



Performance audit report

New Zealand Defence Force: The civilianisation project





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New Zealand Defence Force: The civilianisation project

This is an independent assurance
report about a performance audit
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Auditor-General's overview

The New Zealand Defence Force (NZDF) carries out vital work in New Zealand and overseas and its staff are valued for their high standards of professionalism, training, and skill. The Defence White Paper 2010 highlighted the importance of getting value for money from the defence budget. It provided a framework for reform, and addressed financial issues in detail. In the paper, the then Minister of Defence highlighted the forecast gap between current defence spending and projected costs.

In September 2010, the Government told NZDF to reduce costs so that money could be redistributed within NZDF, primarily to the front.

Cabinet required NZDF to meet three conditions:

- save \$350-400 million in annually recurring savings by 2014/15;
- enhance frontline capabilities and activities; and
- maintain specified outputs.

The civilianisation project was one of several projects that NZDF initiated to generate savings for redistribution. Initially, the redistribution programme represented 16-18% of the overall defence budget of \$2.25 billion for the 2010/11 financial year.

To remain effective and be able to conform to government policy, NZDF designed the civilianisation project to change the balance of its workforce. It aimed to get a higher proportion of military staff in “front” (deployable military capability) positions compared to direct and indirect support positions.

In September 2010, NZDF committed to converting 1400 military positions in the “middle” (logistics and training) and “back” (administrative and similar functions) into civilian positions (civilianisation). This would save money and allow NZDF to improve the proportion of military staff in the front compared with the middle and back. NZDF planned to carry out the civilianisation project in three stages, converting several hundred positions at each stage.

However, when NZDF told the Government that it would convert 1400 military positions into civilian positions, it did so without knowing how many military positions it would need from 2015. NZDF had started a project to calculate how many and what kind of military staff it would need from 2015 but this work had

not been completed. Once NZDF had completed the work at some time between December 2010 and March 2011, it found that:

- it needed more military staff overall; but
- some ranks and trades had surplus military staff.

I consider that NZDF should have found out how many and what kind of military staff it would need before telling the Government that it would convert 1400 military positions into civilian positions.

NZDF planned for the civilianisation project to save \$20.5 million a year by 2014/15. My staff estimate that the civilianisation project will save \$14.2 million a year by 2014/15. Therefore, savings are less than planned. Also, most of the savings from the civilianisation project are not from converting military positions to civilian positions. Despite this, NZDF has told us that it still expects to achieve the overall redistribution target of \$350-400 million in annually recurring savings by 2014/15.

NZDF always intended to reduce the number of military staff through the civilianisation project but has lost far more military staff than intended. The loss of so many military staff (which can be attributed in part to the civilianisation project), has made it more difficult for NZDF to do its job.

Converting 1400 military positions into civilian positions would always be difficult. Discharging military staff has to be carried out with great care to avoid damaging the bonds of camaraderie, integrity, and commitment that are part of NZDF culture. Instead, NZDF chose a course that led to a drop in morale and an increase in attrition resulting in reduced capability. NZDF now needs to recover from the damage caused by the civilianisation project.

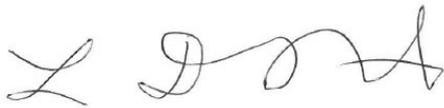
I consider that NZDF's decision to move quickly to put the civilianisation project into effect meant that it did not:

- fully consider the civilianisation project's potential effect on staff; and
- address the significant risks of the process.

My staff saw much evidence in reviews and in briefings to Cabinet and the Minister of Defence that NZDF recognises that it made mistakes during the civilianisation project. NZDF has decided that further conversion of military positions to civilian positions will, in general, take place gradually, as staff leave particular positions. NZDF has a focus on rebuilding morale and restoring mutual trust with military staff.

I commend NZDF's honesty and willingness to adapt in learning lessons from the civilianisation project.

I thank NZDF staff for their co-operation and help with our work auditing the civilianisation project.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General

24 January 2013

Part 1

Introduction

- 1.1 In this Part, we discuss:
- the place of the civilianisation project in the drive by the New Zealand Defence Force (NZDF) to make more efficient use of defence funds;
 - the scope of our audit;
 - how we carried out our audit; and
 - the structure of this report.

The place of the civilianisation project in the New Zealand Defence Force's drive to become more efficient

- 1.2 In 2010, the Government decided to give greater priority to using defence funds more efficiently.
- 1.3 In September 2010, the Government told NZDF to save money for redistribution within NZDF. Cabinet required NZDF to fulfil three conditions in saving the money:
- save \$350-400 million in annually recurring savings by 2014/15;
 - enhance frontline capabilities and activity; and
 - maintain specified outputs.
- 1.4 NZDF began several projects to save money for redistribution. The redistribution programme represented 16-18% of the overall defence budget of \$2.25 billion for the 2010/11 financial year. We decided to look at the progress and achievements of one of those projects – the civilianisation project – which was initially expected to save 6.5-7.4% of the \$350-400 million redistribution programme. The civilianisation project involved two main components:
- discharging military staff and transferring them to civilian positions or replacing them with civilians who would cost less than the military staff they replaced; and
 - reducing the number of military staff in some ranks and trades.
- 1.5 It is important to remember that the civilianisation project included both components.
- 1.6 NZDF intended to use the annually recurring savings from civilianisation to increase the proportion of military staff in the front compared to the middle and back.¹
- 1.7 NZDF decided to convert 1400 military positions into civilian positions in three stages, converting several hundred positions at each stage. After completion of

1 The New Zealand Defence Force classes all positions by whether they contribute to Output Delivery (front), Direct Support (middle), or Indirect Support (back). Output Delivery – referred to as front, frontline, or front end – means “deployable military capabilities”. Direct Support includes functions such as logistics and training. Indirect Support includes administrative functions.

the first stage, NZDF decided to modify the second stage and to not proceed with the third stage.

The scope of our audit

1.8 In carrying out our audit, we sought to assess how well NZDF had achieved the main objectives that it had set for the civilianisation project. These objectives were to change the balance of its workforce:

- so that proportionally more military staff are in the front – a core objective of most defence forces is to spend more on the front than on the middle and back;
- by converting 1400 military positions into civilian positions, saving \$20.5 million a year, NZDF intended to redirect this money to the front;
- without affecting outputs; and
- by reducing the cost for each full-time equivalent staff member without affecting normal patterns of staff attrition.

How we carried out the audit

1.9 We used the objectives listed in paragraph 1.8 to assess how effectively NZDF managed the civilianisation project. To audit how NZDF performed in meeting these objectives, we:

- looked at NZDF's extensive documents about civilianisation and its outcomes;
- assessed the policies on which the civilianisation project was based;
- analysed NZDF's financial data about the savings achieved;
- interviewed staff at NZDF, the Ministry of Defence, and the State Services Commission; and
- spoke with the principal author of *Value For Money: Review of New Zealand Defence Force*.²

The structure of this report

1.10 In the rest of this report, we discuss:

- the timing, pace, and progress of the civilianisation project (Part 2);
- the results of the civilianisation project (Part 3); and
- our conclusions about the success of the civilianisation project (Part 4).

² Ministry of Defence (August 2010). The Ministry of Defence commissioned this report to help to identify efficiencies and to provide assurances and options about cost effectiveness and sustainability.

Part 2

The timing, pace, and progress of the civilianisation project

- 2.1 In this Part, we look at:
- the timing and pace of the civilianisation project; and
 - how NZDF carried out the civilianisation project.

Summary of our findings

- 2.2 Before it knew how many military staff it required from 2015, NZDF told the Minister of Defence that it would civilianise 1400 positions. Later, NZDF also identified that it had too many military staff in some ranks and trades. From June 2011, through the civilianisation project, NZDF began discharging surplus military staff and converted some military positions to civilian positions. Despite internal concerns about timing, NZDF decided that the advantages of immediately starting the civilianisation project outweighed the disadvantages.
- 2.3 Since December 2011, NZDF has relied on attrition and contracts finishing to re-designate military positions as civilian positions. In the first stage of the civilianisation project, NZDF discharged 303 staff and is to discharge two more. Eighty-seven of the discharged staff have been appointed to civilian positions.
- 2.4 Discharging military staff and the manner in which they were discharged have caused problems for NZDF. Some staff consider that NZDF breached its moral contract with them. NZDF's leaders did not foresee this.

Timing and pace of the civilianisation project

Choosing to proceed quickly

- 2.5 NZDF weighed up the advantages and disadvantages of different approaches to project timing. It considered delaying the civilianisation project so that:
- analysis could be completed of how best to use military and civilian staff; and
 - all or most of the changes could happen at the same time, which would mean the civilianisation project could be completed in one stage, rather than three.
- 2.6 The advantages of immediate action were that NZDF would be able to:
- save money quickly;
 - meet external expectations for progress on the civilianisation project; and
 - signal clearly to staff that major change was happening.
- 2.7 We saw evidence of concern expressed by senior NZDF staff in 2011 about the decision to progress quickly.

- 2.8 The three Services were clearly concerned about how quickly the number of military staff would be reduced. The Army said that:

*Army remains concerned that their reductions are going to significantly impact on their ability to sustain operations if they reduce too much of the military out of the back end before growing the front end. 65% of officers who fill single or small group operational missions come from the back end.*³

- 2.9 The Navy said that the size of its military workforce was in line with what the Force Structure Project (see paragraphs 2.13-14) said it should be, and that being forced to reduce the number of military staff increased the risk of not having enough staff to put ships to sea.⁴

- 2.10 The Air Force wanted a more detailed review of the technical trades before any decisions were made about which positions could be civilianised.

- 2.11 In another example of concern about the pace of the civilianisation project, an NZDF planning document stated that:

In some instances we may not have sufficient time which means we may have to cut corners to realise the benefits to the allocated timeframe. Some things we may not be able to do to manage change and we may have to do the bare minimum rather than the full niceties of change.

- 2.12 Despite the concerns about quick implementation, NZDF decided that the advantages of immediately starting the civilianisation project outweighed the disadvantages.

Incomplete information about numbers of military staff needed from 2015

- 2.13 In September 2010, when NZDF told Cabinet through the Minister of Defence that it would civilianise 1400 military positions, it had already started – but not completed – the Force Structure Project. This project was to work out the number of military staff required to deliver NZDF outputs for the years 2015-2035.

- 2.14 The Force Structure Project was carried out in stages. An important stage of the project was to work out the number of Personnel Required in Uniform (PRU). The PRU number was decided at some time between December 2010 and March 2011. There were differing interpretations within NZDF of what the PRU number meant. Some NZDF documents describe it as the maximum number of personnel required in uniform to sustain future operations. Another describes it as a minimum number. Others describe it as an interim result, with more analysis needed.

³ New Zealand Defence Force internal document.

⁴ New Zealand Defence Force internal document.

- 2.15 The PRU number showed that, from 2015, NZDF would require 10,054 military staff to do its job properly. This meant that NZDF needed more military staff overall than it had before the civilianisation project started. Converting 1400 military positions to civilian positions would have left NZDF with 1618 fewer military staff than it required to properly fulfil its role from 2015.
- 2.16 The Force Structure Project continued after the first stage of the civilianisation project was completed.

How the civilianisation project was carried out

- 2.17 The main actions in the first stage of the civilianisation project (between December 2010 and December 2011) were:
- identifying which military positions would:
 - be re-designated as civilian positions;
 - be disestablished; or
 - remain military; and
 - in ranks and trades that were identified as having surplus military staff, reviewing staff files to identify those individuals who were no longer required;
 - notifying affected staff;
 - applying a right-of-reply (appeal) process that allowed military staff to present their case as to why they should not be discharged; and
 - discharging staff.
- 2.18 The civilianisation project was a significant challenge for NZDF. Most of the policy and processes needed to implement the civilianisation project had to be developed from scratch. Job descriptions for more than 320 civilian positions had to be prepared. More than 3000 applications for the civilian positions had to be processed. Personnel records for more than 2400 military staff had to be reviewed and decisions made as to which staff were no longer required in uniform. The NZDF Human Resources team prepared a scoring system to decide which staff should be discharged. The system was heavily weighted towards assessing how a person had performed and their future potential.
- 2.19 All this work had to be carried out on top of existing workloads. Also, the human resources function, which had a pivotal role in the civilianisation project, was being downsized. The NZDF Human Resources team had to be supplemented by contracted personnel to help with this work.

Identifying military positions that could be converted to civilian positions

- 2.20 Senior military staff in the Army, Navy, and Air Force were responsible for identifying which positions:
- could be changed to civilian positions;⁵
 - should remain as military positions; and
 - could be disestablished.
- 2.21 This identification was expected to be carried out between 17 December 2010 and 26 January 2011.
- 2.22 A moderation review by the head offices of the Army, Navy, and Air Force was planned. NZDF allowed one week for each Service to moderate its results.
- 2.23 After this review, 262 military positions were chosen to be converted to civilian positions.

Identifying those staff who were no longer required for military service

- 2.24 NZDF considered that it might want to keep in military service some of those people whose positions were chosen for civilianisation.
- 2.25 The Force Structure Project had showed that some ranks and trades had surplus military staff. NZDF focused on these surplus military staff when considering which people were no longer required for military service.
- 2.26 To ensure that NZDF kept better-performing staff, special boards reviewed the files of 2483 military staff. Their role was to identify military staff (from the ranks and trades with surplus military staff) who were to be discharged, transferred between Services, or assigned to other duties in different trades.
- 2.27 The special boards used rules written by NZDF and the three Services. The boards looked at performance history documents to work out which military staff to retain.
- 2.28 The review criteria were:
- performance, including future potential;
 - ability to be deployed, including medical and fitness history and readiness for operational service;⁶ and
 - commitment to service, including how willing staff members were to be

⁵ The New Zealand Defence Force describes this as Civilianisation of Military Positions (CoMP).

⁶ Before staff can be considered as ready for deployment on operations, several measures are used to assess whether they can be deployed.

posted, how willing they were to take part in enhancing their professional military skills, and how willing they were to maintain requirements to be deployed.

- 2.29 The review boards scored staff using the criteria, awarding most marks for performance and potential. This was to ensure that NZDF kept the staff who it considered to be most valuable. In brief, NZDF sought to ensure that discharged staff were those who had not performed as well and had less potential than their peers.

Notifying affected staff

- 2.30 In late June 2011, 315 military staff received letters saying that they had been identified for discharge.
- 2.31 The template for the letters was developed by a working group that included representatives from the three Services and staff from NZDF Headquarters. The template letter was sent to senior staff who were required to use it to inform those to be discharged. The letters told recipients how they were rated against the criteria used to assess whether a military staff member should be discharged. The most controversial part of the letters was that describing the rating of the person's commitment to service as low, moderate, or high (see paragraph 2.28). Some military staff with many years of service found it hurtful to be told that they lacked commitment.
- 2.32 An NZDF internal document quotes Navy staff as saying that:
- [We] tried to reword the letters when we got them as we were shocked at their obviously controversial and unfeeling tone. We were told in no uncertain terms that we were not to alter the 'template' and only add the individual specific information. How is it that the authors could miss the fact that these letters were incredibly poorly written?*
- 2.33 We have discussed the drafting of these letters with staff at NZDF Headquarters. Their view reflects that expressed in the extract from the document quoted in paragraph 2.32, that the Service Chiefs were able to include individual specific information. The instructions with the template letter that was sent to the Services stated that only information relating to criteria in which an individual did not get the maximum rating was to be used. Any other information was not to be included.
- 2.34 Letters sent by the three Services showed distinct variations in the level of detail that was included. For example, a letter from one Service to a person who was to be discharged, said that his level of performance and future potential was considered to be less than those of his peers and this is why he had been

identified as a person to be discharged. There was no mention of commitment to service. Letters from the other Services contained much more specific information about why a person was considered unsuitable to be retained in military service and how the person had shown a lack of commitment to service.

- 2.35 An NZDF document listing the lessons learned from the appeal process stated that the “letters, in some cases, were telling good people they were bad”.⁷
- 2.36 The distress of those receiving these letters was evident in many of the appeals in response to the letters. The appeals did not provide any further information to contest the discharge. Instead, the appeals expressed anger and frustration at the way staff had been treated.
- 2.37 In the first stage, letters were sent to 315 staff. However, before the appeal process began, two people were removed from the list of staff to be discharged. Of 64 appeals, eight were upheld.

Overall outcome

- 2.38 A total of 303 staff were discharged. Two more are yet to be discharged. Affected staff had two options:
- apply for a civilian job in NZDF, and, if successful, be discharged with up to two years’ pay protection; or
 - be discharged and receive a redundancy payment.
- 2.39 In the end, 87 military staff were appointed to civilian positions, while 218 were, or are going to be, discharged with a redundancy payment.
- 2.40 NZDF counted 477 fewer military staff on the basis that 305 were (or are to be) discharged and a further 172 left between 1 March and 31 December 2011 because their contracts were not renewed or they had resigned. All were counted in the civilianisation project’s total because they were military staff from the ranks and trades that had surplus military staff. Other people who left for these reasons from other parts of NZDF were not counted towards this total. We did not agree with NZDF’s calculation of the overall outcome (see paragraphs 3.8-3.13, and Figure 1).
- 2.41 The process created 262 civilian jobs. NZDF has informed us that, as of 30 November 2012, five civilian positions have since been disestablished after a further review. Of the remaining 257 civilian positions that were created, 178 have been filled with permanent staff. Five positions have been filled using fixed-term contracts since the positions are being further reviewed. Eight positions have been temporarily filled with military staff. Sixty-six positions are currently vacant.

⁷ The New Zealand Defence Force has a system to review projects or operations and identify mistakes or shortcomings. This is called the “after action report” or “lessons learned”.

Moral contract and increased attrition

- 2.42 Military staff are not employed. They are “in service”. They cannot negotiate a contract and the Chief of Defence Force prescribes conditions of service with only a few limitations.⁸ Military staff must swear an oath of allegiance and obey all lawful orders. They cannot strike and are subject to military justice. In return for this unqualified commitment to serve, NZDF acknowledges a “moral contract”, which can be described as an expectation that senior leaders will look after the interests of the rank and file.
- 2.43 There was a serious problem caused by the way in which the civilianisation project was carried out. Staff saw NZDF leaders as having breached the moral contract because they felt that their loyalty and commitment to NZDF was not reciprocated. We consider this to be one of the causes of the increase in attrition throughout NZDF’s Regular Force.
- 2.44 Despite planning papers that show NZDF leaders knew of some risks to staff morale and performance, senior NZDF staff told us that they had not fully appreciated the effect that the civilianisation project would have on NZDF culture. An NZDF internal briefing paper said that:
- The uncertainty of tenure resulting from the many change programmes, and civilianisation in particular, has therefore seriously challenged the traditional culture of an NZDF that develops and supports its people. The negative impact of perceptions of leadership, lower morale and higher propensity of an individual’s intent to leave has been greater than expected.*
- 2.45 In January 2011, NZDF recognised that the civilianisation project could increase attrition and that this would affect how it did its work. NZDF used a quarterly survey of staff as its main mechanism to monitor morale and attrition.⁹ Because of the speed of the civilianisation project, by the time the results of the quarterly survey were available, there was little time for NZDF to take effective action to moderate the effect of civilianisation. We saw no evidence that action was taken until after the first stage of the civilianisation project was complete.
- 2.46 Now, NZDF has a focus on rebuilding morale and restoring trust among military staff. NZDF has said publicly that it is considering ways to achieve this, including increasing pay (which has occurred), paying more visible attention to staff welfare, and making greater efforts to ensure that senior NZDF staff engage directly with military staff.

⁸ For example, the Chief of Defence Force must take into account civilian pay rates, the need to be fair, and the need to recruit and retain competent people.

⁹ The survey is called the OAtS (ongoing attitudes) survey. The survey measures factors such as morale, commitment, and military belonging. The survey has been running for nine years.

Part 3

The results of the civilianisation project

- 3.1 In this Part, we compare the results of the civilianisation project with:
- the targets for converting military positions into civilian positions and saving money for redistribution that were agreed with the Minister of Defence (and by him with Cabinet); and
 - NZDF's stated success criteria.

Summary of our findings

- 3.2 In 2011, the Minister of Defence told Cabinet that NZDF would save \$20.5 million a year by 2014/15, by civilianising 1400 positions. However, the target of converting 1400 military positions into civilian positions will not be met.
- 3.3 Civilianisation has saved money, but not as much as NZDF forecasted. Most of the savings have not been from the conversion of military positions to civilian positions. It is too early to tell whether the civilianisation project has resulted in a higher proportion of military staff in the front compared to the middle and back. Staff costs have been reduced – although by less than predicted – and overall attrition has increased, partly because of the civilianisation project. The increased level of attrition has affected NZDF's ability to deliver outputs.

How the results of the civilianisation project compare with the New Zealand Defence Force's targets

Revised targets

- 3.4 The target of converting 1400 military positions into civilian positions will not be met. In March 2012, the Minister of Defence and Chief of Defence Force told the Foreign Affairs, Defence and Trade Committee that:
- ... because of the high rates of attrition and the damage caused by the civilianisation process, further civilianisation will not be undertaken.*
- 3.5 NZDF revised the target to 600 positions, to be converted by December 2012.

Success criteria

- 3.6 NZDF's success criteria for the civilianisation project were:
- saving money (the estimated savings were revised several times);
 - reducing the cost for each full-time equivalent staff member without affecting normal patterns of staff attrition;
 - rebalancing the military and civilian mix of staff and positions without affecting outputs; and
 - ensuring that a higher proportion of military staff are in the front compared to the middle and back.

Saving money

- 3.7 In September 2010, before the civilianisation project began, the Minister of Defence told Cabinet that NZDF would save \$26 million a year by civilianising 1400 positions by 2014/15. In 2011, NZDF revised its estimate to say that it would save \$20.5 million a year. In May 2012, NZDF estimated that savings to date from the first stage of the civilianisation project were \$14.7 million a year.
- 3.8 Then, in July 2012, NZDF estimated that the total savings from the civilianisation project (including ongoing staff attrition and contracts finishing) would be \$17.4 million a year.
- 3.9 In our view, NZDF overstated the expected savings from the civilianisation project. We recalculated the savings from the first stage of the project and estimate that \$11.5 million a year will be saved. In total, we estimate that the civilianisation project will save \$14.2 million a year by 2014/15, comprising \$11.5 million from the first stage and \$2.7 million from staff attrition and contracts finishing (see paragraph 2.3).
- 3.10 NZDF has accepted our recalculation of estimated savings from the civilianisation project. Figure 1 explains how we calculated the savings.

Figure 1
Calculating how much money the civilianisation project has saved

When NZDF calculated the savings from the civilianisation project, it attributed the discharge (or resignation or non-renewal of contracts) of 477 military staff to the civilianisation project. However, our analysis showed that 119 staff were discharged (or resigned or did not renew their contracts) as a result of two other projects – the Defence Transformation Project and the R5 Project. The Defence Transformation Project aimed to do NZDF support functions “better, simpler, and cheaper”. This included looking at the workforce in support areas such as human resources and logistics. R5 (Right People, Right Job, Right Time, Right Capabilities, Right Cost) was a workforce project. Therefore, we subtracted 119 from 477, and attribute the discharge (or resignation or non-renewal of contracts) of 358 staff to the civilianisation project. Because NZDF has stated that the Defence Transformation Project and the R5 Project did not result in positions being civilianised, we have attributed the full cost of the 262 new civilian positions to the civilianisation project.

Our estimate of savings from the first stage of the civilianisation project

Permanent reduction of staff	96	\$7.4 million
Conversion of positions	262	\$3.5 million
Operating cost savings		\$0.6 million
Total	358	\$11.5 million

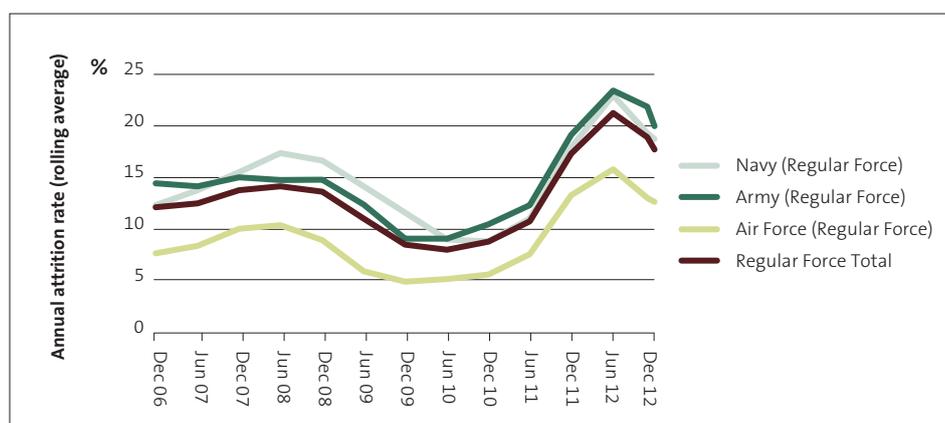
We estimate total savings from the first stage of the civilianisation project to be \$11.5 million a year by 2014/15. We have not looked at the expected savings from ongoing staff attrition and contracts finishing. NZDF has agreed with our estimate.

- 3.11 The savings from the first stage rely largely on the component of the project that sought to permanently reduce military staff. For the other component – converting military positions into civilian positions – we estimate that, potentially, \$3.5 million a year will be saved. The \$3.5 million figure is an estimate because provisions for salary protection will not expire until the end of 2013. The estimate is based on salary figures provided by NZDF for 262 civilian grade positions.
- 3.12 In paragraph 2.41, we note the changes in the number of civilian positions since the end of the first stage of the civilianisation project. However, as the changes happened after the first stage was completed, we did not take them into account in our estimate of the savings.
- 3.13 We note that NZDF expects to achieve the overall redistribution target of \$350-400 million in annually recurring savings by 2014/15.

Reducing staff costs without affecting attrition

- 3.14 Staff costs have been reduced because of civilianisation, although by less than estimated. Staff attrition has increased since the start of the civilianisation project (December 2010) to May 2012 from 8.8% to 21.1% a year. Not all of the attrition can be attributed to the civilianisation project, but comments by senior NZDF staff in internal documents and to the Foreign Affairs, Defence and Trade Committee suggest that NZDF views the civilianisation project as one of the major causes of the increase in attrition.
- 3.15 Figure 2 sets out the military staff attrition rates since December 2006 expressed as a 12-month rolling average. NZDF has commented on the increasing attrition rate as follows:
- Attrition was already rising prior to the commencement of the civilianisation project. As the project progressed, a number of NZDF personnel anticipated the likely outcomes of the review and made their choices accordingly.¹⁰*

Figure 2
Annual rates of attrition for the Armed Services (Regular Force)



Source: New Zealand Defence Force

- 3.16 The increase in attrition overall is from a historically low base of about 8% in 2009/10.
- 3.17 From 30 June 2011 to 30 June 2012, the total Regular Force headcount decreased by 1015. During that time, the number of front, middle, and back staff each reduced significantly. Analysing the results from the fourth quarter of 2011, NZDF noted that:

... both intent to leave and disengagement remain significantly higher than they were during 2010. Additionally, an improving economy further increases the risk of voluntary attrition. Without intervention, these trends may negatively impact NZDF's ability to deliver outputs.¹¹

Changing the military and civilian mix of staff and positions without affecting outputs

- 3.18 For NZDF, an important requirement for the civilianisation project, and for the entire savings programme, was that outputs would be unaffected and frontline capabilities improved.
- 3.19 It is clear that the increased attrition, which can be attributed in part to the civilianisation project, has made it more difficult for NZDF to do its job. This is because the level of attrition has reduced the depth of NZDF's capabilities, which in turn reduces how well NZDF can sustain deployments. NZDF's *Statement of Intent for 2012 to 2015* drew attention to the importance of maintaining depth of capabilities by stating that:

11 New Zealand Defence Force internal document.

Operational experience over the past decade has underlined the importance of ensuring NZDF has sufficient depth in its capability.¹²

- 3.20 To maintain depth in capability, NZDF must have enough experienced military staff to maintain deployments and respond to changes and events. For example, for every Regular Force person deployed by the Army, the Army needs three skilled and experienced people available – one on deployment, one just returned, and one preparing to deploy.
- 3.21 In the 2011 *Briefing for the Incoming Minister of Defence*, NZDF stated:
The civilianisation process has inevitably impacted on morale, leading to staff retention issues and associated costs and risks from lost expertise.
- 3.22 An example of the effect on outputs is the decrease in sea days available for inshore patrol vessels (IPVs). The IPVs did not sail the funded number of sea days in 2011/12 because of a shortage of staff and having to complete operational trials.
- 3.23 In 2011/12, the IPVs sailed 397 sea days instead of the planned 534-590 sea days. The target number of sea days in 2012/13 (484-535) is less than the 2011/12 target.
- 3.24 NZDF told us that recruitment to fill vacant positions is going well. However, in the meantime, NZDF could struggle to have enough staff with the required skills and experience to sustain:
- significant tasks at the same time;
 - larger operations; or
 - operations that require ongoing rotations.
- 3.25 We consider that NZDF must find ways to address the gap in capability in the short to medium term.

Ensuring that a higher proportion of military staff are in the front compared to the middle and back

- 3.26 It is too early to tell whether the civilianisation project has resulted in a higher proportion of military staff in the front compared to the middle and back.

¹² New Zealand Defence Force (2012), *Statement of Intent for 2012 to 2015*.

Part 4

Our conclusions

- 4.1 The civilianisation project has saved money and NZDF will be able to redirect these savings to the front. However, the savings will be less than NZDF's target of \$20.5 million a year. We estimate that savings will be \$14.2 million a year: \$11.5 million from the first stage of the civilianisation project and \$2.7 million from using staff attrition and contracts finishing to convert military positions into civilian positions. However, NZDF expects to achieve the overall redistribution target of \$350-400 million in annually recurring savings by 2014/15.
- 4.2 We question the appropriateness of the timing of advising the Government that NZDF would civilianise 1400 positions and reduce the number of military staff in the middle and back when NZDF had not worked out how many military staff it would need from 2015. Also, NZDF did not know how many civilian staff it needed and lacked a workforce strategy.
- 4.3 We are concerned that NZDF carried out this substantial change without knowing whether it could fulfil its role with 1400 fewer military staff. We note that the Force Structure Project concluded that NZDF needs more military staff than it had when it began the civilianisation project to meet operational requirements from 2015.
- 4.4 The civilianisation project documents refer to the need to minimise the negative effect of the project on military culture. However, NZDF chose a course that jeopardised aspects of military culture, such as the moral contract.
- 4.5 We consider that, in deciding to quickly implement the civilianisation project, NZDF did not fully consider the potential effect on military culture. We acknowledge that the issues that arose from the project have now been taken into account and the process for rebalancing the workforce has changed considerably. We consider that the effects should have been addressed much earlier, when those who had been asked to comment on the design of the project expressed concerns.
- 4.6 In our view, NZDF misjudged the cumulative effects of the changes and did not appreciate how the scale and pace of change would affect staff. NZDF has decided that, in general, further civilianisation will take place gradually, as people leave, by transfer, or for other reasons. NZDF considers that this should lessen the effect on morale and, therefore, attrition rates.
- 4.7 Overall, in our view, the civilianisation project has had limited success in terms of the targets aimed for by NZDF.

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