretary and CDF. The Secretary would retain statutory and financial authority for the function.

### **Concluding Comment**

7.69 In the seven years since the Ministerial Review, several of its recommendations have been put in place – the joint logistics organisation within the Defence Force, and the Chief Executives' office of the Ministry and Defence Force. The drive for jointness at the senior levels of the armed forces; the setting to rest of some of the difficult military capability decisions of the last decade or more; a commitment of the Secretary and CDF to make things work; and a tempo of operations which have focussed all parts of the defence establishment on getting things done; have created a markedly different environment from that of 2002.

7.70 This report recommends addressing the statutory and structural arrangements which were put in place in a different environment, are inconsistent with conventional management practice, have created

unnecessary tensions, or require “work-arounds” and other high cost responses.

7.71 I reiterate some cautions. The first relates to the “thinness” of New Zealand’s talent pool for national security and defence policy advice. The fields of economic and social policy for example, have strong institutional training grounds, and a tradition of academic and non-government research, commentary and engagement. National security policy and defence policy are seen as more marginal areas for long-term career prospects, or even as important to New Zealand’s well-being.

7.72 Whatever structures are agreed, they have to be staffed. A mis-judgement of the late 1980s was to treat skill and institutional knowledge as a commodity, which could be bought in to staff the ideal structures created in the “decade of reform”. In specialist fields they need to be grown.

7.73 Finally, and again, there is no “right answer” for all situations and for all time; and form should follow function. If there is agreement on the story set out in this report, and on the principles and objectives set out in this section, the Government would be well advised to seek endorsement, development and implementation advice from the State Services Commission as the Government’s primary advisor on the machinery and structure of the State Sector.