

TERMS OF REFERENCE: EXTERNAL NZDF VALUE FOR MONEY REVIEW

Context

1. The Government has commissioned a full review of New Zealand's defence policies and capabilities to 2035 (the Defence Review 2009). This Review is being undertaken in the context of constraints on Government expenditure and the Government's wider objective of achieving better value for money (VFM) across the State sector. To inform its decisions relating to the Defence Review and to obtain assurance, the Government has commissioned this external NZDF VFM Review.
2. The Government currently spends on Vote: Defence Force about \$2 billion in operating funding per annum, and there have been significant capital investments. The Defence Assessment has confirmed the existence of a gap previously identified between current defence funding baselines and projected defence costs. A number of Defence initiatives are underway to narrow that gap.
3. At the Strategy Committee meeting (STR) on 7 December 2009, Ministers directed officials to provide advice on how the Government can get improved VFM out of their current and future spending in defence, including in a number of specific areas, which are covered below.
4. At STR on 15 February 2010, Ministers directed officials to pursue VFM efforts in Vote: Defence Force, to:
 - identify efficiencies;
 - identify options for shifting resources to front-line activities; and
 - provide assurance and options around the cost effectiveness and sustainability of NZDF.
5. The Defence Assessment and this associated external VFM Review will together inform advice for Ministers and a White Paper.

Objectives

6. The purpose of the VFM Review is to provide external advice, which will give Ministers greater assurance of, and options for improving, the New Zealand Defence Force's efficiency, cost effectiveness and sustainability, thereby informing decisions for the White Paper later this year. This will give effect to Ministerial directions from the STR meetings of 7 December 2009 and 15 February 2010.
7. The specific objectives of the VFM Review are to:
 - undertake a high level and fundamental review of the NZDF's business model and cost structures, informed by the experiences of others;
 - identify any significant changes to the NZDF's business model that would improve the NZDF's financial sustainability, and to quantify the net impact of any changes; and
 - provide a plan to implement any value for money gains identified by the review (with implementation to follow the publication of the White Paper and looking out to 2020 and where relevant to 2035).

Scope

8. The VFM Review team may investigate any areas that may yield substantial cost-effectiveness gains. In particular, the VFM Review will consider how improved VFM can be obtained through:
 - shifting resources (broadly defined) from the NZDF's (non-deployable) supporting structures to its (deployable) military capabilities;
 - implementing the organisational changes proposed by the Defence Review 2009;
 - exploring alternative models of asset ownership;
 - reassessing policy requirements as set out in the Output Plan;
 - reducing the current tempo of operations to some extent; and
 - carefully managing new capital spending on essential projects.
9. The VFM Review should also look at:
 - specific capabilities and number of platforms to deliver that capability, alongside different modes of delivery such as ownership vs. lease, and contracting out;
 - interface among the services (principally duplication questions);
 - cost-effective ways to deliver operational tasking and training and preparedness outputs, including the links between them;
 - the NZDF interface with civilian agencies, including the contribution made by the NZDF to whole-of-government activities;
 - the use of military and civilian personnel, including Reserves and Military Attachés and greater use of civilian capabilities for specialised professional areas; and
 - the use, replacement and upgrade of technology over time to enhance productivity.
10. The VFM Review should build on work already done. If the external Lead Reviewer identifies other areas – including those already looked at – where substantial value for money gains, might be possible, the external Lead Reviewer should raise these with the Governance Committee.
11. The following areas are excluded from the scope of the VFM Review:
 - the strategic context, defence policy priorities, tasks and the broad capabilities (expressed in output terms such as ability to transport x troops up to y kilometres within z hours) already agreed by STR;
 - the application of military craft, including command and management of specific past or present military operational deployments.

Leadership

12. The external Lead Reviewer will be well-informed about organisational efficiency and effectiveness.
13. The external Lead Reviewer will not be a current or recently serving member of the NZDF or Ministry of Defence.
14. Additional advisers may be engaged to support the Lead Reviewer.

Governance and Resources

15. The external Lead Reviewer will determine the method of the VFM Review,
16. The Secretary of Defence will chair a Governance Committee that will include the Chief of Defence Force and the Secretary to the Treasury (or their delegates). The Secretary to the Treasury is representing the central agency chief executives, who may also attend the Governance Committee where relevant. Circulation of the material includes all three central agency chief executives.
17. The Deputy Secretary of Defence (Policy & Planning) will chair a Management Committee that will include one senior representative each from the NZDF, Treasury, State Services Commission, and the Department of the Prime Minister and Cabinet.
18. The Management Committee will make resources (including staff) available as appropriate to the external Lead Reviewer.
19. The external Lead Reviewer will provide regular progress updates to the Governance and Management Committees.

Deliverables, Timeline and Completion

20. Regular engagements are expected through the VFM Review, forming a substantial part of the deliverables.
21. An early deliverable is a work plan to be presented to the Governance Committee, setting out the planned approach of the VFM Review, methods to be used and any resourcing issues.
22. Following this, the external Lead Reviewer should offer relatively early judgement and advice on any material areas (\$10ks / \$100ks) where focusing further work is expected to deliver the greatest VFM gains. This includes a quick review of the work already done and the areas in the scope above to identify any material areas for VFM gains and to narrow the focus of the VFM Review, i.e. some areas in the scope will only need a quick assessment, while others need thorough analysis.
23. A final report should be submitted no later than 30 June 2010. The report is expected to:
 - cover the specific objectives in paragraphs four and seven above;
 - specify and quantify the VFM gains, including the operating and capital expenditure impacts and the time frames; and
 - provide international comparisons and benchmarks.

Terms and conditions

24. Terms and conditions will be set forth in a contract between the external Lead Reviewer and the Secretary of Defence.