

HON RON MARK, MINISTER OF DEFENCE

Terms of Reference – Defence Capability Plan Review 2018

December 2018

The Defence Capability Plan Review will present options to the Government on planned investments on future New Zealand Defence Force military capability out to 2035. The Terms of Reference for the Review sets out the scope, outputs and timeline for the Review, as well as the management and governance arrangements.

The terms of reference were approved by the Ministers of Finance and Defence in September 2018. The Defence Capability Plan Review will be completed early next year.

The pack comprises the following document:

- Terms of Reference – Defence Capability Plan Review 2018

This pack has been released on the Ministry of Defence website, available at: www.defence.govt.nz/publications.

TERMS OF REFERENCE

Defence Capability Plan Review 2018

Purpose

1. The purpose of the Defence Capability Plan Review (the Review) is to present options to Government for planned investments in future New Zealand Defence Force military capability to 2035.
2. The Review will enable Government to take decisions on capability choices, ensure these decisions are aligned with Government defence policy and its fiscal strategy, and provide confidence for Defence planning.

Background

3. The Defence Capability Plan was last updated in 2016, following the Defence White Paper 2016. The release of the *Strategic Defence Policy Statement 2018* allows a Defence Capability Plan Review to ensure that Defence capability investments are aligned with the Government's defence policy and fiscal strategy.
4. The Minister of Defence wrote to the Prime Minister on 14 December 2017 to set out his priorities for the Defence portfolio, including a key priority to:

“Review the Defence Capability Plan, and supporting Capital Plan and Defence Estate Regeneration Programme, to optimise capability outcomes and deliver value of money for taxpayers, within a \$20 billion capital envelope out to 2030.”
5. The Defence Capability Plan Review 2018 (“the Review”) will deliver on this priority and provide advice to Ministers on any recommended changes to the Defence Capability Plan.
6. The 2018 Review will build upon the outcomes of the Strategic Defence Policy Review, the Review of Defence's Procurement Policies and Practices, the Investor Confidence Rating Assessment, and Government decisions on capability investments.
7. The updated Defence Capability Plan will incorporate Cabinet's decision to invest in four P-8A Poseidon Maritime Patrol Aircraft, given the significant capability and fiscal impacts of the decision.

Parameters

8. The Review seeks to align and update the Defence Capability Plan to reflect the Government's policy priorities and fiscal strategy.
9. The Review is not intended to consider the total force structure of the New Zealand Defence Force but instead to focus on individual capability investment decisions to ensure the planned investments represent best value for money and are affordable within agreed fiscal constraints. Separately, indicative costs will be provided for investments from 2030 to 2035.
10. In undertaking the Review, Defence will develop options and advice to ensure continued alignment of policy, funding and capability.

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11. The policy settings as outlined in the *Strategic Defence Policy Statement 2018*, approved by Cabinet on 14 May, are the key guide for the consideration of capability options. The Review will assess capability investment options in terms of the relative value they deliver on the specified roles, tasks and objectives for the New Zealand Defence Force outlined in the statement.
 12. The Review will also assess the proposed options against the principles established by the *Strategic Defence Policy Statement 2018*:
 - 12.1. Defence is combat capable, flexible and ready;
 - 12.2. Defence personnel are highly trained professionals;
 - 12.3. Defence has the resources to meet Government's operational and strategic priorities;
 - 12.4. Defence operates in ways that maintain public trust and confidence;
 - 12.5. Defence embodies and promotes New Zealand's values; and
 - 12.6. Defence is a credible and trusted international partner.
 13. The funding parameters for the Review will be guided by the current capital and operating indicative funding track underlining the Defence Capability Plan 2016, and the Government's fiscal strategy. The Review will develop and assess options around both the timing and the total level of investment in Defence.
 14. The capability investments will be presented using the \$20 billion capital envelope from 2013 out to 2030 as a guiding parameter. Separately, indicative costs will be provided for investments from 2030 to 2035. Options for alternative funding tracks can be assessed to provide Ministers choice on balancing capability trade-offs against the fiscal impacts.

Scope

15. The Review will focus on three areas:
 - 15.1. planned investments in capability;
 - 15.2. the cost drivers of critical organisational enablers for capabilities; and
 - 15.3. mechanisms to support management of the portfolio.
16. The Review will also integrate the outcomes of the Defence Estate Regeneration Programme Plan, which will be completed in November 2018.

Planned investments

17. The review of investments in Defence capability will develop options around proposed capability investments based on the following:
 - 17.1. testing of potential additions or alterations to planned capability investments, including an assessment of the following areas identified in the *Strategic Defence Policy Statement 2018*:
 - Cyber
 - Space
 - Maritime Awareness

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- 17.2. assessing alternative capability options for the planned investments to ensure these investments best reflect the Government's priorities and the demands of the strategic environment;
 - 17.3. updating the timeline of planned investments against the organisational and fiscal capacity to deliver;
 - 17.4. updating the cost estimates and timelines for planned investments to ensure they are based on the most accurate information, can be achieved with available resources, and capture any areas of risk;
 - 17.5. assessing the operating cost implications of planned investments against the sustainment of current capabilities
 - 17.6. ensuring the infrastructure and workforce requirements of the planned military capability are captured, including thorough assessments of the military personnel required for successful delivery; and
 - 17.7. ensuring that the Defence Force maintains a coherent range of capabilities.

Organisational enablers

18. The Defence Capability Plan Review will incorporate the updated Defence Estate Regeneration Programme Plan, which will be completed in November 2018. The Defence Estate is a key enabler for capability and a large proportion of the Government's planned capital investment in Defence.
19. The Review will also outline and incorporate, as appropriate, the work currently underway to ensure that other Defence Force organisational enablers will be able to sustain the planned military capabilities, including upcoming decision points on these enablers. This includes:
 - 19.1. the implementation of the new Communications and Information System Change Transformation Project, which was approved by the Defence Force Board in December 2017;
 - 19.2. the Integrated Workforce Planning and Management Project, which will be completed in July 2019; and
 - 19.3. the continuing implementation of the Consolidated Logistics Project, approved by the previous government in December 2016.

Mechanisms to support portfolio management

20. The portfolio management work stream will develop comprehensive investment options in the Defence Capability Plan, and will also examine mechanisms within Defence's purview to support the management of the total portfolio of investment. This will provide enhanced information to Ministers on investment choices and impacts. This work may include:
 - 20.1. how Defence can best manage project and portfolio contingency within the current delegations under the government investment system;
 - 20.2. the management of the timing and scale of significant Defence investment decisions so these fit within the fiscal strategy and budget approval process;

- 20.3. the identification of uncertainty in cost estimates for proposed investments, and the management of changes to these cost estimates during regular portfolio updates; and
- 20.4. the process for updating of economic cost assumptions, including foreign exchange costs.
21. Any issues that are surfaced during this process that are outside of Defence's delegations under the government investment system will be identified and become the subject of future work between Defence and The Treasury.
22. Alongside the Defence Capability Plan Review, Defence will provide input into The Treasury's review of the capital allowance framework. This will ensure that planned Defence investments are reflected in the Government's medium to long-term view of capital requirements. The Review will engage external stakeholders as part of the development of advice for Ministers. These stakeholders will include:
- 22.1. other government agencies;
- 22.2. defence industry; and
- 22.3. the academic community.

Outputs and Timeline

23. The Review's principal output will be recommended options for the indicative capability investments and capital funding track for Defence out to 2030, with identification of the indicative funding required for investments over the period of 2030 - 2035. Additional outputs include:
- 23.1. an integrated investment plan for Defence;
- 23.2. a revised Defence Capability Plan public document to set out the Government's intentions; and
- 23.3. recommendations for possible mechanisms within Defence's purview to support the management of the total portfolio of investments.
24. The substantial work of the Review, including consultation with agencies, will be undertaken across July to November 2018. Consultation with Ministers will take place across November, with the Review submitted to the Cabinet Government Administration and Expenditure Review Committee for consideration in December.

ANNEX A: GOVERNANCE AND ADVISORY ARRANGEMENTS

Roles and Responsibilities

25. The Review will be the joint responsibility of the Secretary of Defence and the Chief of Defence Force. They will have final accountability for the findings of the Review and the presentation of its recommendations to Ministers.
26. The Review will be carried out by a joint Ministry of Defence and New Zealand Defence Force Review Team, led by the Ministry's Director of Development Branch and the Defence Force's Assistant Chief Capability (the Review Coordinators). Other agencies will be consulted in the course of the Review.
27. The Review Coordinators will manage the Project Team, chair the Working Group and support the governance bodies.
28. The Chief Executives and the Review Coordinators will seek regular opportunities to understand the Minister's views and priorities and provide him with updates on the Review's progress.

Governance Structure

29. The governance structure for the Review will consist of a Review Governance Board and a supporting Review Management Group. This will be supported by a Ministerial Advisor and a Working Group with representatives from other agencies. A graphic representation of the relationship between the governance and management bodies, and the Review Coordinators and Project Team is appended to this document.

Review Governance Board

30. The Review Governance Board will be co-chaired by the Secretary of Defence and Chief of the Defence Force. Members will include the chief executives of the Department of the Prime Minister and Cabinet and Ministry of Foreign Affairs and Trade (or their nominated alternates), the Vice Chief of the Defence Force, the Deputy Secretary of Defence and the Treasury's Manager for Justice, Security and Government Services. The Review Coordinators will report to the Governance Group.
31. The Review Governance Board will convene monthly. An agenda will be set and promulgated prior to this meeting. This meeting will consist of an oral update from the Review Coordinators (supported by Review Team members as required), a discussion of progress and content and decisions on actions required. An action log will be kept and updated.
32. The Review Governance Board will provide direction on the development of the Review. This will include supplying feedback on key documents to be provided to the Minister of Defence and Minister of Finance (e.g. Cabinet Papers), receiving regular updates on progress, actively monitoring and managing risk, and providing challenge, support and guidance to the Review Team.

33. The Secretary of Defence will update the Security and Intelligence Board of the Officials Committee for Domestic and External Security Coordination (ODESC-SIB) and the Hazards and Risk Board (HRB) to ensure that work on the Review is considered alongside similar work being taken across the wider security sector. Stakeholder agencies outside ODESC-SIB and HRB will be kept informed of progress through informal briefings as required.

Review Management Group

34. The Review Management Group will be jointly led by the Vice Chief of the Defence Force and Deputy Secretary of Defence. The other members are the Chief Financial Officers of the New Zealand Defence Force and the Ministry of Defence, Chief of Performance, Strategy and Governance, and the Deputy Secretary for Capability Delivery.
35. The purpose of the Review Management Group is to support the Review by providing management direction to the Directors on behalf of the Governance Board. This will include the review of the analysis and options developed by the Review, the assurance that sufficient resources and support have been allocated to the Review, and an escalation point for the resolution of points requiring senior direction.
36. The Review Management Group will convene weekly. The Director will provide a verbal update on the progress and present papers on the work undertaken and guidance sought on a required basis.
37. The Vice Chief of the Defence Force will communicate back to the Executive Committee the progress and findings of the Review, and present back to the Review directors the input from its members, including the Service Chiefs. The Deputy Secretary of Defence will communicate back to the Ministry Leadership Team the progress and findings of the Review and present back to the directors the input of its members.

Ministerial Advisor

38. The Review will be supported by a Ministerial Advisor.
39. A Ministerial Advisor will be appointed to support the Defence Capability Plan Review. They will provide independent advice to the Minister of Defence throughout the Review. From time to time, the Ministerial Advisor is likely to both seek support from and advise the Governance Board. The Minister will ultimately decide on any recommendations or other matters raised by the Ministerial Advisor.
40. The Ministerial Advisor will be appointed in accordance with the State Service Commission board appointment guidelines.
41. The Review will provide support to the Ministerial Advisor as required.

The Defence Capability Plan Review team

42. The Review team will consist of New Zealand Defence Force and Ministry of Defence personnel. The Review will draw on external support as required, including from contractors with relevant specialist skills and representatives from external agencies.

43. The Review team will work closely with Treasury and DPMC in the development of options and recommendations. The following principles will guide the work undertaken by the Review:
- 43.1. the Defence Capability Plan must reflect the Minister's and Government's priorities by testing alternative options to planned investments;
 - 43.2. the plan needs to reduce or articulate the level of risk around the projected investments;
 - 43.3. the plan must be achievable from a delivery perspective;
 - 43.4. the Review must identify challenges around alignment between capability, organisational enablers, and operating and capital funding; and
 - 43.5. the plan must represent a combined and unified view from the NZDF and the Ministry of Defence.

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Review Governance and Management Arrangements

